

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 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 Series 2013 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 interest on, the Series 2013 Bonds. See "Tax Matters" herein.*

**\$215,195,000**

**CITY OF SACRAMENTO  
WATER REVENUE BONDS, SERIES 2013**

**Dated: Date of Delivery**

**Due: September 1, as shown on inside cover**

The City of Sacramento Water Revenue Bonds, Series 2013 (the "**Series 2013 Bonds**") are being issued by the City of Sacramento (the "**City**") to (i) finance the costs of certain improvements to its Water System (the "**Series 2013 Project**"); (ii) establish a debt service reserve fund; and (iii) pay costs of issuance of the Series 2013 Bonds.

The Series 2013 Bonds will be issued in book-entry form only, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), New York, New York. Beneficial owners of Series 2013 Bonds will not receive physical certificates representing the Series 2013 Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. The Series 2013 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest on the Series 2013 Bonds will be payable semiannually on March 1 and September 1, commencing September 1, 2013. Payments of interest on and principal of the Series 2013 Bonds will be paid to DTC. DTC is obligated in turn to remit such interest and principal to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2013 Bonds. See APPENDIX G - "BOOK-ENTRY ONLY SYSTEM."

**The Series 2013 Bonds are subject to optional and mandatory redemption prior to their respective stated maturities, as described herein. See "THE SERIES 2013 BONDS – Redemption Provisions" herein.**

The Series 2013 Bonds are being issued pursuant to an Indenture, dated as of March 1, 2013, as supplemented by the First Supplemental Indenture, dated as of March 1, 2013 (as supplemented, the "**Indenture**"), between the City and U.S. Bank National Association, as trustee (the "**Trustee**"). The Series 2013 Bonds are limited obligations of the City, secured by a pledge of and payable solely from the Trust Estate, which primarily consists of (i) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds and (ii) all funds and accounts held by the Trustee under the Indenture (other than the Rebate Fund and certain other funds specified in the Indenture) and all investments, money, instruments, and other property credited thereto or on deposit therein, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. "**System Net Revenues**" means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable. "**System Revenues**" consist primarily of all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System excluding certain moneys as described herein.

Pursuant to the Indenture, the City may issue additional bonds (together with the Series 2013 Bonds, the "**Bonds**") and incur other obligations (the "**Parity Obligations**") secured by the pledge of and payable from the Trust Estate on a parity basis with the Series 2013 Bonds and may also issue or incur other obligations secured by the pledge of and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, other Bonds and Parity Obligations, subject to the terms of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

**The Series 2013 Bonds are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate as provided in the Indenture and the City is not obligated to pay the Series 2013 Bonds except from the Trust Estate as provided in the Indenture. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2013 Bonds or their interest. The Series 2013 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.**

**This cover page contains certain information for general reference only and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "CERTAIN RISK FACTORS" herein for a description of certain risks associated with an investment in the Series 2013 Bonds.**

The Series 2013 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, and for the City by its Disclosure Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, and the City Attorney. It is expected that the Series 2013 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about March 28, 2013.

**Goldman, Sachs & Co.**

**De La Rosa & Co.**

**Morgan Stanley**

**Siebert Brandford Shank & Co., L.L.C.**

**Stone & Youngberg, a Division of Stifel Nicolaus**

**\$215,195,000**  
**CITY OF SACRAMENTO**  
**WATER REVENUE BONDS, SERIES 2013**

**MATURITY SCHEDULE**

**\$113,600,000 Serial Bonds**

<b>Maturity (September 1)</b>	<b>Principal Amount*</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP†</b>
2014	\$ 2,000,000	1.000%	0.290%	786089FW7
2014	1,540,000	5.000	0.290	786089GU0
2015	2,000,000	1.000	0.450	786089FX5
2015	1,645,000	5.000	0.450	786089GV8
2016	1,000,000	3.000	0.650	786089FY3
2016	2,780,000	5.000	0.650	786089GW6
2017	1,000,000	4.000	0.840	786089FZ0
2017	2,960,000	5.000	0.840	786089GX4
2018	1,000,000	4.000	1.140	786089GA4
2018	3,150,000	5.000	1.140	786089GY2
2019	4,360,000	5.000	1.450	786089GB2
2020	4,580,000	5.000	1.730	786089GC0
2021	4,815,000	5.000	1.970	786089GD8
2022	5,065,000	5.000	2.200	786089GE6
2023	1,600,000	4.000	2.390	786089GF3
2023	3,715,000	5.000	2.390	786089GZ9
2024	5,580,000	5.000	2.550	786089GG1
2025	5,865,000	5.000	2.700*	786089GH9
2026	1,600,000	3.500	3.000*	786089GJ5
2026	4,555,000	5.000	2.820*	786089HA3
2027	6,460,000	5.000	2.900*	786089GK2
2028	6,790,000	5.000	2.990*	786089GL0
2029	7,135,000	5.000	3.050*	786089GM8
2030	7,505,000	5.000	3.110*	786089GN6
2031	7,890,000	5.000	3.160*	786089GP1
2032	8,290,000	5.000	3.200*	786089GQ9
2033	8,720,000	5.000	3.240*	786089GR7

**\$50,775,000 5.000% Term Bonds due September 1, 2038 @ 3.460%\*; CUSIP† 786089GS5**

**\$50,820,000 5.000% Term Bonds due September 1, 2042 @ 3.540%\*; CUSIP† 786089GT3**

\* Yield to par call on September 1, 2023

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City or the Underwriters and are included solely for the convenience of the registered owners of the Series 2013 Bonds. Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2013 Bonds or as included herein. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2013 Bonds as a result of various subsequent actions.

**CITY OF SACRAMENTO, CALIFORNIA**

Kevin Johnson  
*Mayor*

**CITY COUNCIL MEMBERS**

Angelique Ashby  
*District 1*

Jay Schenirer  
*District 5*

Allen Wayne Warren  
*District 2*

Kevin McCarty  
*District 6*

Steve Cohn  
*District 3*

Darrell Fong  
*District 7*

Steve Hansen  
*District 4*

Bonnie Pannell  
*District 8*

**CHIEF CITY ADMINISTRATIVE PERSONNEL**

John F. Shirey  
*City Manager*

Russell T. Fehr  
*City Treasurer*

James Sanchez  
*City Attorney*

Leyne Milstein  
*Finance Director*

Shirley Concolino  
*City Clerk*

Janelle Gray  
*Debt Manager*

Dave Brent  
*Director of Utilities*

Bill Busath  
*Engineering Manager*

Michael Malone  
*Field Services Manager*

Jamille Moens  
*Business Services Manager*

**Special Services**

**Bond Counsel**

Orrick, Herrington & Sutcliffe LLP

**Disclosure Counsel**

Stradling Yocca Carlson & Rauth,  
A Professional Corporation

**Trustee**

U.S. Bank National Association

**Feasibility Consultant**

Carollo Engineers, Inc.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2013 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2013 Bonds. Statements contained in this Official Statement that 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 opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs of the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace (EMMA) website.

**In connection with this offering, the Underwriters may overallocate or effect transactions which may stabilize or maintain the market price of the Series 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

Certain statements included or incorporated by reference in the following information constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves 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. No assurance is given that actual results will meet the City’s forecasts in any way. Except as set forth in the Continuing Disclosure Certificate, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

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

The Series 2013 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance on an exemption from the registration requirements contained in such Act.

The City maintains a website. The information therein is not incorporated by reference, and should not be relied upon in making an investment decision.

# TABLE OF CONTENTS

	Page
<b>INTRODUCTION.....</b>	<b>1</b>
Authority for Issuance and Purpose.....	1
The City of Sacramento .....	1
The Water System.....	1
Security and Sources of Payment for the Bonds.....	2
Rate Covenant.....	2
Outstanding Obligations .....	3
Bond Reserve Fund.....	4
Rate Stabilization Fund.....	4
The Series 2013 Project .....	4
Continuing Disclosure .....	4
Feasibility Consultant’s Report .....	5
Certain Risk Factors .....	5
Other Matters .....	5
<b>ESTIMATED SOURCES AND USES OF FUNDS .....</b>	<b>6</b>
<b>PLAN OF FINANCE.....</b>	<b>6</b>
<b>THE SERIES 2013 BONDS .....</b>	<b>6</b>
General.....	6
Redemption Provisions.....	7
<b>SECURITY AND SOURCES OF PAYMENT FOR THE BONDS .....</b>	<b>9</b>
General; Pledge of the Trust Estate .....	9
Water Fund; Application of System Revenues.....	11
Allocation of Revenues.....	11
Rate Covenant.....	14
Bond Reserve Fund.....	14
Outstanding Parity Obligation .....	15
Other Outstanding Obligations .....	15
Additional Bonds, Parity Obligations and Subordinate Obligations .....	16
Rate Stabilization Fund.....	19
Separate Utility Systems.....	19
<b>PAYMENT SCHEDULE .....</b>	<b>21</b>
<b>THE WATER SYSTEM.....</b>	<b>22</b>
General.....	22
Service Area.....	22
Management .....	22
Employees.....	23
Water System Facilities .....	24
Water Rights and Resources .....	27
Environmental Compliance .....	30
Customers .....	32
Rates and Charges.....	33
Collection Procedures.....	35

General Fund Tax on Water System Revenues .....	36
Budgetary and Financial Procedures .....	37
Investment of Funds .....	38
Capital Improvement Program .....	38
Retirement Programs .....	40
Insurance.....	40
Leasing of Certain Components of the Water System.....	41
Floods .....	43
Historical Financial Results.....	43
Projected Financial Results.....	45
<b>THE SERIES 2013 PROJECT .....</b>	<b>48</b>
Elements of the Series 2013 Project .....	48
Bid Protest Relating to Portion of the Series 2013 Project.....	49
<b>FEASIBILITY CONSULTANT’S REPORT .....</b>	<b>49</b>
<b>CERTAIN RISK FACTORS .....</b>	<b>52</b>
Rate Covenant Not a Guarantee .....	52
Increased Costs .....	52
Statutory and Regulatory Impact.....	53
Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds .....	53
Aging Components of Water System .....	54
Earthquake, Flood or Other Natural Disasters.....	54
Commingling of System Revenues .....	54
Effect of City Bankruptcy.....	54
Effect of Losses in City Investment Pool .....	56
Limitation on Remedies.....	56
Feasibility Consultant’s Report .....	56
Certain Limitations on the Ability of the City to Impose Taxes, Fees and Charges .....	57
<b>ABSENCE OF LITIGATION .....</b>	<b>59</b>
<b>CONTINUING DISCLOSURE .....</b>	<b>60</b>
<b>TAX MATTERS .....</b>	<b>60</b>
<b>APPROVAL OF LEGALITY.....</b>	<b>62</b>
<b>RATINGS .....</b>	<b>62</b>
<b>UNDERWRITING.....</b>	<b>62</b>
<b>INDEPENDENT AUDITOR.....</b>	<b>63</b>
<b>MISCELLANEOUS .....</b>	<b>64</b>
APPENDIX A FEASIBILITY CONSULTANT’S REPORT .....	A-1
APPENDIX B AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2012.....	B-1
APPENDIX C GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SACRAMENTO.....	C-1

APPENDIX D	SUMMARY OF THE INDENTURE .....	D-1
APPENDIX E	FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	E-1
APPENDIX F	FORM OF BOND COUNSEL OPINION .....	F-1
APPENDIX G	BOOK-ENTRY ONLY SYSTEM.....	G-1

[THIS PAGE INTENTIONALLY LEFT BLANK]



**OFFICIAL STATEMENT**  
**\$215,195,000**  
**CITY OF SACRAMENTO**  
**WATER REVENUE BONDS, SERIES 2013**

**INTRODUCTION**

This introduction contains only a brief summary of certain of the terms of the Series 2013 Bonds being offered and a brief description of the Official Statement (which includes the cover page and Appendices hereto). All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Indenture. See APPENDIX D—“SUMMARY OF THE INDENTURE.”

**Authority for Issuance and Purpose**

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale of the City of Sacramento Water Revenue Bonds, Series 2013 in the aggregate principal amount of \$215,195,000 (the “**Series 2013 Bonds**”) pursuant to an Indenture, dated as of March 1, 2013, as supplemented by the First Supplemental Indenture, dated as of March 1, 2013 (as supplemented, the “**Indenture**”), between the City of Sacramento (the “**City**”) and U.S. Bank National Association, as trustee (the “**Trustee**”). The Series 2013 Bonds are being issued by the City to (i) finance the costs of certain improvements (the “**Series 2013 Project**”) to its municipal water system (the “**Water System**”); (ii) establish a debt service reserve fund; and (iii) pay costs of issuance of the Series 2013 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE SERIES 2013 PROJECT.”

**The City of Sacramento**

The City is at the confluence of the Sacramento and American Rivers in the Northern part of California’s Central Valley, approximately 75 air miles northeast of San Francisco. As of January 1, 2012, the City had an estimated population of 470,956. See APPENDIX C — “GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SACRAMENTO.”

**The Water System**

The Water System is owned and operated by the City under the administration of the City Department of Utilities (the “**Department**”). The operations of the Water System are accounted for in an enterprise fund established and maintained by the City on its books (the “**Water Fund**”). The Water System provides water to a service area consisting of the City, four outside wholesale customers and one wheeling customer, and it includes water treatment facilities, pumps and pipes to deliver treated water to customers. All System Revenues are accounted for in the Water Fund. See “THE WATER SYSTEM.”

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

The Series 2013 Bonds are limited obligations of the City, secured by a pledge of and payable solely from the Trust Estate, which primarily consists of (i) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds; and (ii) all funds and accounts held by the Trustee under the Indenture (other than the Rebate Fund and certain other funds specified in the Indenture) and all investments, money, instruments, and other property credited thereto or on deposit therein; subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. “**System Net Revenues**” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable. “**System Revenues**” consist primarily of all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System excluding certain moneys as described herein.

Pursuant to the Indenture, the City may issue additional bonds (together with the Series 2013 Bonds, the “**Bonds**”) and incur other obligations (the “**Parity Obligations**”) secured by the pledge of and payable from the Trust Estate on a parity basis with the Series 2013 Bonds and may also issue or incur other obligations secured by and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, other Bonds and Parity Obligations, subject to the terms of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” The projected operating results for the Water System include the issuance of approximately \$227 million of additional Bonds in fiscal year 2015-16. See “THE WATER SYSTEM - Projected Operating Results.”

If no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid, then the City may spend System Net Revenues for any lawful purpose of the City. Any System Net Revenues so spent by the City for a lawful purpose as described in the preceding sentence will no longer be subject to the lien of the Indenture.

**The Series 2013 Bonds are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate as provided in the Indenture and the City is not obligated to pay the Series 2013 Bonds except from the Trust Estate as provided in the Indenture. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2013 Bonds or their interest. The Series 2013 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.**

## **Rate Covenant**

Pursuant to the Indenture, the City has covenanted that it will at all times during each Fiscal Year fix, prescribe and collect rates, fees and charges for the Water Service that are reasonably estimated to yield System Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. “**Coverage Requirement**” means, for any Fiscal Year, an amount of System Net Revenues equal, in each case, to at least (i) 120% of the Debt Service on all

Outstanding Bonds and Parity Obligations for such Fiscal Year, (ii) 110% of the Debt Service on all Outstanding Bonds, Parity Obligations and Subordinate Obligations for such Fiscal Year, and (iii) 100% of all obligations of the City payable from System Net Revenues in such Fiscal Year. In fixing and prescribing such rates, fees and charges, the City may make reasonable assumptions concerning contingencies that may affect System Revenues and the timing and amount of payments on Bonds, Parity Obligations, Subordinate Obligations and any other obligations of the City that may become due and payable from System Revenues in such Fiscal Year. The City may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the System Net Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements set forth in this paragraph. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant.”

### **Outstanding Obligations**

In order to fund certain improvements to the Water System, the City has previously entered into a Funding Agreement with the State of California Department of Public Health (“**CDPH**”), dated September 8, 2009 (the “**State Funding Agreement**”). The City’s obligations with respect to the State Funding Agreement constitute a Parity Obligation pursuant to the Indenture. The outstanding principal amount owed by the City pursuant to the State Funding Agreement is approximately \$9.8 million as of March 8, 2013. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Outstanding Parity Obligation.”

In addition, the City has previously funded certain improvements to the Water System by the issuance of bonds by the Sacramento City Financing Authority (“**SCFA**”) through the City’s Master Lease Program (as defined herein). Approximately \$148 million of Master Lease Bonds (as defined herein) relating to Water System improvements are currently outstanding and payable from any legally available funds of the City. In connection with the Master Lease Program, the City has leased certain components of the Water System to SCFA and SCFA has subleased those components of the Water System back to the City. Pursuant to the Indenture, the City will covenant that it will not use System Net Revenues to pay, or reimburse the City’s General Fund for the payment of, any existing or future General Fund lease obligation of the City unless no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture. See “THE WATER SYSTEM - Leasing of Certain Components of the Water System.”

Pursuant to the Indenture, the City will also covenant that it will not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease. However, this covenant does not prohibit the City from improving, making additions to, rehabilitating or replacing components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease or incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Water System.

## **Bond Reserve Fund**

Upon the issuance of the Series 2013 Bonds, a Bond Reserve Fund will be established pursuant to the Indenture to secure the Series 2013 Bonds and all other Bonds designated to be secured by said Bond Reserve Fund by the City pursuant to a Supplemental Indenture. The Series 2013 Bonds, together with any other Bonds issued under the Indenture and so designated by the City (“**Participating Bonds**”), will be secured by the Bond Reserve Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Bond Reserve Fund.”

## **Rate Stabilization Fund**

Pursuant to the Indenture, the City will establish and maintain on the City’s books a Rate Stabilization Fund. On the date of issuance of the Series 2013 Bonds, the City will allocate approximately \$3.2 million of amounts then accounted for in the Water Fund to the Rate Stabilization Fund. Upon compliance with the terms of the Indenture, from time to time thereafter the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City shall reasonably determine, and the amount of available current System Revenues shall be reduced by the amount so allocated. The City may only allocate amounts accounted for in the Rate Stabilization Fund to the Water Fund for inclusion in System Revenues for any Fiscal Year. Allocations to or from the Rate Stabilization Fund for each Fiscal Year shall be made before the end of the ninth month after the close of each Fiscal Year. All interest or other earnings upon amounts allocated to the Rate Stabilization Fund may be allocated to the Water Fund and accounted for as System Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Stabilization Fund.”

## **The Series 2013 Project**

The Series 2013 Project consists of rehabilitation of significant components of the City’s water treatment plants, acquisition and installation of water meters, replacement of aging pipelines, rehabilitation of groundwater wells, and other miscellaneous projects. See “THE SERIES 2013 PROJECT.” See also “THE SERIES 2013 PROJECT- Bid Protest Relating to Portion of the Series 2013 Project.”

## **Continuing Disclosure**

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2013 Bonds to provide certain financial information and operating data relating to the Water System by not later than the end of the ninth month following the end of the City’s Fiscal Year (which as of the date of this Official Statement is June 30) (the “**Annual Report**”), commencing with the Annual Report for Fiscal Year 2012-13, and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of the enumerated events will be filed by the City with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“**EMMA**”). The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” hereto. This covenant has been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” for additional information, including information regarding the City’s history of compliance with previous continuing disclosure undertakings.

## **Feasibility Consultant's Report**

In preparing this Official Statement, the City has relied, in part, upon studies, considerations, assumptions and opinions set forth in the report furnished by Carollo Engineers, Inc., Sacramento, California, as Feasibility Consultant (the "**Feasibility Consultant**"), a copy of which is attached hereto as Appendix A (the "**Feasibility Consultant's Report**"). See "FEASIBILITY CONSULTANT'S REPORT." In the course of the preparation of the Feasibility Consultant's Report by the Feasibility Consultant, the City provided a variety of information relating to the Water System to the Feasibility Consultant and the City and representatives of the Underwriters provided various comments and suggestions on drafts of the Feasibility Consultant's Report.

The Feasibility Consultant has been providing utility financial assistance to the City since 2009 and the project manager, while employed with another firm, led the firm's engagement by the City to assist it in the development of the recommendations for rate increases for the Water System recently adopted by the City Council. Additionally, the Feasibility Consultant has also performed a variety of engineering, planning, and design assignments for the City, including the Water System. The Feasibility Consultant is also currently serving as the design engineer for the water treatment plants rehabilitation project, which is a significant portion of the Series 2013 Project.

## **Certain Risk Factors**

See "CERTAIN RISK FACTORS" for a description of certain risks associated with an investment in the Series 2013 Bonds.

## **Other Matters**

Copies of the Indenture will be available for inspection at the City's offices in Sacramento, California, and will be available upon request and payment of duplication costs from the Trustee.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Series 2013 Bonds are as follows:

<b>Sources:</b>	
Principal Amount	\$215,195,000.00
Original Issue Premium	<u>33,317,218.50</u>
Total Sources	\$248,512,218.50
<b>Uses:</b>	
Project Fund	\$239,500,000.00
Bond Reserve Fund	7,008,875.00
Costs of Issuance <sup>(1)</sup>	<u>2,003,343.50</u>
Total Uses	\$248,512,218.50

<sup>(1)</sup> Includes fees of Bond Counsel, Disclosure Counsel, the Trustee, Underwriters' discount, consulting fees, rating agency fees, printing costs and certain miscellaneous expenses.

## PLAN OF FINANCE

As described herein, the proceeds of the Series 2013 Bonds will be used primarily for the purpose of providing funds to finance or reimburse the City for costs relating to the Series 2013 Project. See "THE SERIES 2013 PROJECT" herein.

## THE SERIES 2013 BONDS

### General

The Series 2013 Bonds will be issued in fully registered form, without coupons, in denominations of \$5,000 or any integral multiple thereof (each, an "**Authorized Denomination**"), will be dated their date of delivery, and will bear interest from such date at the rates set forth on the inside cover of this Official Statement, payable on March 1 and September 1 of each year, commencing September 1, 2013 (each, an "**Interest Payment Date**"). Interest on the Series 2013 Bonds will be computed on the basis of a 360-day year, composed of twelve 30-day months.

The Series 2013 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("**DTC**," and, together with any successor securities depository, the "**Depository**"). DTC will act as Depository for the Series 2013 Bonds. Individual purchases will be made in book-entry form. Purchasers will not receive a bond certificate representing their beneficial ownership interest in Series 2013 Bonds. So long as Cede & Co. is the registered owner of the Series 2013 Bonds, as nominee of DTC, references herein to Bondholders, Holders or Owners of the Series 2013 Bonds shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners of Series 2013 Bonds.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, principal of and interest on the Series 2013 Bonds will be payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to Beneficial Owners of the Series 2013 Bonds. See APPENDIX G – "BOOK-ENTRY ONLY SYSTEM" herein.

In the event the use of the book-entry system is discontinued, principal of the Series 2013 Bonds will be payable upon surrender thereof at the designated office of the Trustee. All interest payable on the Series 2013 Bonds will be paid by check mailed by first-class mail on each Interest Payment Date to the person in whose name each Series 2013 Bond is registered in the registration books maintained by the Trustee as of the close of business on the 15th day of the calendar month immediately preceding the Interest Payment Date (each, a “**Record Date**”), provided that registered owners of \$1,000,000 or more in aggregate principal amount of Series 2013 Bonds may request payment by wire transfer to an account within the United States, such request to be submitted in writing and received by the Trustee on or before the applicable Record Date for such Interest Payment Date, in accordance with the provisions set forth in the Indenture.

**Redemption Provisions**

**Optional Redemption.** The Series 2013 Bonds maturing on and after September 1, 2025 are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, on any date on or after September 1, 2023 as a whole or in part by such maturity or maturities as may be specified by the City (and by lot within a maturity), at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

**Mandatory Redemption.** The Series 2013 Bonds maturing on September 1, 2038, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds on each September 1 on and after September 1, 2034, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. Such Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of such Series 2013 Bonds on the dates set forth below (except that if any such Series 2013 Bonds are optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Account Payments for such Series 2013 Bonds will be revised as directed by the City):

<b>Mandatory Sinking Account Payment Date (September 1)</b>	<b>Mandatory Sinking Account Payment</b>
2034	\$9,165,000
2035	9,635,000
2036	10,130,000
2037	10,650,000
2038*	11,195,000

\* Final Maturity

The Series 2013 Bonds maturing on September 1, 2042, are also subject to mandatory redemption from Mandatory Sinking Account Payments for such Series 2013 Bonds on each September 1 on and after September 1, 2039, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest, if any, to the redemption date, without premium. Such Mandatory Sinking Account Payments will be sufficient to redeem (or pay at maturity) the following principal amounts of such Series 2013 Bonds on the dates set forth below (except that if any such Series 2013 Bonds are optionally redeemed, the amounts of the remaining

Mandatory Sinking Fund Account Payments for such Series 2013 Bonds will be revised as directed by the City):

<b>Mandatory Sinking Account Payment Date (September 1)</b>	<b>Mandatory Sinking Account Payment</b>
2039	\$11,770,000
2040	12,370,000
2041	13,005,000
2042*	13,675,000

\* Final Maturity

***Selection of Series 2013 Bonds for Redemption.*** While the Series 2013 Bonds are in book-entry form and so long as DTC acts as Depository for the Series 2013 Bonds, whenever provision is made for redemption of less than all of the Series 2013 Bonds of any maturity, applicable provisions for selection of Series 2013 Bonds to be redeemed under DTC’s book-entry system shall apply. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM” herein. In the event that the use of the book-entry system is discontinued, whenever provision is made for redemption of less than all of the Series 2013 Bonds of any maturity, the Trustee shall select the Series 2013 Bonds of such maturity to be redeemed by lot in authorized denominations.

***Notice of Redemption; Conditional Notice.*** The Trustee shall give notice of redemption not less than 20 days nor more than 60 days prior to the redemption date to each registered owner of a Series 2013 Bond designated for redemption. The Trustee shall also give notice of redemption to the Repository. Neither failure by the Trustee to give notice to the Repository, nor failure of any registered owner or the Repository to receive such notice nor any defect therein shall affect the sufficiency or validity of the proceedings for the redemption of any of the Series 2013 Bonds.

With respect to any notice of optional redemption of Series 2013 Bonds, unless, upon the giving of such notice, such Series 2013 Bonds shall be deemed to have been paid within the meaning of the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, premium, if any, and interest on, such Series 2013 Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the City shall not be required to redeem such Series 2013 Bonds. The City may also instruct the Trustee to provide conditional notice of optional redemption, which may be conditioned on the occurrence of any other event if such notice states that if such event does not occur said notice shall be of no force and effect and the City shall not be required to redeem such Series 2013 Bonds. In the event that such notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, the optional redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received or such event did not occur and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given. Such failure to optionally redeem such Bonds shall not constitute an Event of Default pursuant to the Indenture.



Any notice of optional redemption given pursuant to the provisions of the Indenture described herein may be rescinded by notice given to the Trustee by the City no later than five Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of such redemption was given.

For so long as the Series 2013 Bonds are in book-entry form, all notices of redemption and all other notices described under this caption, shall be delivered to DTC, as Depository. Neither the City nor the Trustee can or do give any assurance that any such notice will be distributed by DTC to Beneficial Owners or that any such notice will be distributed on a timely basis. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM” herein.

***Cessation of Interest.*** Interest on all Series 2013 Bonds for which notice of redemption has been given pursuant to the provisions of the Indenture and for which funds have been provided to the Trustee for the payment of the Redemption Price thereof, together with interest accrued to the redemption date thereon, shall cease to accrue on the redemption date. Such Series 2013 Bonds shall cease to be entitled to any benefit or security under the Indenture on the redemption date and the registered owners of such Series 2013 Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest to the redemption date from the funds provided to the Trustee therefor.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General; Pledge of the Trust Estate**

The Bonds, including the Series 2013 Bonds, are limited obligations of the City secured by a pledge of and payable solely from the Trust Estate, which consists of (i) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds; (ii) all funds and accounts held by the Trustee under the Indenture and any Supplemental Indenture (other than the Rebate Fund, all Letter of Credit Funds and all Purchase Funds) and all investments, money, instruments, and other property credited thereto or on deposit therein; (iii) all investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited in the Rebate Fund, any Letter of Credit Fund and any Purchase Fund; (iv) all Swap Revenues; (v) all Subsidy Payments; and (vi) all proceeds of the foregoing, whether now existing or hereafter arising, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

“**System Net Revenues**” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable.

“**System Revenues**” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, determined in accordance with generally accepted accounting principles, consistently applied, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, connection fees, water system development fees, charges, standby charges, capacity charges or other moneys derived by the City from the water services or facilities, and commodities or byproducts, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law; (ii) any amount received from the levy or collection of taxes

which are solely available and are earmarked for the support of the operation of the Water System; (iii) allocations from the Rate Stabilization Fund to the Water Fund; and (iv) grants for maintenance and operations to the extent that the restrictions for the use thereof do not preclude them from being applied to the payment of Maintenance and Operation Costs or the Obligations; provided, however, that System Revenues shall not include in all cases, (1) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City and (2) any proceeds of the voter-approved general tax imposed on the gross revenues of the Water System from user fees and charges, which proceeds are paid into the City's General Fund pursuant to Section 3.20.010 of the Sacramento City Code (the "**City Code**"). As provided in the Indenture, the amount of available System Revenues is reduced by the amount of System Revenues allocated to the Rate Stabilization Fund. See "-- Rate Stabilization Fund" below.

**"Maintenance and Operation Costs"** means costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles used by the City, consistently applied, including but not limited to the expenses of maintenance, repair, billing and collection and other expenses incurred to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City, salaries and wages of employees, payments to employees retirement systems, overhead, taxes (if any), fees of auditors, accountants, attorneys, engineers or other consultants and insurance premiums, in each case as attributable to the Water System, including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System that under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation and (iv) charges for the payment of Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations.

The Indenture provides that the pledge of the Trust Estate constitutes a lien on and security interest in the Trust Estate to the extent set forth in, and in accordance with, the Indenture.

If no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid, then the City may spend System Net Revenues for any lawful purpose of the City. Any System Net Revenues so spent by the City for a lawful purpose as described in the preceding sentence will no longer be subject to the lien of the Indenture.

**The Series 2013 Bonds are limited obligations of the City and are secured by a pledge of and payable solely, both as to principal and interest and as to any premiums upon the redemption thereof, from the Trust Estate as provided in the Indenture and the City is not obligated to pay the Series 2013 Bonds except from the Trust Estate as provided in the Indenture. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2013 Bonds or their interest. The Series 2013 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Trust Estate as provided in the Indenture.**

## **Water Fund; Application of System Revenues**

So long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or any other amounts payable under the Indenture remain unpaid, the City covenants and agrees that all System Revenues received by it shall be accounted for when and as received in the Water Fund, which the City covenants and agrees to maintain on the City's books, and all money accounted for within the Water Fund shall be applied and used only as provided in the Indenture, and the Water Fund shall be accounted for separate and apart from all other moneys, funds or other resources of the City. The City may, to the extent provided in the Indenture, allocate amounts accounted for in the Water Fund to the Rate Stabilization Fund or allocate amounts accounted for in the Rate Stabilization Fund to the Water Fund. From amounts accounted for within the Water Fund, the City shall pay, in the following order of priority: first, to the applicable payee or as otherwise required, all Maintenance and Operation Costs (including amounts reasonably required by the City to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not immediately required) as they become due and payable; and second, to the Trustee on or before each date the Trustee is required to make any transfer or deposit from the Revenue Fund as described below under the caption "Allocation of Revenues", such amount as is required for the Trustee to make the transfers and deposits required to be made by the Trustee on such date including all amounts of principal, purchase price, interest, and Redemption Price then due and payable with respect to the Bonds. If (a) no Event of Default has occurred and is continuing, (b) all Maintenance and Operation Costs are being and have been paid and are then current, and (c) all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid, then all money accounted for in the Water Fund, and the proceeds thereof, will be available for any lawful purpose of the City.

### **Allocation of Revenues**

The Trustee shall deposit in the Revenue Fund established under the Indenture all amounts received by it from the City pursuant to the Indenture, when and as received by the Trustee.

The Trustee shall set aside on each date set forth below the moneys in the Revenue Fund in the following respective funds in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of moneys in the Revenue Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations), (ii) payments on Interest Rate Swap Agreements that constitute Parity Obligations shall be payable from the Interest Fund and the required deposits below shall be adjusted to include payments on such Interest Rate Swap Agreements (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations) and (iii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys:

First Priority - Interest Fund. No later than the Business Day prior to each Interest Payment Date, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to the aggregate amount of interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest on said Interest Payment Date). No deposit need be made into the Interest Fund with respect to any Bonds if the amount contained therein is at least equal to the interest to become due and payable on said Interest Payment Date and on each Interest Payment Date any excess amounts in the Interest Fund not needed to pay interest on such Interest Payment Date shall be transferred to the Revenue Fund (excepting any moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Date).

If there are Liquidity Facility Bonds outstanding at the time of any required deposits to the Interest Fund, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

Second Priority - Principal Fund; Sinking Accounts. No later than the Business Day prior to each Principal Payment Date, the Trustee shall set aside in the Principal Fund an amount equal to (a) the aggregate amount of Bond Obligation becoming due and payable on such Principal Payment Date on the Outstanding Serial Bonds of all Series plus (b) the aggregate of the Mandatory Sinking Account Payments to be paid on such Principal Payment Date into the respective Sinking Accounts for the Term Bonds of all Series. If, however, the City certifies to the Trustee that any principal payments are expected to be paid from amounts on deposit in a Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that moneys in the Revenue Fund shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any Principal Payment Date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series on such Principal Payment Date plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said amount of Bond Obligation on such Serial Bonds and said Bond Obligation of and redemption premium on such Term Bonds shall bear to each other. In the event that moneys in the Revenue Fund shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account on such date bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts on such date.

No deposit need be made into the Principal Fund on any date so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms on the immediately succeeding Principal Payment Date plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made on such Principal Payment Date. On each Principal Payment Date or as soon as practicable thereafter any

excess amounts in the Principal Fund not needed to pay Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date shall be transferred to the Revenue Fund.

If there are any Liquidity Facility Bonds outstanding at the time of any required deposits to the Principal Fund, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates of any amortization or redemptions.

Third Priority - Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, the Trustee shall make such deposit to such Reserve Fund (including such amounts as are required by the Indenture to replenish withdrawals on any Reserve Facility), as is required pursuant to the Indenture, each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Fourth Priority - Subordinate Obligations Fund. After any transfers described above that are required to be made on a given date have been made, the Trustee shall deposit in the Subordinate Obligations Fund such amount as the City shall specify in writing is necessary to make payments due and payable on such date with respect to Subordinate Obligations then outstanding.

Fifth Priority - Fees and Expenses Fund. After the transfers described above that are required to be made on a given date have been made, the Trustee shall deposit in the Fees and Expenses Fund the amounts necessary for payment of Fee and Expense Obligations owing on such date.

Transfer to the City. If no Event of Default has occurred and is continuing and all payments then due and payable by the City pursuant to the Indenture have been paid, then, except as the City shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, amounts remaining in the Revenue Fund after all transfers described above that are required to be made on a given date have been made, and the proceeds thereof, will be transferred to the City on the same Business Day or as soon as practicable thereafter. The City may use and apply such amounts when received by it for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

The City plans to continue to pay debt service on approximately \$148 million principal amount of currently outstanding Master Lease Bonds from System Net Revenues. Pursuant to the Indenture, the City has covenanted that it will not use System Net Revenues to pay, or reimburse the City's General Fund for the payment of, any existing or future General Fund lease obligation of the City unless no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture. See “- Other Outstanding Obligations.”

## **Rate Covenant**

Pursuant to the Indenture, the City has covenanted that it will at all times during each Fiscal Year fix, prescribe and collect rates, fees and charges for the Water Service that are reasonably estimated to yield System Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. “**Coverage Requirement**” means, for any Fiscal Year, an amount of System Net Revenues equal, in each case, to at least (i) 120% of the Debt Service on all Outstanding Bonds and Parity Obligations for such Fiscal Year, (ii) 110% of the Debt Service on all Outstanding Bonds, Parity Obligations and Subordinate Obligations for such Fiscal Year, and (iii) 100% of all obligations of the City payable from System Net Revenues in such Fiscal Year. This obligation of the City in the Indenture is referred to herein as the “**Rate Covenant.**” In fixing and prescribing such rates, fees and charges, the City may make reasonable assumptions concerning contingencies that may affect System Revenues and the timing and amount of payments on Bonds, Parity Obligations, Subordinate Obligations and any other obligations of the City that may become due and payable from System Revenues in such Fiscal Year. The City may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the System Net Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of the Rate Covenant. See APPENDIX D—“SUMMARY OF THE INDENTURE.”

## **Bond Reserve Fund**

Upon the issuance of the Series 2013 Bonds, a Bond Reserve Fund will be established pursuant to the Indenture to secure the Series 2013 Bonds and all other Bonds designated to be secured by said Bond Reserve Fund by the City pursuant to a Supplemental Indenture. The Series 2013 Bonds, together with any other Bonds issued under the Indenture and so designated by the City (“**Participating Bonds**”) will be secured by the Bond Reserve Fund. Upon issuance of the Series 2013 Bonds, a portion of the proceeds of the sale of the Series 2013 Bonds will be deposited into the Bond Reserve Fund so that the amount deposited in the Bond Reserve Fund will equal the initial Bond Reserve Requirement (as defined below). The Bond Reserve Fund is required to be maintained in an amount equal to the Bond Reserve Requirement. As of the date of issuance of the Series 2013 Bonds, the Bond Reserve Fund will be fully funded in the amount of \$7,008,875.00. Any amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Requirement shall be transferred to the Revenue Fund yearly on the Business Day following each September 1. The City may establish other bond reserve funds relating to a particular Series of Bonds that would only be available to secure that particular Series of Bonds as well as other Series of Bonds as determined by the City, each a Bond Series Reserve Fund.

“**Bond Reserve Requirement**” means, with respect to the Bond Reserve Fund, as of any date of calculation, an amount equal to 50% of the Maximum Annual Debt Service for the Participating Bonds, as computed and determined by the City and specified in writing to the Trustee; provided, that with respect to the issuance of additional Participating Bonds if the Bond Reserve Fund would have to be increased by an amount greater than 10% of the stated principal amount of such additional Participating Bonds (or, if the issue has more than a de minimis amount of original issue discount or premium, of the issue price of such Bonds), then the Bond Reserve Requirement shall be such lesser amount as is determined by a deposit of such 10%.

In lieu of depositing cash to satisfy a portion or all of the Bond Reserve Requirement or in replacement of funds then on deposit in the Bond Reserve Fund (which will be transferred by the

Trustee to the City), the City may obtain a letter of credit, insurance policy or surety bond, or any combination thereof (each a “**Reserve Facility**”), to satisfy a portion or all of such Bond Reserve Requirement. If an insurance company that has provided a Reserve Facility in the form of an insurance policy or surety bond becomes the subject of an insolvency proceeding, it may be able to retain its rights to control remedies under the transaction documents and to direct the Trustee, and its rights to consent to amendments of the transaction documents, even if it is insolvent or not paying claims as required by the Reserve Facility. If an insurer is in an insolvency proceeding, it may be able to require the City to reimburse the insurer before paying amounts due on the Bonds, regardless of what the transaction documents provide.

The Trustee is to draw on the Bond Reserve Fund to the extent necessary to fund any deficiency in the Interest Fund or the Principal Fund with respect to the Participating Bonds. Draws on any Reserve Facilities on which there is available coverage are to be made on a pro rata basis after applying all available cash and investments in the Bond Reserve Fund. The City is to repay, solely from System Net Revenues, any draws under the Bond Reserve Fund, including any draws on Reserve Facilities. See APPENDIX D – “SUMMARY OF THE INDENTURE.”

### **Outstanding Parity Obligation**

In order to fund certain improvements to the Water System, the City has previously entered into the State Funding Agreement with CDPH. The City’s obligations with respect to the State Funding Agreement constitute a Parity Obligation pursuant to the Indenture. The outstanding principal amount owed by the City pursuant to the State Funding Agreement is approximately \$9.8 million as of March 8, 2013. The payment schedule with respect to the State Funding Agreement is set forth below in “PAYMENT SCHEDULE.” The State Funding Agreement provides that all payments thereunder may be immediately due and payable in the event of material breach by the City (and failure to cure). See “CERTAIN RISK FACTORS – Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds.”

The State Funding Agreement requires the City to fund a reserve fund for the benefit of CDPH. Amounts in the reserve fund established pursuant to the State Funding Agreement are not available for the payment of any Bonds (including the Series 2013 Bonds) or other Parity Obligations, including the Series 2013 Bonds.

The projected operating results for the Water System include the issuance of approximately \$227 million of additional Bonds in fiscal year 2015-16. See “THE WATER SYSTEM - Projected Operating Results.”

### **Other Outstanding Obligations**

In addition to the State Funding Agreement, the City has previously funded certain improvements to the Water System by the issuance of bonds by SCFA through the City’s Master Lease Program. Approximately \$148 million of Master Lease Bonds relating to Water System improvements are currently outstanding. In connection with the Master Lease Program, the City has leased certain components of the Water System to SCFA and SCFA has subleased those components of the Water System back to the City. Pursuant to the Indenture, the City will covenant that it will not use System Net Revenues to pay, or reimburse the City’s General Fund for the payment of, any existing or future General Fund lease obligation of the City unless no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been

paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture.

Pursuant to the Indenture, the City will also covenant that it will not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease. However, this covenant does not prohibit the City from improving, making additions to, rehabilitating or replacing components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease or incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Water System.

See “THE WATER SYSTEM - Leasing of Certain Components of the Water System.”

### **Additional Bonds, Parity Obligations and Subordinate Obligations**

*Additional Bonds.* Subsequent to the issuance of the Series 2013 Bonds, the City may, by Supplemental Indenture, issue one or more additional Series of Bonds that, subject to the provision of the Indenture permitting the application thereof for the purposes of the terms and conditions set forth in the Indenture, are secured by a pledge of and payable from the Trust Estate equally and ratably with the Series 2013 Bonds, including Bonds issued to refund any Bonds then Outstanding (such Bonds being referred to as “**Refunding Bonds**”). Additional Series of Bonds may be issued upon compliance by the City with the provisions set forth in the Indenture and subject to certain specific conditions precedent set forth in the Indenture.

Conditions precedent to the issuance of an additional Series of Bonds, include, but are not limited to, the following:

(a) No Event of Default shall have occurred and then be continuing (or the issuance of such additional Series of Bonds will cure any such Event of Default).

(b) The Supplemental Indenture providing for the issuance of such Series shall state whether the Bonds of such Series are Participating Bonds. If the Bonds of such Series are Participating Bonds, the Supplemental Indenture shall require a deposit of the amount, if any, necessary to increase the amount on deposit in the Bond Reserve Fund to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Participating Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Subject to the provisions of the Indenture, in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Bond Series Reserve Fund to provide additional security for such Series of Bonds, or (ii) that the balance on deposit in an existing Bond Series Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Series Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. The deposit shall be made as provided in the Supplemental



Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the City or from both such sources or may be made in the form of a Reserve Facility.

(c) The aggregate principal amount of Bonds issued shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(d) The City shall deliver to the Trustee a Certificate of the City, which Certificate shall also set forth the computations upon which such Certificate is based, certifying either of the following:

(1) The System Net Revenues for either the most recent Fiscal Year for which audited financial statements are available or for any other period of twelve (12) consecutive months (selected by the City) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to the Coverage Requirement for the most recently completed Fiscal Year, including in the calculation of the Coverage Requirement for this purpose the Average Annual Debt Service for the additional Series of Bonds to be issued. For the purpose of providing such Certificate, the City may adjust the System Net Revenues for such Fiscal Year or twelve (12) month period, as the case may be, to reflect:

(A) an allowance for System Net Revenues that would have been derived from each new connection to the Water System that was made prior to the issuance of such additional Series of Bonds but which was not in existence, during all or any part of such Fiscal Year or twelve (12) month period under consideration, in an amount equal to 90% of the estimated additional System Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) month period, and

(B) an allowance for System Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Water Service which became effective prior to the issuance of such additional Series of Bonds but which was not in effect, during all or any part of such Fiscal Year or twelve (12) month period, in an amount equal to the estimated additional System Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) month period; or

(2) The estimated System Net Revenues for each of the five Fiscal Years next following the earlier of (i) the end of the period during which interest on the additional Series of Bonds is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the additional Series of Bonds is to be issued, or (ii) the date on which substantially all projects financed with the proceeds of any Bonds, including the additional Series of Bonds to be issued, are expected to commence operations will be at least equal to the Coverage Requirement for each such Fiscal Year. For the purpose of providing such Certificate, the City may adjust the System Net Revenues to reflect:

(A) an allowance for System Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for Water Service which have

been adopted by the City and which will be in effect during all or any portion of the period for which such estimates are provided; and

(B) an allowance for System Net Revenues that are estimated to be derived from new customers of the Water System anticipated to be served by any additions or improvements to or extensions of the Water System reasonably expected to become available during all or any portion of the period for which such estimates are provided in an amount equal to 90% of the additional System Net Revenues that are estimated to be derived from such customers.

For purposes of any computation pursuant to (2), with respect to Maintenance and Operation Costs, the City shall use such assumptions (which shall be set forth in such Certificate) as the City believes to be reasonable, taking into account: (i) historical Maintenance and Operation Costs, (ii) Maintenance and Operation Costs associated with the additions or improvements to or extensions of the Water System to be financed with the proceeds of such additional Series of Bonds and any other new additions or improvements to or extensions of the Water System during any period for which estimates are provided and (iii) such other factors, including inflation and changing operations or policies of the City, as the City believes to be appropriate.

In addition, Refunding Bonds may be issued without satisfaction of the tests set forth in subsection (d) above if Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds.

***Parity Obligations.*** In addition to additional Bonds, the City may also issue or incur other obligations, including Interest Rate Swap Agreements (but excluding termination payments on Interest Rate Swap Agreements which shall be secured as Fee and Expense Obligations), secured by a pledge of and payable from the Trust Estate on a parity basis with the Bonds (including the Series 2013 Bonds), subject to the provisions of the Indenture, provided that certain conditions precedent to the issuance or incurrence of such Parity Obligations, as set forth in the Indenture, are satisfied.

Conditions precedent to the issuance or incurrence of Parity Obligations include, but are not limited to, the following:

(a) No Event of Default shall have occurred and then be continuing (or the issuance of such Parity Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the City to that effect; and

(b) The City shall deliver to the Trustee a Certificate of the City, which Certificate shall also set forth the computations upon which such Certificate is based, certifying one of the following:

(A) Such Parity Obligations are being issued or incurred for purposes of refunding and the City has determined that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance or incurrence of such Parity Obligations is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance or incurrence of such Parity Obligations.

(B) The requirements set forth in the Indenture relating to the issuance of Additional Bonds shall have been satisfied with respect to such Parity Obligations; provided, however that if the Parity Obligation being issued or incurred consists of an Interest Rate Swap Agreement that relates to a Series of Bonds or Parity Obligations (excluding fees and expenses and termination payments on such Interest Rate Swap Agreement), the City shall be deemed to have complied with this requirement, with respect to such Interest Rate Swap Agreement to the extent that the Series of Bonds or Parity Obligations to which the Interest Rate Swap Agreement relates (x) satisfies this requirement after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into concurrently with, or subsequent to, the issuance of such Bonds or Parity Obligations), or (y) is expected to satisfy this requirement after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into in advance of the issuance of such Bonds or Parity Obligations); or

(C) Such Parity Obligations consist of Reimbursement Obligations relating to Bonds or Parity Obligations.

***Subordinate Obligations.*** Except to the extent restricted by the Indenture, the City may issue or incur other obligations, including Interest Rate Swap Agreements (but excluding termination payments on the Rate Swap Agreements where shall be secured as Fee and Expense Obligations) secured by a pledge of and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, any additional Bonds and Parity Obligations.

***Fee and Expense Obligations.*** The City may also issue or incur obligations secured by a pledge of and payable from the Trust Estate on a basis junior and subordinate to the Subordinate Obligations. See APPENDIX D – “SUMMARY OF THE INDENTURE.”

### **Rate Stabilization Fund**

Pursuant to the Indenture, the City will establish and maintain on the City’s books a fund to be known as the “**Rate Stabilization Fund.**” On the date of issuance of the Series 2013 Bonds, the City will allocate approximately \$3.2 million of amounts then accounted for in the Water Fund to the Rate Stabilization Fund. Upon compliance with the terms of the Indenture, from time to time thereafter the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City shall reasonably determine, and the amount of available current System Revenues shall be reduced by the amount so allocated. The City may only allocate amounts accounted for in the Rate Stabilization Fund to the Water Fund for inclusion in System Revenues for any Fiscal Year. Allocations to or from the Rate Stabilization for each Fiscal Year shall be made before the end of the ninth month after the close of each Fiscal Year. All interest or other earnings upon amounts allocated to the Rate Stabilization Fund may be allocated to the Water Fund and accounted for as System Revenues.

### **Separate Utility Systems**

The City may create, acquire, construct, finance, own and operate one or more additional systems not constituting any part of the then-existing Water System for water service or other

commodity or service, and the revenues of that separate utility system shall not be included in the System Revenues and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand such separate utility system. The System Net Revenues shall not be pledged by the City to the payment of any obligations of a separate utility system except in accordance with the other provisions of the Indenture.

## PAYMENT SCHEDULE

Debt Service with respect to the State Funding Agreement and the Series 2013 Bonds is set forth below. The following table does not include amounts which respect to the Master Lease Bonds which the City expects to pay from System Net Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations” and “THE WATER SYSTEM - Leasing of Certain Components of the Water System.”

<b>Fiscal Year Ending June 30</b>	<b>State Funding Agreement</b>		<b>Series 2013 Bonds</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2013	\$194,179.66	\$ 243,035.00	\$ -	\$ -	\$437,214.66
2014	395,676.39	242,852.93		9,730,768.75	10,369,298.07
2015	405,636.93	232,892.39	3,540,000.00	10,471,250.00	14,649,779.32
2016	415,848.22	222,681.10	3,645,000.00	10,371,625.00	14,655,154.32
2017	426,316.56	212,212.76	3,780,000.00	10,236,000.00	14,654,529.32
2018	437,048.42	201,480.90	3,960,000.00	10,057,500.00	14,656,029.32
2019	448,050.45	190,478.87	4,150,000.00	9,864,750.00	14,653,279.32
2020	459,329.43	179,199.89	4,360,000.00	9,657,000.00	14,655,529.32
2021	470,892.34	167,636.98	4,580,000.00	9,433,500.00	14,652,029.32
2022	482,746.33	155,782.99	4,815,000.00	9,198,625.00	14,652,154.32
2023	494,898.73	143,630.59	5,065,000.00	8,951,625.00	14,655,154.32
2024	507,357.04	131,172.28	5,315,000.00	8,700,125.00	14,653,654.32
2025	520,128.98	118,400.34	5,580,000.00	8,435,750.00	14,654,279.32
2026	533,222.42	105,306.90	5,865,000.00	8,149,625.00	14,653,154.32
2027	546,645.48	91,883.84	6,155,000.00	7,861,125.00	14,654,654.32
2028	560,406.44	78,122.88	6,460,000.00	7,557,750.00	14,656,279.32
2029	574,513.80	64,015.52	6,790,000.00	7,226,500.00	14,655,029.32
2030	588,976.31	49,553.01	7,135,000.00	6,878,375.00	14,651,904.32
2031	603,802.88	34,726.44	7,505,000.00	6,512,375.00	14,655,904.32
2032	619,002.69	19,526.63	7,890,000.00	6,127,500.00	14,656,029.32
2033	315,320.49	3,944.19	8,290,000.00	5,723,000.00	14,332,264.68
2034			8,720,000.00	5,297,750.00	14,017,750.00
2035			9,165,000.00	4,850,625.00	14,015,625.00
2036			9,635,000.00	4,380,625.00	14,015,625.00
2037			10,130,000.00	3,886,500.00	14,016,500.00
2038			10,650,000.00	3,367,000.00	14,017,000.00
2039			11,195,000.00	2,820,875.00	14,015,875.00
2040			11,770,000.00	2,246,750.00	14,016,750.00
2041			12,370,000.00	1,643,250.00	14,013,250.00
2042			13,005,000.00	1,008,875.00	14,013,875.00
2043			13,675,000.00	341,875.00	14,016,875.00
<b>Totals</b>	<b>\$9,999,999.99</b>	<b>\$2,888,536.43</b>	<b>\$215,195,000.00</b>	<b>\$200,988,893.75</b>	<b>\$429,072,430.17</b>

## THE WATER SYSTEM

### General

The City is located at the confluence of the Sacramento and American Rivers in the northern part of California's Central Valley and is approximately 75 air miles northeast of San Francisco. Settled in the late 1830s and incorporated in 1849, the City became the location of the capital of the State in 1854. Today, State government employees and government-related activities contribute substantially to the City's economy.

The City operates under a City Charter that currently provides for an elected nine-member City Council including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, the City Attorney, the City Clerk, and the City Treasurer to carry out its adopted policies. The Mayor is chairperson of the City Council and is elected in at-large City elections. Members of the City Council serve four-year terms and are elected from eight geographic council districts.

As of January 1, 2012, the City had an estimated population of 470,956.

### Service Area

The Water System began providing service in the City in 1854. Today, the City's retail water service area covers approximately 63,182 acres within a boundary that is largely contiguous with the City limits. The Sacramento Suburban Water District serves a small portion of City residents and businesses on the eastern side of the City, and the Water System serves a number of customers in the unincorporated portion of the County of Sacramento (the "**County**") adjacent to the service area of the Fruitridge Vista Water Company. The population within both of these areas is roughly equivalent.

The City wholesales water to the California American Water Company, Fruitridge Vista Water Company, and the Sacramento Suburban Water District, wholesales/wheels water to the Sacramento County Water Agency (for service to Sacramento International Airport and Metro Air Park), and wheels water to the Sacramento County Water Agency (for South Sacramento Zone 40 service area).

### Management

The Water System is administered by the Department, which also administers the City's wastewater treatment and conveyance system (the "**Wastewater System**") and the storm drainage system. The Water System and the Wastewater System are financially independent from each other. Following are biographies of key Department personnel with responsibility for management of the Water System:

*Dave Brent, Director* – Mr. Brent has over 26 years of experience in water resources, including more than 21 years with the Department. He has held a variety of positions with the Department, starting in 1991 as the Senior Engineer managing the City's municipal storm water management program. Mr. Brent also served as the Engineering Services Manager from 2002 to 2010 and as Government Affairs Coordinator position from 2010 until his appointment as Director of

Utilities in September 2011. He has a Bachelor’s of Science in Civil Engineering from California State University, Sacramento and is a licensed Professional Engineer in the State.

*Bill Busath, Engineering Services Division Manager* – Mr. Busath has over 16 years of experience in the design, construction, operation, and management of water, drainage, and wastewater systems with the Department. He has held several positions in the Department, including managing the City’s stormwater-management and floodplain-management programs. Mr. Busath has been the Manager of the Engineering Services Division for almost two years. He holds a Bachelor’s of Science in Civil Engineering and a Masters of Science in Engineering Management from California State University, Sacramento, and has been a licensed Professional Engineer for 18 years.

*Michael Malone, Field Services Manager* – Mr. Malone has over 22 year of experience in underground utility management. He has served in several capacities with the Department and the San Jose Water Company including Water and Wastewater Superintendent and Senior Maintenance Supervisor. Mr. Malone has been in the position of Field Services Manager since January of 2008 and is also the acting Plant Services Manager. He holds a Bachelor of Arts in Management from Saint Mary’s College and a State of California Water Distribution Grade 3 Certification, and is a member of the American Water Works Association and is the current 2-Year Director of the local American Public Works Association chapter.

*Jamille Moens, Business Services Manager* – Ms. Moens has over 25 years of experience in finance and administration as well as policy and systems analysis. She has worked in both the private and public sectors in the US and internationally. Ms. Moens has been the Business Services Manager for over 4 years and oversees the finance, billing and customer service operations for the Department. She holds a Bachelor’s of Science in Industrial and Labor Relations from Cornell University and a Master of Arts in Political Science from Stanford University. She is a registered Project Management Professional.

See APPENDIX A—“FEASIBILITY CONSULTANT’S REPORT” for a further description of Department personnel and management.

**Employees**

During Fiscal Year 2012-13, the City has assigned 510.5 employees to the Department, many of whom perform work for more than one of the City’s utilities. Employee costs of the Department are allocated by the City among the various utilities. For Fiscal Year 2011-12, the Water System was allocated approximately 42% of Department employee costs. Employees assigned to the Water System are represented by the following Bargaining Units with the following Memorandum of Understanding expiration:

<b>Bargaining Unit</b>	<b>Number of Employees</b>	<b>Expiration</b>
Western Council of Engineers (WCE)	13	June 29, 2013
UA Local 447 Plumbers & Pipefitters Local Union	170	June 24, 2016
Stationary Engineers Local 39	204.5	December 27, 2013
Sac Sierra Building and Construction Trades, rep unit 6	53	June 28, 2013
Sacramento City Exempt Employees Association (SCXEA)	66	June 27, 2014
Non-Represented	4	

## Water System Facilities

The Water System includes two water treatment facilities, groundwater wells, storage facilities, pumping facilities, and distribution/transmission pipelines.

Much of the existing infrastructure at the City's water treatment plants has exceeded its useful life, as described below. The City's water treatment plants were expanded to their current capacity in 2001 but much of the existing infrastructure was not rehabilitated or replaced as part of the expansion projects.

Water Treatment Plants. The City treats surface water diverted from the Sacramento and American Rivers through the Sacramento River Water Treatment Plant ("SRWTP") and the E.A. Fairbairn Water Treatment Plant ("FWTP"), respectively.

*Sacramento River Water Treatment Plant.* The SRWTP began operation in 1924 with an initial capacity of 32 million gallons per day ("MGD"), and treats water diverted approximately one-half mile downstream of the American River confluence with the Sacramento River. A new intake structure was completed in 2004. Other expansions and modifications completed by the City since the 1920's (including a 70 MGD expansion in 2004) have increased the SRWTP design capacity to 160 MGD.

As of the date of this Official Statement, the SRWTP's reliable capacity is limited to 135 MGD because of hydraulic constraints and the conditions of the existing facilities. The SRWTP currently has three treatment trains; all three treatment trains are recombined after filtration before post-chlorination. A portion of the proceeds of the Series 2013 Bonds will be used to pay the cost to rehabilitate and replace various elements of the SRWTP, work that is expected to restore the capacity of SRWTP to 160 MGD. This portion of the Series 2013 Project will include the deactivation (and preservation) of the oldest facilities and replacement of the second processing train with a near duplicate of the third train, which was constructed in 2002. See "THE SERIES 2013 PROJECT."

*Fairbairn Water Treatment Plant.* The FWTP is located approximately seven miles upstream of the confluence of the American and Sacramento Rivers. The FWTP began operation in 1964 and has a current design capacity of 200 MGD following an expansion completed in late 2005. As of the date of this Official Statement, the California Department of Public Health ("CDPH") has permitted the FWTP with a capacity of 160 MGD. However, the amount of water allowed to be diverted for treatment at FWTP is further limited by the Hodge Flow Criteria described below. Generally, during the time of peak demand, most often in June, July, or August, the Hodge Flow Criteria could limit the diversion rate at the FWTP to 100 MGD. (See "Water Rights and Resources – Hodge Flow Criteria.") There are two treatment trains at the FWTP.

*Groundwater Wells.* The City currently operates 27 municipal groundwater supply wells, 25 of which are located in the northern portion of the City, north of the American River, with the remaining 2 located south of the American River. Of the 27 wells, 15 are currently offline of which 9 are offline due to low water demand and/or well performance. Those wells offline due to performance issues are undergoing a condition assessment to determine whether they will be reopened in the future. Of the six remaining wells that are currently offline, four are being rehabilitated and are expected to be back online by summer 2013, and the remaining two will be abandoned for water quality purposes. See "Environmental Compliance."



The City maintains a groundwater production capacity of approximately 20 MGD. A portion of the proceeds of the Series 2013 Bonds will be used for improvements to certain groundwater wells. See “THE SERIES 2013 PROJECT.”

*Storage Facilities.* The City currently has 16 storage facilities: 11 distributed storage tanks are located throughout the City, while 5 clearwells are located at the water treatment plants (three at SRWTP and two at FWTP). Ten of the storage tanks located throughout the City’s distribution system have a capacity of 3 million gallons each, while 1 storage tank (Florin Reservoir) has a capacity of 15 million gallons, for a cumulative distribution system storage capacity of 45 million gallons. The combined plant clearwells have a nominal capacity of approximately 45 million gallons and a usable capacity of 32 million gallons.

*Pumping Facilities.* The City currently operates high lift pump stations at both the SRWTP and the FWTP. The City also has an additional 10 pump stations, one located at each storage tank within the distribution system, with the exception of the Freeport Storage Tank.

*Transmission and Distribution Mains.* The City maintains approximately 1,440 miles of distribution system mains (less than 12 inches in diameter) and approximately 158 miles of transmission mains (greater than 12 inches in diameter). The City’s oldest transmission and distribution mains date back to the early 1900’s. The City’s transmission and distribution mains range from less than 10 years to over 100 years old (about 40 percent are less than 40 years old, 35 percent are between 40 and 50 years old, and about 25 percent are more than 50 years old). As a result of this aging infrastructure, the Water System experiences significant pipe breaks from time to time. The majority of pipeline failures occur on the older pipelines and the frequency of failures is increasing. The City monitors the condition of the transmission and distribution system and rehabilitates or repairs pipes regularly. See “Capital Improvement Program” and APPENDIX A-“FEASIBILITY CONSULTANT’S REPORT.” Part of the Series 2013 Project consists of the rehabilitation or replacement of portions of the City’s pipelines. See “THE SERIES 2013 PROJECT” and “CERTAIN RISK FACTORS – Aging Components of Water System.”

*System Production Capacity.* The table below shows the Water System’s existing and future sustainable capacity to be considered for meeting existing and future water demand. Sustainable capacity is the treatment capacity that can be provided 24 hours per day 365 days per year while meeting all water quality goals. The Water System CIP includes upgrades and rehabilitation of the SRWTP, FWTP, and related facilities (including wells) that are designed to increase the total sustainable capacity to 280 MGD by 2016.

The City has experienced a steady increase in water demands from the early 1990’s to its peak in 2007. Since 2007, the City’s average water demand has dropped 15%. The drop can be attributable to the economic downturn, vacant properties, and City customers conserving water during the drier years. City demands are expected to start increasing over the next year as the economy improves and those future demand projections are shown in Table 1. See APPENDIX A-“FEASIBILITY CONSULTANT’S REPORT” for a discussion of present and future Water System demand.

**Table 1  
Water System Sustainable Capacity**

Facility	Sustainable Capacity (MGD)	
	Existing	Future <sup>(1)</sup>
SRWTP	135	160
FWTP <sup>(2)</sup>	100	100
Groundwater Wells	<u>20</u>	<u>20</u>
<b>TOTAL</b>	<b>255<sup>(3)</sup></b>	<b>280</b>

Notes:

- (1) Total future capacity is based on the Water System CIP including upgrades and rehabilitation of the SRWTP, FWTP, and related facilities that are designed to increase the sustainable capacity to 280 MGD by 2016.
- (2) While the permitted capacity is 160 MGD, the City's Water Forum diversion restrictions limit FWTP diversions to 100 MGD when lower American River flows fall below the Hodge Flow Criteria.
- (3) Compare to the average daily production rate and average daily maximum month production rate over the last three years of approximately 105 MGD and 169 MGD, respectively. See Table 2.

Source: The City

*Recent System Production.* The following table shows the average total water production for Fiscal Year 2008-09 through Fiscal Year 2011-12 from the Water System's three supply sources. As shown below, about 45% of the Water System's water production was from the SRWTP, about 39% was from the FWTP, and the remaining 16% was from groundwater wells.

**Table 2**  
**Average Water Production for Fiscal Years 2008-09 to 2011-12**

Water Source	Average Annual Production (MG)	Average %	Average Daily Production Rate Over Calendar Year (MG)	Average Daily Maximum Month Production Rate (MGD)
Sacramento River Water Treatment Plant	17,385	45	48	82
Fairbairn Water Treatment Plant	15,082	39	41	69
Groundwater Wells	5,952	16	16	18
<b>TOTAL</b>	<b>38,419</b>	<b>100</b>	<b>105</b>	<b>169</b>
Notes: MG = million gallons; MGD = millions gallons per day. Source: The City				

The Water System capital improvement program includes upgrades and rehabilitation of the SRWTP and FWTP and related facilities that will increase the sustainable capacity. See “THE WATER SYSTEM – Capital Improvement Program” and “THE SERIES 2013 PROJECT.”

**Water Rights and Resources**

In addition to the groundwater wells described above, the City also possesses significant surface water rights, including five appropriative water rights permits issued by the State Water Resources Control Board (“**SWRCB**”) (as described below and in Table 3) and pre-1914 rights. Certain of the City’s rights are limited by a water rights settlement contract with the U.S. Bureau of Reclamation (“**BuRec**”), and the “Hodge Flow Criteria” as described below. With the rehabilitation of the SRWTP and FTWP, and planned water conservation (expected to result in demand reductions of 20%), the City projects that it will have sufficient water entitlements and water production infrastructure to accommodate new demands through the year 2030. Depending on growth in demand, after 2030, new water production infrastructure may be needed, which could require the issuance of additional Bonds or other Parity Obligations.

Surface water is currently diverted at two locations: from the American River downstream from the Howe Avenue Bridge, and from the Sacramento River downstream of the confluence of the American and Sacramento Rivers. The City’s current authorized Place of Use (“**POU**”) for water diverted under the Sacramento River permit includes all the land within the City limits, while the POU for water diverted under the American River permits includes land within the City limits and adjacent portions of the service areas of several other water purveyors.

The following table summarizes the City’s water rights permits (note that the City’s rights as described below are limited in certain circumstances by the BuRec Settlement and the Hodge Flow Criteria, as described in the Feasibility Consultant’s Report). Each of the permits requires the City to perfect full use by the year 2030, which is the time by which the City must demonstrate its maximum water usage of surface water diverted. If the City anticipates additional future demands as 2030

draws near, there are procedures for requesting an extension, which would require consideration and approval by the SWRCB in accordance with applicable statutory and regulatory requirements.

**Table 3  
City State Water Right Permits Summary  
City of Sacramento**

Priority Date <sup>(1)</sup>	River Source	Maximum Amount Specified		Place of Use
		CFS (cubic feet per second)	Million Gallons	
March 30, 1920	Sacramento	225	26,655	City of Sacramento
October 29, 1947	American	675 <sup>(2)</sup>	79,833 <sup>(2)</sup>	79,500 acres within and adjacent to the City
February 13, 1948	Tributaries of American			96,000 acres within and adjacent to the City
July 29, 1948	Tributaries of American			96,000 acres within and adjacent to the City
September 22, 1954	American			79,500 acres within and adjacent to the City

<sup>(1)</sup> The “**Priority Dates**” shown above are the dates that each water right application was filed. Since 1914, a party seeking surface water rights in the State has been required to apply to the State for a permit. Under permits issued by the State since 1914, when there is not adequate water available to satisfy all permittees’ uses, water use is governed by a priority doctrine where permits with earlier application dates (i.e., “**senior rights**”) take precedence over permits with later application dates (i.e., “**junior rights**”). Water rights obtained by water use before the permit system was instituted in 1914 are referred to as “pre-1914” rights, and during times of water shortage pre-1914 water rights take precedence over water right permits issued after 1914.

<sup>(2)</sup> Aggregate maximum applicable to the City’s diversions under all four American River permits pursuant to the 1957 settlement contract between the City and BuRec.

Source: The City

*Bureau of Reclamation Settlement Contract.* The City’s ability to use its entitlements for the Sacramento and American Rivers is subject to limitations contained in a Water Rights Settlement Contract entered into in 1957 by the City and the BuRec (the “**BuRec Settlement**”). Under the BuRec Settlement, the City agreed to limit its combined rate of diversion under its American River water rights permits to a maximum of 436 MGD and may scale up to 79,833 MG in a year by the year 2030. The City also agreed to limit its rate of diversion under its Sacramento River water rights permit to a maximum of 145 MGD and a maximum amount of 26,655 MG. This limits the City’s total diversions of Sacramento and American River water under its water rights permits to 106,488 MG in the year 2030 and in succeeding years. In return, the BuRec Settlement requires the BuRec to operate BuRec facilities so as to make available enough water in the rivers at all times to enable the agreed-upon diversions by the City. The BuRec Settlement is described in the Feasibility Consultant’s Report.

*Water Forum Agreement.* The Water Forum was started in 1993 by a group of water managers, local governments, business leaders, agricultural leaders, environmentalists, and citizen groups with two “co-equal” goals: to provide a reliable and safe water supply through the year 2030, and to preserve the wildlife, fishery, recreational, and aesthetic values of the Lower American River.

In 1999, after six years of negotiation, the Water Forum participants approved the 2000 Water Forum Agreement (“**Water Forum Agreement**”).

As part of the Water Forum Agreement, each purveyor signed a purveyor specific agreement (“**PSA**”) that specified that purveyor’s Water Forum commitments. The City’s PSA limits the quantity of water diverted from the American River to the FWTP during two conditions: extremely dry years (i.e., “**Conference Years**”) and periods when river flows are below the “Hodge Flow Criteria” issued by Judge Richard Hodge in the Environmental Defense Fund v. East Bay Municipal Utility District litigation (“**Hodge Flow Criteria**”). These two conditions, collectively referred to as the “**PSA Limitations**,” are described in more detail below.

*Extremely Dry Years (Conference Years).* The PSA defines Conference Years as years in which the DWR projects an annual unimpaired flow into Folsom Reservoir of 550,000 acre feet per year (179,200 million gallons) or less, or the projected March through November unimpaired flow into Folsom Reservoir is less than 400,000 acre feet per year (130,300 million gallons). During extremely dry years, the City has agreed to limit its diversions for water treated at the FWTP to 155 cubic feet per second (100 million gallons per day) and 50,000 acre feet per year (16,300 million gallons). This has happened twice since 1922 (i.e., a frequency of about two years out of every 100 years). Any additional water needs must be met by diversions at other locations and/or other sources.

The City would reduce water consumption in an extremely dry year, if supplies were not available. The City’s 2010 Urban Water Management Plan provides for specific actions to reduce water consumption depending on the severity. For example, the City may forbid washing cars or outdoor irrigation. The Urban Water Management Plan also provides for longer term water conservation efforts.

*Hodge Flow Criteria.* The Water Forum parties agreed to use the Hodge Flow Criteria as a minimum flow that would preserve and protect the in-stream resources of the Lower American River. The City’s PSA restricts the City from using a portion of the maximum allowable FWTP diversion capacity during periods when these flows were not met.

Under the City’s PSA, the FWTP may divert up to 200 MGD as long as the flow in the American River is greater than the Hodge Flow Criteria. When the flow in the American River is less than the Hodge Flow Criteria, diversion limits apply. (The diversions limits are set forth in detail in the Feasibility Consultant’s Report.) The City does not anticipate that the Hodge Flow Criteria will materially adversely impact the City’s ability to meet demand in the Water System until or after the year 2030.

*Groundwater.* The City has historically relied on groundwater to satisfy a portion of its demand. The City overlies two subbasins of the Sacramento Valley Groundwater Basin (the North American and South American Subbasins). The City is one of many water purveyors that utilizes groundwater from the subbasins. The City operates 25 municipal supply wells (15 of which are currently offline) north of the American River, and 2 municipal supply wells south of the American River. The City pumps groundwater from both subbasins, although approximately 95% of the amount pumped by the City is pumped from the North American Subbasin. The City pumped 17,772 acre feet of groundwater from the North American Subbasin and 665 acre feet from the South American Subbasin for potable water consumption in 2010.

## **Environmental Compliance**

The City's water treatment plants must produce water that meets State and federal regulations for drinking water quality. In general, the State is primarily concerned with the administration of Federal drinking water requirements, but can add additional, or more restrictive requirements. The three primary regulations that govern drinking water treatment for the protection of public health in the State are the federal Surface Water Treatment Rule ("SWTR") and its amendments, the federal Total Coliform Rule ("TCR") and the State Surface Water Treatment Rule ("CA SWTR").

If the federal government, acting through the United States Environmental Protection Agency ("USEPA"), or the State, acting through the CDPH, or additional federal or State legislation, should impose stricter water quality standards or other additional regulatory requirements upon the Water System, then the City's treatment expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. The City cannot predict the future direction that federal or State regulation will take with respect to drinking water quality standards and requirements, although it is likely that in the future the federal government and the State will impose more stringent standards with attendant higher costs.

Current federal and State drinking water quality regulations applicable to the Water System include primary and secondary drinking water standards, regulations relating to conventional surface water treatment processes including disinfection, and requirements for maintenance of disinfection residual in the distribution system. Significant federal regulations include the Long-term 2 Enhanced Surface Water Treatment Rule to ensure treatment is adequate for cryptosporidium, and the Unregulated Contaminant Monitoring Rule that requires special monitoring for unregulated contaminants (the "UCMR"). The UCMR provides the USEPA with data for identifying new constituents to be regulated in drinking water. The UCMR results in additional monitoring costs approximately every five years, and the associated cost is built into the City's regulatory compliance budget for the Water System. State regulations include the California Waterworks Standards that includes provisions to make certain that there is adequate supply for new development and that certified materials that meet safety standards are used. The State and the County institute regulations for construction and destruction of potable water wells to protect public health and the groundwater aquifer.

The City's drinking water is in compliance with all current federal and State drinking water standards, and the City's drinking water program has no violations in its long history.

The Stage 2 Disinfectants and Disinfection Byproducts ("DBP") Rule requires two types of disinfection byproducts (trihalomethanes and haloacetic acids) to be lower than their respective regulatory standards at representative monitoring locations throughout the distribution system. Based on past monitoring results and current regulations, the City does not anticipate problems in complying with regulations relating to DBPs in its water supply.

USEPA published the Revised Total Coliform Rule ("RTCR") in the federal register in February 2013. As of April 1, 2016 water systems must comply with the RTCR. This regulation will require public drinking water systems to notify the public if a test exceeds the standard for E. coli in drinking water. This regulation could result in the need to prioritize portions of the distribution system for rehabilitation and implementation of a flushing and cleaning program.

Pending regulations that could impact costs include the Carcinogenic Volatile Organic Compound Rule, projected to be proposed in the fall of 2013. The final rule would likely be published two years after the proposal. The federal standards for trichloroethylene (“TCE”) and tetrachloroethylene (“PCE”) may be lowered through this regulation. The State could also lower its TCE standard following the Office of Environmental Health Hazard Assessment reevaluation of the California Public Health Goal. TCE has been detected in one well and PCE has been detected in two wells. The well with TCE and one of the wells with PCE have been taken out of service and will be decommissioned given their location near an existing contaminant plume. The City is investigating possible modifications to the other well that had PCE detected to mitigate the source of PCE entering the well. City staff has met with staff from the Central Valley Regional Water Quality Board and California Department of Toxic Substance Control to obtain the latest information on groundwater-contamination plumes north of the American River in the vicinity of these wells. The City participates in regional groundwater-planning activities that include stakeholder participation in groundwater protection from historic contamination plumes; these group efforts include the Sacramento Groundwater Authority and the Sacramento Central Groundwater Authority.

In addition, the City also anticipates that the State will propose a draft maximum contaminant level for hexavalent chromium in the summer of 2013. The final State standard is expected to be promulgated between July 2014 and July 2015. The final standard may necessitate treatment at some of the potable water wells or their removal from use; either approach would significantly increase the costs of the Water System, including disposal of treatment residuals.

Fluoridation equipment upgrades at the water treatment plants and wells may be necessary to address potential future changes to the federal and State fluoride standard, while continuing to provide fluoride addition to the CDPH’s optimal level.

The City currently is permitted to operate 27 municipal groundwater supply wells, a majority of which have been in service for over 40 years. (As described herein, of the 27 wells, 15 are currently offline of which 9 are offline due to low water demand and/or well performance.) The City is developing a conjunctive use strategy for the City’s surface water and groundwater supply that will allow flexibility in meeting City water demands based on water availability and supporting regional water resources management and sustainability. As a result, the City has begun a program to evaluate and rehabilitate the City’s well system and to identify future needs for system reliability and efficient groundwater production. In addition to the initial costs of investigation and rehabilitation, upcoming regulatory requirements for hexavalent chromium described above may require installation of onsite treatment systems in some City wells. Future changes to drinking water standards may also result in additional treatment and associated increased costs. Existing wells that have been out of service while awaiting rehabilitation would also need fluoridation equipment installed if rehabilitation restores the wells to an acceptable level of performance. Any out of service wells are thoroughly tested before returning to service to ensure that all regulatory requirements are met.

While the City has included the estimated cost of compliance with regulatory requirements in its projected operating results, there can be no assurances that compliance with existing or future requirements will not significantly exceed such estimates. See “CERTAIN RISK FACTORS - Statutory and Regulatory Impact.”

## Customers

The following table below shows the number of connections of the Water System by user type. Non-residential (i.e., commercial/industrial) represent about 20 percent of the total Water System revenues on average

**Table 4**  
**City of Sacramento**  
**Water System**  
**Number of Connections by User Type**  
**as of June 30**

User Type	2008	2009	2010	2011	2012
Residential	125,116	125,925	126,164	126,199	126,282
Commercial/Industrial	8,494	8,673	8,616	8,766	8,927
Total All Users <sup>(1)</sup>	133,610	134,598	134,780	134,965	135,209

<sup>(1)</sup> Total does not include the four outside wholesale accounts and one wheeling account.

Source: The Department

The table below shows the ten largest Water System customers based on service charge revenues (as well as percentage of total revenues) during the 2011 calendar year.

**Table 5**  
**City of Sacramento**  
**Water System**  
**Largest Customers by Service Charge Revenue<sup>(1)</sup>**  
**Calendar Year 2011**

User	Revenue	Percent of Total Revenue
City of Sacramento	\$1,761,858	2.31%
Sacramento City Unified School District	532,940	0.70
State of California	437,638	0.57
Sacramento Power Authority/Sacramento	241,535	0.32
Sacramento Housing & Redevelopment Agency	231,735	0.30
Natomas Ridge	228,258	0.30
CTL Management	203,689	0.27
County of Sacramento	203,437	0.27
Woodlake Village	188,915	0.25
Housing Authority of the City of Sacramento	182,262	0.24

<sup>(1)</sup> Includes all metered and flat rate revenue.

Source: The Department.

The City wholesales water to the California American Water Company, Fruitridge Vista Water Company, and the Sacramento Suburban Water District, and the Sacramento County Water Agency. Each of these customers has an agreement stating specific maximum rates of treated City surface water it receives utilizing “firm capacity.” See APPENDIX A- “FEASIBILITY CONSULTANT’S REPORT” for a discussion of these arrangements.



## Rates and Charges

Subject to the requirements of Article XIID in the State Constitution (otherwise known as Proposition 218), the City has the power to establish rates and charges for services provided through the Water System. The rates and charges are recommended by the Utility Rate Advisory Commission, a non-binding advisory commission established by the City Council and are not subject to approval by any agency other than the City Council. The following table shows the percentage amount of rate increases adopted by the City since 2005. (The Projected Operating Results assume further rate increases after Fiscal Year 2014-15, which have not been approved by the City Council.)

**Table 6**  
**City of Sacramento**  
**Water System**  
**Adopted Rate Increases**

<b><u>Fiscal Year</u></b> <b><u>(ending June 30)</u></b>	<b><u>Rate Increase %</u></b>
2005	6%
2006	9
2007	9
2008	9
2009	0
2010	15
2011	15
2012	0
2013	10
2014	10
2015	10

Source: The City.

To analyze the revenue requirements needed to fund infrastructure projects to ensure Water System reliability and sustainability; move toward meeting industry best practices for infrastructure replacement and maintenance; and maintain compliance with federal, state, and local regulatory mandates, the Department contracted with the FCS Group, a consulting firm specializing in the process of setting utility rates. The Department used the revenue requirements developed by the FCS Group as the basis for the rate adjustments which the Department recommended and the City Council approved for Fiscal Years 2012-2013, 2013-2014, and 2014-2015. As described in the Feasibility Consultant's Report, average monthly residential service charges for a typical single-family metered residential customer are forecasted to increase from \$34.98 in Fiscal Year 2012-13 to \$51.25 in Fiscal Year 2016-17. Average monthly residential service charges for a typical single-family flat rate residential customer are forecasted to increase from \$37.79 in Fiscal Year 2012-13 to \$55.35 in Fiscal Year 2016-17. See APPENDIX A—"FEASIBILITY CONSULTANT'S REPORT."

The following table shows selected monthly rates for the Water System for fiscal years 2011-12 through 2014-15.

**Table 7  
City of Sacramento  
Water System  
Selected Monthly Rates**

	<u>Rates Effective:</u>			
	July 1, 2011	(Current) July 1, 2012	July 1, 2013	July 1, 2014
<b><i>Flat Water Use Rates (\$/month)</i></b>				
<b><i>Single Family Residential:</i></b>				
1-3 rooms	24.28	26.71	29.38	32.32
4-5 rooms	31.59	34.75	38.23	42.05
6-9 rooms	34.35	37.79	41.57	45.73
10-15 rooms	39.70	43.67	48.04	52.84
Over 15, each additional room	2.78	3.06	3.37	3.71
 <b><i>Metered Water Use Rates</i></b>				
<b>Water Usage Rate (\$/CCF)</b>	0.7485	0.8234	0.9057	0.9963
 <b><i>Service Charge (\$/month)</i></b>				
<b><i>Metered Size:</i></b>				
5/8" x 3/4"	18.33	20.16	22.18	24.40
3/4"	18.33	20.16	22.18	24.40
1"	18.33	20.16	22.18	24.40
1½"	34.52	37.97	41.77	45.95
2"	53.95	59.35	65.29	71.82

CCF = One hundred cubic feet

Source: The City

*Transition to Usage-Based Water Rates for Single Family Customers.* The State adopted legislation requiring that all existing residential metered water services installed begin receiving metered water bills effective January 2011. The same legislation requires that all water utility customers (including the Water System's customers) have meters installed no later than 2025. On May 24, 2005, the City Council adopted Resolution 2005-347, directing that water meters be installed throughout the City. The City began transitioning single family residential customers who had received more than one year of comparative metered billing from the flat water rates to water-usage based upon the metered rates in January 2011.

The City currently charges both a flat rate structure and a uniform metered charge for its customers. Where meters are installed and charged, metered consumption fees consist of two components – a monthly fixed charge based upon the meter size; and a volumetric uniform commodity rate charged per hundred cubic feet.

Once a meter is installed, the customer continues to be billed on a flat rate for one year before the metered rate is charged. During this year of “comparative billing”, the customer’s water usage

and respective metered rates are displayed on the bill allowing the customer to become familiar with his or her water usage and make water conservation choices. This “comparative billing” is a critical communication and public outreach strategy employed by the City to encourage conservation.

According to City data, about 43% of the City’s water customers are billed based on metered service as of January 2013. The majority of these accounts are for residential service. The majority of residential accounts will continue to be billed on a flat rate basis as the City continues its meter installation program with about 6,000 accounts transitioned per year until 2025.

The City’s current metered rate was restructured in 2009. At that time, approximately 5% of the total accounts in the City were billed on a metered water rate. An outside consulting firm completed a water conservation pricing study for the Department in August 2008. The study included a current customer data review to evaluate current consumption pattern shifts. The results of the evaluation suggest that the existing metered rate schedule is not fully recovering the costs of providing service from its customers as they are transitioned to the metered rate schedule. The finding that revenues are trending downward during the meter transition process was accounted for in the current financial and rate planning process based on the projected flat-to-metered rate conversion schedule. The City will actively monitor metered water rate revenues for deviations in forecasted metered revenues.

The Department plans to commission a metered rate restructure study to re-evaluate the metered rate structure as the City nears 50% residential metering. According to the City’s meter transition plan, 50% percent of residential customers will be metered within the next three to five years.

As the City continues to transition customers to its water meter program and collect and evaluate usage data, the City will continue to monitor actual water usage and water rate revenues. Because the transition to usage-based billing will occur over the next thirteen years, the potential revenue uncertainty each year will be limited to a small percentage of the revenue base. No assurances can be made; however, that water rate revenues will be as projected. Subject to Proposition 218, the City Council has the authority to change the water rates and rate structures, if needed, to ensure revenue adequacy.

In addition to imposing fees for water service, the City also imposes development fees as a condition for connecting new properties to the Water System. For purposes of the Projected Operating Results in Table 11, the City has not included any projected development fees.

### **Collection Procedures**

The City bills the legal owner(s) of City parcels for water service connections to the City’s Water System. Water service connections include domestic potable, irrigation, and fire service. Billing for water service is included on a monthly bill that may include other utility services provided by the City. Bills are generated within 16 billing cycles per month. Typically, one cycle is billed per day. Bills are due 20 days from the bill generation date in accordance with the City Code, and late payment penalties are automatically assessed once an account becomes 15 days past due; which is 35 days from the bill date. A 10% late charge is added to each service charge on the account for a single bill’s current charges once it becomes 15 days past due. An additional 1.5% late penalty is added each month to the portion of the overall outstanding balance that is 45 days past due. A delinquency

notice is generated to the legal owner(s) once an account becomes 45 days past due. If the account is not paid current, a lien is then assessed against the parcel at 75 days past due (95 days from bill date).

Annually, customers with delinquent accounts, that have a balance greater than 75 days past due, are noticed with a special assessment levy. Customers are given the opportunity to protest the charges and have a hearing before an independent hearing officer. Unpaid delinquent amounts are assessed to the County property tax bill annually during the Special Assessment Levy process, once approved by City Council in July of each year. (The City currently does not shut off water service for failure to pay bills.)

In the past two years, an average of 14,471 liens have been recorded against properties having delinquent service charges each year, and an average of 8,747 properties have had levies placed on their property tax bill. The number of liens and levies represent the properties that had at least one delinquent utility service charge. Since 2010, an annual average of \$1.4 million in late fees has been assessed on utility bills for past due water service charges, and an annual average of \$3.6 million in delinquent water service charges have been placed on delinquent customers' property tax bills as a special assessment levy.

The City believes that the use of liens to secure the payment of delinquent charges and late fees is an effective tool to ensure collection of delinquent accounts. If a property changes ownership and there is a lien on the property, the title companies issue a demand notice and payment is made to the utility. If a subject property is foreclosed and a Trustee Deed is in place, the lien with respect to the utility bills is removed (without payment of the delinquent amounts). Accounts with these types of foreclosures as well as accounts that close with delinquent amounts less than 75 days past due, are sent to a collection agency which then pursues collection of the unpaid amount on the closed accounts.

The following table shows unpaid water charges which the City was unable to collect through the lien and special assessment processes described above. When establishing rates each year, the City takes into account projected amounts of charges that it will be unable to collect.

**Table 8**  
**Uncollected Water System Charges**  
**(Fiscal Year ending June 30)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Amount	\$605,319	\$1,476,237	\$1,122,845	\$1,121,384	\$1,023,697

Source: The City.

**General Fund Tax on Water System Revenues**

In 1998, voters in the City approved Measure I, which provides for a general tax on the City's water, sewer, storm drainage and solid waste enterprises in the rate of 11% of the total gross revenues received from user fees and charges of all of the enterprises combined. Measure I (codified as Section 41.10.150 of the Sacramento City Code) also provides that, in levying the tax, the City Council may impose a tax rate higher or lower than the 11% on one or more of the enterprises, so long as the total tax paid by all of the enterprises does not exceed 11% of the total gross revenues received from user fees and charges of all of the enterprises combined.

The City currently imposes the tax at the rate of 11% of the collected utility user fees of each of the enterprises, including the Water System. In preparing the budget for the Water System each year, the City takes into account the requirement that 11% of collected utility user fees be paid as the tax, and set rates and charges accordingly. The City estimates the total amount of the general tax that will be due, and by the 1st day of each month during the fiscal year, one-twelfth of that amount is recorded to the General Fund on the City's books from the receipts of the Water System. At the end of each Fiscal Year, the City compares the total amount of monthly amounts allocated to 11% of the actual collected utility user fees of the Water System, and a reconciliation is made between the Water Fund and the General Fund.

Pursuant to the Indenture, System Revenues do not include the portion of gross revenues of the Water System from user fees and charges that are recorded to the City's General Fund as part of the voter approved general tax pursuant to the City Code. Such amounts have not been included for purposes of the calculation of debt service coverage in the Projected Operating Results in Table 11. See " - Projected Financial Results."

### **Budgetary and Financial Procedures**

The Water Fund is used to account for the activities associated with the production, distribution, and transmission of potable water by the City to its users. The Water Fund supports both the capital and operating costs of providing potable water throughout the city including production, treatment, and distribution systems. Revenues are generated by user fees, interest earnings, development fees, tap sales, and reimbursements from other entities for service performed by or paid by the Water Fund. The Water Fund is an Enterprise Fund. Generally, revenues are to be used to offset enterprise operations and improvements and may not exceed the estimated reasonable cost of providing these services, plus overhead.

The user fees and development fees are collected through various methods and deposited to a commercial bank. Generally within one business day of receipt, such amounts are deposited into the City's general bank account, which account is used for the receipt of all of the City's cash (including cash from the City's other utilities, parking facilities and general fund amounts). This cash receipts bank account is swept nightly into the City's primary investment account, which is part of the City's Pool A (described below). The City then identifies the amounts within Pool A that consist of utility payments (includes payments from all of the City's utilities, including the Water System) and records these amounts to a utility revolving fund in the City's books. Payments for each utility are then recorded to the appropriate enterprise fund in the City's books, which in the case of the Water System is the Water Fund.

The City maintains a number of funds in connection with the Water System, consisting of the following:

*Water Fund.* Revenue generated by the City for the purpose of providing water service to its customers is deposited in the Water Fund. Revenues are derived from customer fees, interest earnings, development fees, tap sales, and reimbursements from other entities for services provided. Water Fund revenues are structured to cover the costs of providing water service to its customers which include water treatment, plant maintenance, water distribution system repair and maintenance, water conservation and education programs, water quality monitoring, related engineering services, customer service and billing, the City-County Office of Metropolitan Water Planning, and capital improvements.

*Development Impact Fee Fund.* Revenue generated by the City in relation to Water System development fees are deposited in the Development Impact Fee Fund. Water System development fees are one-time fees paid at the time of connection to the water system and represent the estimated reasonable cost of providing system capacity to new development. Proposed water system development fees are based on the system buy-in methodology.

*ARRA Grant/Loan Fund.* The ARRA Grant/Loan Fund is used to account for activities related to the ARRA-funded Water Meter Retrofit Program. The American Recovery and Reinvestment Act of 2009 (“ARRA”) was signed into law on February 17, 2009. Within California, ARRA provides funding to the Safe Drinking Water State Revolving Fund administered by the CDPH, for infrastructure development for California’s drinking water systems. The state entered into the State Funding Agreement pursuant to this program. For a description of the State Funding Agreement, see “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS - Outstanding Parity Obligation.”

*Grant Projects Fund.* The Grant Projects Fund was established in Fiscal Year 2011/2012 to account separately for Water Fund restricted grants and other third-party reimbursements for multi-year programs.

## **Investment of Funds**

Funds of the Water System are invested in the City’s Investment Pool A (“**Pool A**”). Pool A contains approximately 99% of the City’s cash and investments and is governed by the investment policy of the City Treasurer (the “**Investment Policy**”) which is annually presented to the City Council for approval. This policy requires the City Treasurer to conform to Government Code sections 53600, et seq., with the primary objectives, in order of priority, of safety, liquidity, and yield. Quarterly, the City’s investment committee (the “**Investment Committee**”) consisting of representatives of the various entities which are investors in Pool A (including various City, Sacramento City Employees’ Retirement System, Sacramento Housing and Redevelopment Agency, Capital Area Development Authority, American River Flood Control District, The Natomas Basin Conservancy, Sacramento Public Library Authority, and several endowment funds representatives) convenes to audit and review the investments to assure that they are in compliance with Government Code and the Investment Policy. The Investment Committee also reviews the investment strategy and guidelines in relation to the changing financial markets. The City Treasurer submits an investment activity report monthly for review by the City Council.

Water System Funds in Pool A are available to the City (including the General Fund) for cash flow purpose during each fiscal year. Any amounts used by such purpose must be repaid prior to June 30 in the fiscal year in which they are borrowed. While the City utilized Water System and other enterprise funds for cash flow purposes from time to time in the past (and may do so in the future), the City has utilized tax revenue anticipation notes for cash flow purposes the last two fiscal years.

See “CERTAIN RISK FACTORS- Effect of Losses in City Investment Pool.”

## **Capital Improvement Program**

The City’s capital improvement program includes a comprehensive five-year plan for capital project expenditures for the entire City, including the Water System. The capital improvement

program is a guide for identifying current and future fiscal requirements and becomes the basis for determining annual capital budget expenditures. Capital improvements are major projects undertaken by the City that are generally not recurring and are for repairs, maintenance, improvement, or acquisition with a total cost of at least \$20,000.

*Water CIP.* The focus of the Water System Capital Improvement Program (“CIP”) over the next five years will be on rehabilitating and/or replacing critical infrastructure, including the water treatment plants, and continuing the City’s water meter retrofit program.

The following table sets forth capital improvement costs identified in the CIP through Fiscal Year 2016-17, as well as sources of funding. (The table includes the Series 2013 Project.) The Feasibility Consultant’s Report contains information concerning particular projects within the CIP.

**Table 9**  
**City of Sacramento**  
**Projected Water System CIP and Sources of Funding**  
**(in Millions)**

<b>Fiscal Year Ending</b>			
<b>June 30</b>	<b><u>Bond Proceeds</u></b>	<b><u>Current Revenues</u></b>	<b><u>Capital Improvement Cost</u></b>
2013	\$19.6	\$7.0	\$26.6
2014	127.7	4.0	131.7
2015	84.9	10.0	94.9
2016	73.0 <sup>(1)</sup>	19.5	92.5
2017	<u>81.7<sup>(1)</sup></u>	<u>9.0</u>	<u>90.7</u>
Total	\$386.9	\$49.5	\$436.4

(Total may not add due to rounding.)

<sup>(1)</sup> Includes proceeds of Bonds expected to be issued in 2016.

Source: The City

*Future Capital Improvements.* As mentioned above, the City’s capital improvement program includes a comprehensive five-year plan for identifying current fiscal requirements. Additionally, the program includes a long-term 30-year capital investment plan that serves as a planning tool and guide for longer term projects/programs to ensure that it is consistent and incrementally keeping pace with the need to invest in the City’s critical and aging infrastructure. The goals of the 30-year plan are to fully comply with regulatory, legislative, and other requirements, to accelerate Water System infrastructure replacement to the “Best Practices” level and, where necessary, to improve systems where they do not meet current levels of service.

In keeping with the established goals under the long-term plan, the City will continue to face future fiscal challenges in sustaining the level of service customers expect with an aged Water System infrastructure that has some components nearing or has exceeded their remaining service life. As a result, after 2017, the City will need to continue its ongoing effort to implement the long-term plan to address the above-mentioned goals beyond the current five-year plan. On a preliminary basis, the City estimates that capital improvement costs for the 25 year period commencing in Fiscal Year 2017-18 could range from \$850 million to \$900 million (unescalated; 2013 dollars).

In addition to the currently planned capital improvement planning efforts described above, the City also expects to issue a long term Master Plan for the Water System in the first quarter of

2013. The Master Plan considers the projected impact of potential future growth in the City over the next 30 years. If there is significant growth, improvements and expansions to the Water System may be required, and could be substantial depending on the level of growth expected at the time. The City's policy is that new development would bear the cost of these growth-related expansions or improvements, and therefore the costs of these expansions or improvements are not included in the Projected Operating Results or the planned capital improvement costs described above.

## **Retirement Programs**

Salaries and benefits costs of the Water System include funding of retirement benefits for employees assigned to the Water System who, as City employees, participate in the California Public Employees Retirement System (“**PERS**”). (City employees assigned to the Water System constitute approximately 4% of all City employees.) Retirement payments paid from Water System Revenues, with respect to employees assigned to the Water System, were approximately \$1.64 million in Fiscal Year 2009-10, approximately \$1.65 million in Fiscal Year 2010-11, and approximately \$1.76 million in Fiscal Year 2011-12. The City estimates that the required contribution for Fiscal Year 2012-13 will be approximately \$2.02 million, and projects that the required contribution for Fiscal Year 2013-14 will be approximately \$2.28 million. Payments to PERS constitute Maintenance and Operation Costs of the Water System.

For a variety of reasons, including investment losses, the City has experienced significant unfunded liabilities, and retirement costs payable with respect to all City employees, including those assigned to the Water System, have increased in recent years. As of June 30, 2011, the City's “Miscellaneous Plan” with PERS (in which the City employees assigned to the Water System participate) had an unfunded liability (with respect to all participating City employees, including employees assigned to the General Fund, the Water Fund and other enterprise funds) of approximately \$160 million (actuarial value basis) and \$230 million (market value basis), and a funded ratio of 80.5% actuarial value basis) and 72.0% (market value basis).

As a result, required contributions from the City are expected to continue to increase. See APPENDIX B — “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2012” — Note 8 to the Basic Financial Statements” for a discussion of retirement liabilities payable by the City.

In addition to required contributions for retirement benefits for employees, the City pays certain post-employment health care and other non-pension benefits (“**OPEB**”) for such employees. The City's OPEB related payments were approximately \$9.5 million in Fiscal Year 2011-12 and are projected to be approximately \$9.6 million in Fiscal Year 2012-13. The City's actuarial contribution of \$12.2 million for Fiscal Year 2011-12 included an implied subsidy of \$2.7 million, the result of blended premiums for active employees and retirees. Approximately 4% of the City's total payment is made from System Revenues. See APPENDIX B — “AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2012” — Note 9 to the Basic Financial Statements” for a discussion of OPEB liabilities payable by the City, as well as the City's current unfunded OPEB liability.

## **Insurance**

The City insures its assets (including assets of the Water System) through the Public Entity Property Insurance Program (“**PEPIP**”). PEPIP was formed in 1993 to meet the property insurance



needs faced by public entities. PEPiP is a joint purchase program. The total insurable property values for the City are \$1,633,484,276 for Fiscal Year 2012. The property policy contains a \$100,000 deductible with coverage limits of \$1,000,000,000. Coverage limits are shared with other PEPiP members in different geographical areas to reduce the risk of one large property loss affecting a high percentage of members. Earthquake insurance is not purchased due to the high cost and limited coverage.

The City purchases excess liability insurance coverage for the following risks: general liability, automobile liability, public officials' errors and omissions liability, unfair employment practices liability, and employee benefits liability. All coverage is on an occurrence basis. Excess liability limits remain at \$30,000,000 with a self-insured retention of \$3,000,000. The City is currently participating in the Alliant National Municipal Liability Program ("ANML") for the purchase of excess liability insurance. ANML provides comprehensive liability coverage to public agencies across the nation. Participants in ANML do not share risk and each participating member selects its own limits of liability insurance and self-insured retention.

The City's excess workers' compensation limits are set at statutory coverage for Fiscal Year 2011-12 with a self-insured retention of \$2,000,000. Statutory coverage provides payment for claims up to the amount required by law, without limits. Excess workers' compensation insurance is purchased through California State Association of Counties Excess Insurance Authority ("CSAC"). The CSAC program is the largest pool in the nation and provides services to a large number of counties and cities in California. The program has a \$5,000,000 pooled limit and statutory reinsurance coverage for each accident.

The City's insurance program is subject to modifications based on insurance market conditions, the availability of insurance to public entities and the cost effectiveness of certain levels of self-insured retentions.

### **Leasing of Certain Components of the Water System**

Since 1999, the City has from time to time financed capital improvements (including capital improvements to the Water System) through the issuance of bonds ("**Master Lease Bonds**") by the Sacramento City Financing Authority (the "**SCFA**") under a "**Master Lease Program**." There are currently approximately \$470 million of Master Lease Bonds outstanding. Pursuant to the Master Lease Program, pursuant to a lease agreement the City has leased a pool of various City-owned properties (the "**Leased Property**") to SCFA. Examples of Leased Property include City Hall, the Granite Regional Park, various City fire stations, and the Memorial Auditorium and, as described below, certain components of the Water System. SCFA concurrently subleased the Leased Property back to the City pursuant to a lease agreement (the "**Master Lease**") in consideration for the payment of rent by the City in an amount equal to debt service on the Master Lease Bonds. SCFA then assigned to a trustee for the holders of the Master Lease Bonds (the "**Master Lease Trustee**") SCFA's rights under the Master Lease, including the right to receive City's lease payments.

In connection with the financing or refinancing of Water System improvements in 2005 and 2006, SCFA issued Master Lease Bonds with a current outstanding principal amount of approximately \$148 million. In order to effectuate the issuance of these Master Lease Bonds for Water System purposes, the City added portions of the SRWTP (including a settlement basin and other facilities) as well as the Florin Reservoir as part of the Leased Property. The final maturity of the Master Lease Bonds is December 1, 2033 (but could be extended). However, the components of

the Water System that constitute Leased Property will not be released from the Master Lease until (i) the City either adds additional property satisfying the requirements of the Master Lease, or determines that the Leased Property that remains after the release meets the requirements of the Master Lease and (ii) the City elects to effectuate the release. There can be no assurances that the Water System components that constitute Leased Property will be released from the Master Lease prior to the maturity of the Series 2013 Bonds.

Pursuant to the Master Lease, the City is obligated to make lease payments from the City's General Fund. (The obligation of the City to make lease payments is subject to abatement to the extent the Leased Property is unavailable for beneficial use due to damage, destruction or condemnation.) However, in circumstances where Master Lease Bonds were issued to finance improvements for one of the City's enterprise funds (water, solid waste or storm drainage), the City has generally paid the portion of Master Lease payments allocable to such bonds from the enterprise that benefitted. Accordingly, the City has paid from Water System revenues the portion of the overall Master Lease payments allocable to the Master Lease Bonds issued for Water System purposes, and intends to continue to do so. Pursuant to the Indenture, the City will covenant that it will not use System Net Revenues to pay, or reimburse the City's General Fund for the payment of, any existing or future General Fund lease obligation of the City unless no Event of Default has occurred and is continuing under the Indenture, all Maintenance and Operation Costs are being and have been paid and are then current, and all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid or unless such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture.

Pursuant to the Master Lease, the Master Lease Trustee (as assignee of SCFA) has certain remedies in the event the City fails to pay the entire amount of rent due from time to time with respect to the Leased Property. These remedies include the right to bring an action against the City to compel payment, as well as the right to relet all or any portion of the Leased Property. (The remedies of the Trustee do not include the right to sell any portion of the Leased Property.) If any portion of the City's Master Lease payments are not made (regardless of the source), the Master Lease Trustee can avail itself of remedies with respect to any portion of the Leased Property. Therefore even if the portion of the overall Master Lease payments allocable to the Master Lease Bonds issued for Water System purposes is paid from Water System revenues in a timely manner, in the event that the City fails to make payments allocable to the Master Lease Bonds issued for purposes other than the Water System, then the Master Lease Trustee could elect to exercise remedies against the portion of the Leased Property consisting of the components of the Water System.

Pursuant to the Indenture, the City will also covenant that it will not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease. However, this covenant does not prohibit the City from improving, making additions to, rehabilitating or replacing components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease or incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Water System.

There can be no assurances that, in the event that the City fails to make required payments pursuant to the Master Lease for any reason, such circumstances would not result in significant increases in costs of the Water System, or materially adversely affect the operation of the Water System or the ability of the Water System to generate System Net Revenues in the amounts required by the Indenture.

## **Floods**

The Federal Emergency Management Agency (“**FEMA**”) produces Flood Insurance Rate Maps (“**FIRMs**”) that show which portions of the city are in the 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1-in-100 probability of occurrence in any year.

The Natomas area was remapped into a 100-year floodplain on December 8, 2008 after the Army Corps of Engineers (the “**Corps**”) determined that the levees around the basin did not meet current federal standards. The levees around the Natomas Basin are currently being constructed to meet the 200-year level of protection. Outside of the Natomas Basin, the FIRMs show the majority of the City is outside the 100-year floodplain. Small floodplains exist along Arcade Creek, Dry Creek, Magpie Creek, and Florin Creek.

In order to have an area be mapped outside the 100-year floodplain by FEMA, the levee protecting the area must be certified. As part of the levee recertification program, on March 19, 2012, the Corps issued a letter decertifying the levee certifications for Arcade Creek, the left bank of the Natomas East Main Drainage Canal, and Dry Creek effective immediately. The levee certifications for portions of Robla Creek, American River, Sacramento River, and Morrison Creek will expire in August 2013. FEMA currently has an undetermined timeline for remapping these areas behind these levees into a floodplain. An effort is currently underway, led by the Sacramento Area Flood Control Agency (“**SAFCA**”), to recertify these levees before any remapping occurs by FEMA.

According to the FIRMs, the SRWTP and FWTP are currently outside the 100-year floodplain. There are however, nine wells and four reservoirs that are within FEMA-designated floodplains. There are currently projects in planning or construction to protect all of these wells and reservoirs from significant flooding events. However, there can be no assurances that a significant flooding event would not materially adversely affect the operations of the Water System. See “CERTAIN RISK FACTORS - Earthquake, Flood or Other Natural Disasters.”

## **Historical Financial Results**

The following table contains a summary of certain historical operating results of the Water System, as excerpted from the City’s audited financial statements. These results are not presented in accordance with the conventions of the Indenture.

**Table 10**  
**Historical Water Fund Revenues and Expenses**  
**(Dollars in Thousands)**

	<u>FY 2007/08</u>	<u>FY 2008/09</u>	<u>FY 2009/10</u>	<u>FY 2010/11</u>	<u>FY 2011/12</u>
<b>Operating Revenues<sup>(1)</sup>:</b>					
User fees and charges <sup>(2)</sup>	\$62,305	\$61,415	\$67,928	\$78,845	\$79,758
Impact Fee Revenue <sup>(3)</sup>	284	10,742	401	2,694	2,193
Interest and Investment Revenue	2,580	2,294	1,662	1,306	1,072
Miscellaneous	2,822	1,204	2,535	470	99
Transfers In <sup>(4)</sup>	-	914	10	10	54
Grants and Other Capital Contributions <sup>(3)</sup>	4,955	6,462	9,584	5,966	2,397
Revenue From Other Agencies <sup>(5)</sup>	-	-	-	-	980
<b>Total Operating Revenues</b>	<b>\$72,946</b>	<b>\$83,031</b>	<b>\$82,120</b>	<b>\$89,291</b>	<b>\$86,553</b>
<b>General Fund Tax Transfer Out<sup>(6)</sup>:</b>	<b>\$(6,670)</b>	<b>\$(6,616)</b>	<b>\$(7,327)</b>	<b>\$(8,738)</b>	<b>\$(8,439)</b>
<b>Operating Expenses<sup>(1)</sup>:</b>					
Employee Services	\$21,722	\$23,952	\$23,425	\$23,360	\$23,409
Services and Supplies	20,008	21,084	15,232	16,943	19,774
<b>Total Operating Expenses</b>	<b>\$41,730</b>	<b>\$45,036</b>	<b>\$38,657</b>	<b>\$40,303</b>	<b>\$43,183</b>
<b>Net Revenues:</b>	<b>\$24,546</b>	<b>\$31,379</b>	<b>\$36,136</b>	<b>\$40,250</b>	<b>\$34,931</b>
<b>Debt Service<sup>(7)</sup>:</b>					
2005 Master Lease Refunding Revenue Bonds	\$2,968	\$3,204	\$3,190	\$3,180	\$3,181
2006 Master Lease Capital Improvement Bonds, Series E (Refunding)	7,317	8,014	8,005	7,997	7,989
California Department of Public Health Loan (ARRA Loan)	-	-	-	34	141
<b>Total Debt Service</b>	<b>\$ 10,285</b>	<b>\$ 11,218</b>	<b>\$ 11,195</b>	<b>\$ 11,212</b>	<b>\$ 11,311</b>

- 1) This historical summary of CAFR results for the Water Fund includes revenue and expense amounts which have been excluded from the Projected Operating Results table in accordance with the provisions of the Indenture. Examples include restricted grants to fund capital projects.
- 2) User fees and charges include rate revenue and wholesale water sale revenue.
- 3) Impact Fee Revenue and Grants and Other Capital Contributions are reported combined in the CAFR as Capital Contributions.
- 4) Transfers in are generally income derived from fleet vehicle sales. The \$914,000 transfer reported in Fiscal Year 2008-09 was a refund of excess contributions from the City's workers compensation fund).
- 5) Prior to Fiscal Year 2011-12, revenue from operating grants and other agreements were shown in the CAFR in the Miscellaneous line. Beginning with Fiscal Year 2011-12, these amounts are shown in the CAFR in the Revenue From Other Agencies line.
- 6) The voter-approved general fund tax is equal to 11% of the collected utility rate revenue. See "—General Fund Tax on Water System Revenues."
- 7) With the exception of the ARRA Loan, Debt Service includes both principal amortization and interest expense. Debt Service for the ARRA Loan through Fiscal Year 2011-12 is associated with interest expenses only with principal amortization to begin in Fiscal Year 2012-13.

Source: The City

## **Projected Financial Results**

The following table contains a summary of certain projected operating results of the Water System, as excerpted from the Feasibility Consultant's Report. The projected operating results are based upon a variety of assumptions, calculations and qualifications, as described in the Feasibility Consultant's Report. The Feasibility Consultant's Report should be read in its entirety for a description of such assumptions, calculations and qualifications. While the City and the Feasibility Consultant believe these assumptions to be reasonable, the assumptions may vary significantly from actual future conditions due to unanticipated events and circumstances. To the extent that actual future conditions vary from those assumed in the preparation of the projected operating results, the actual results will vary from those contained in the Table. See APPENDIX A—"FEASIBILITY CONSULTANT'S REPORT" and "CERTAIN RISK FACTORS - Rate Covenant Not a Guarantee; Failure to Meet Projections."

The projected operating results reflect the planning efforts of the Department and assumed rate increases (in addition to rate increases already approved through 2014-15) in Fiscal Years 2015-16 and 2016-17. Although rate increases through Fiscal Year 2014-15 have been approved by the City Council, full implementation of the Department's plans (including adoption of necessary rate increases) will require future approval of rate increases by the City Council. There can be no assurances that the City will not modify the rehabilitation and capital improvement plan described herein, or decline to adopt rates in the amounts contemplated in the projected operating results.

The information in Table 11 was excerpted from the Feasibility Consultant's Report. As described in the Feasibility Consultant's Report, the information therein is based on a variety of assumptions, calculations and qualifications, and the information in Table 11 reflects those assumptions, calculations and qualifications. Table 11 must be reviewed in conjunction with a review of the Feasibility Consultant's Report in its entirety.

**Table 11**  
**Summary of Projected Operating Results**

	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
<b>Operating Revenues</b>					
Utility Rate Fees <sup>(1)</sup>	\$84,357,589	\$92,521,346	\$101,419,847	\$111,108,385	\$121,477,914
Wholesale Water Sales	996,562	996,562	996,562	996,562	996,562
Water Impact Fees <sup>(2)</sup>	-	-	-	-	-
Interest Earnings <sup>(3)</sup>	400,000	472,849	517,499	566,104	618,119
Miscellaneous Revenues	1,026,145	1,051,799	1,083,353	1,115,853	1,149,329
<b>Total Operating Revenues:</b>	<b>\$86,780,296</b>	<b>\$95,042,556</b>	<b>\$104,017,261</b>	<b>\$113,786,904</b>	<b>\$124,241,924</b>
<b>General Fund Tax Transfer Out</b>					
General Fund Tax <sup>(4)</sup>	\$(9,279,335)	\$(10,177,348)	\$(11,156,183)	\$(12,221,922)	\$(13,362,570)
<b>System Revenues:</b>	<b>\$77,500,961</b>	<b>\$84,865,208</b>	<b>\$92,861,078</b>	<b>\$101,564,982</b>	<b>\$110,879,354</b>
<b>Maintenance and Operation Costs</b>					
Employee Services <sup>(5)</sup>	\$(23,725,143)	\$(23,962,394)	\$(24,202,018)	\$(25,484,725)	\$(26,835,416)
Services and Supplies <sup>(6)</sup>	(23,712,380)	(25,175,801)	(26,577,653)	(27,618,275)	(28,539,336)
<b>Total Maintenance and Operation Costs</b>	<b>\$(47,437,523)</b>	<b>\$(49,138,195)</b>	<b>\$(50,779,671)</b>	<b>\$(53,103,000)</b>	<b>\$(55,374,752)</b>
(Deposit to)/Withdrawal From Rate Stabilization Fund <sup>(7)</sup> :	-	(2,496,499)	(1,027,991)	-	(2,846,762)
<b>System Net Revenues</b>	<b>\$30,063,438</b>	<b>\$33,230,513</b>	<b>\$41,053,416</b>	<b>\$48,461,982</b>	<b>\$52,657,839</b>
<b>Obligations and Debt Service</b>					
<b>Parity Obligations</b>					
California Department of Public Health Loan (ARRA Loan) <sup>(8)</sup>	\$(469,141)	\$(702,382)	\$(702,382)	\$(702,382)	\$(702,382)
Water Revenue Bonds, Series 2013	-	(9,730,769)	(14,011,250)	(14,016,625)	(14,016,000)
Water Revenue Bonds, Series 2016 <sup>(9)</sup> (projected)	-	-	-	-	(11,941,073)
<b>Subtotal Parity Obligations Debt Service</b>	<b>\$(469,141)</b>	<b>\$(10,433,151)</b>	<b>\$(14,713,632)</b>	<b>\$(14,719,007)</b>	<b>\$(26,659,455)</b>
<b>Subordinate Obligations</b>					
Subordinate Debt Service	\$-	\$-	\$-	\$-	\$-
<b>Subtotal Subordinate Obligations Debt Service</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Unsecured Obligations<sup>(10)</sup></b>					
2005 Master Lease Refunding Revenue Bonds-	\$(7,510,897)	\$(7,597,366)	\$(7,590,601)	\$(7,585,681)	\$(7,577,071)
2006 Master Lease Capital Improvement Bonds (Refunding)	(4,844,584)	(4,844,584)	(4,844,584)	(4,844,584)	(4,844,584)
<b>Subtotal Unsecured Obligations Debt Service</b>	<b>\$(12,355,481)</b>	<b>\$(12,441,950)</b>	<b>\$(12,435,185)</b>	<b>\$(12,430,265)</b>	<b>\$(12,421,655)</b>
<b>Total Water Fund Obligations</b>	<b>\$(12,824,622)</b>	<b>\$(22,875,101)</b>	<b>\$(27,148,817)</b>	<b>\$(27,149,272)</b>	<b>\$(39,081,110)</b>
<b>(Parity/Bonds+Subordinate+Unsecured)</b>					
<b>Coverage Requirement Compliance</b>					
Parity Obligations and Bonds (Requirement is 1.20 times)	<b>64.08 x</b>	<b>3.19 x</b>	<b>2.79 x</b>	<b>3.29 x</b>	<b>1.98 x</b>
Parity/Bonds+Subordinate Obligations+Unsecured Obligations (Requirement is 1.00 times)	<b>2.34 x</b>	<b>1.45 x</b>	<b>1.51 x</b>	<b>1.79 x</b>	<b>1.35 x</b>
<b>Cash Funding of Facilities</b>					
Capital Outlay (Pay Go & Use of Water Fund Capital Reserve)	\$(7,000,000)	\$(4,000,000)	\$(10,000,000)	\$(19,500,000)	\$(9,000,000)
<b>Net Change to Unrestricted Fund Balance</b>	<b>\$10,238,816</b>	<b>\$6,355,412</b>	<b>\$3,904,598</b>	<b>\$1,812,709</b>	<b>\$4,576,730</b>
Beginning Unrestricted Water Fund Balance <sup>(11)</sup>	\$11,267,270	\$21,506,086	\$27,861,498	\$31,766,096	\$33,578,805
Ending Unrestricted Water Fund Balance	\$21,506,086	\$27,861,498	\$31,766,096	\$33,578,805	\$38,155,535

## NOTES

1. Utility Rate increases of 10% are approved for Fiscal Years 2012-13, 2013-14 and 2014-15. Rate increases of 10% in Fiscal Years 2015-16 and 2016-17 are not approved and will require City Council approval.
2. Water development impact fee revenue is estimated at \$0 before Fiscal Year 2014-15 to account for the zero growth assumption. Beginning in Fiscal Year 2015-16, account growth is estimated at 2% but impact fees continue to be projected at \$0 to be conservative.
3. Interest earnings on the Water Fund are estimated at 0.5% of the Water Fund revenue collected in each year.
4. The voter-approved general fund tax is equal to 11% of the collected utility rate revenue. See “ – General Fund Tax on Water System Revenues.”
5. Employee Services cost increases are subject to approval by the City Council. There is an assumption of 1% increase per year attributable to rising pension costs. After Fiscal Year 2014-15, Employee Services is estimated to increase by 5.3% per year, of which 1% is attributable to pension costs.
6. Services and Supplies costs include annual increases of 5% for utilities, 11% for fuel and 6% for chemicals. All other Services and Supplies are expected to increase 2.0% in Fiscal Year 2012-13, 2.5% in Fiscal Year 2013-14 and 3.0% every year thereafter.
7. Adjustments to the Rate Stabilization Fund are estimated to result in the Rate Stabilization Fund being funded in an amount equal to 25% of all debt service (parity, subordinate and unsecured).
8. Pursuant to the terms of the Funding Agreement between the California Department of Public Health and the City, deposits to the reserve fund must be made over the first ten years of the loan repayment term. The amounts shown in Table 11 include \$31,926 per semiannual payment for this purpose.
9. The assumed par amount of Bonds in Fiscal Year 2015-16 is approximately \$227 million.
10. Existing payments by the Water Fund to the City’s General Fund to cover existing general fund debt for water-related facilities associated with the City’s Master Lease bond program. The Water Fund revenue is utilized, but not directly pledged, to make debt service payments.
11. The Beginning Unrestricted Water Fund Balance is based on the City’s budgetary basis of accounting which treats purchase order encumbrances and multi-year project appropriations as expended in the year appropriated. As a result, the Beginning Unrestricted Water Fund Balance is significantly lower than the unrestricted cash and investments reported in the City’s Comprehensive Annual Financial Report. The Fiscal Year 2012-13 Beginning Unrestricted Water Fund Balance has also been reduced by approximately \$3.2 million to reflect the funding of the initial deposit to the Rate Stabilization Fund.

Source: The City

## THE SERIES 2013 PROJECT

The Series 2013 Project consists of that portion of the Water CIP to be funded from the proceeds of the Series 2013 Bonds. The following table identifies costs associated with major elements of the Series 2013 Project.

**Table 12**  
**Series 2013 Project Elements**  
**(Dollars in Millions)**

Category	Amount
Water Treatment Plants Rehabilitation	\$ 161.0
Water Meter Retrofit/Pipeline Replacement	65.5
Groundwater Wells Rehabilitation	6.3
Other	6.7
Total	\$ 239.5

Source: The City

Following is a description of the various major elements of the Series 2013 Project:

### Elements of the Series 2013 Project

The Series 2013 Project is described in the Feasibility Consultant's Report and includes:

- Rehabilitation of significant components of the SRWTP and FWTP. The City has received bids with respect to the major elements of the rehabilitation projects, and expects to award contracts immediately after the issuance of the Series 2013 Bonds. While the City believes that its estimates are reasonable, there can be no assurances that actual costs in the rehabilitation projects will not materially exceed the estimated costs. See "CERTAIN RISK FACTORS – Increased Costs."
- Acquisition and installation of approximately 15,000 water meters. Approximately one third of the meters to be installed in the program are in areas with backyard mains, which will be replaced in connection with the meter installation.
- Replacement of aging infrastructure, both distribution and transmission mains.
- Below ground rehabilitation of 10 wells, including new pumps, motors, chemical feed systems, electrical switchgear, and monitoring equipment where necessary.

Acquisition and construction of the various components of the Series 2013 Project requires certain governmental permits and approvals, including demonstration of compliance with the California Environmental Quality Act ("CEQA").

See APPENDIX A – "FEASIBILITY CONSULTANT'S REPORT" for more information concerning the Series 2013 Project, including CEQA compliance.



## **Bid Protest Relating to Portion of the Series 2013 Project**

On January 30, 2013, the City opened the bids for the portion of the Series 2013 Project consisting of the rehabilitation of SRTP and FWTP. The lowest bid, submitted by C. Overaa & Co. (“**Overaa**”), was approximately \$114 million. On February 4, 2013, the bidder with the next lowest bid of approximately \$117 million (the “**Protesting Bidder**”) filed a bid protest with the City, contending that the bid submitted by Overaa contained an arithmetic error that rendered the bid non-responsive. Pursuant to the City’s bid protest procedures, Department staff investigated the bid protest and prepared a response including the Department’s determination that the protest should be rejected. In accordance with City procedures, an administrative hearing on the protest was held before an independent hearing examiner on February 28, 2013. The City, Overaa, and the Protesting Bidder participated in the hearing. The written decision of the hearing examiner (setting forth the examiner’s recommended determination and findings of fact) is expected to be issued by March 29, 2013. The City Code permits the City Council to accept or reject the examiner’s decision (and to determine whether or not to hear additional evidence).

The City Council is expected to consider the matter at its meeting currently scheduled for April 2, 2013. Regardless of the decision of the hearing examiner, the City Council also has the authority to accept Overaa’s bid, reject Overaa’s bid, or take some other action (including but not limited to rejecting all bids). There can be no assurances that the City will award the bid to Overaa. In the event that the City Council rejects the bid protest and awards the contract to Overaa, there can be no assurances that the Protesting Bidder will not commence litigation seeking to enjoin or overturn the City Council’s decision. Further, there can be no assurances that exigencies resulting from the bid protest, such as a determination by the City Council to reject the Overaa bid, or, in the event that the City rejects the bid protest and awards the contract to Overaa, the commencement of litigation by the Protesting Bidder, will not have the effect of significantly delaying commencement (and completion) of the portion of the 2013 Project consisting of the rehabilitation of SRTP and FWTP and/or resulting in increases in the cost of that portion of the Series 2013 Project.

The City believes that any project delays or cost increases which might reasonably be expected to result from the bid protest (including potentially the rebidding of the portion of the 2013 Project consisting of the rehabilitation of SRTP and FWTP) would not materially adversely affect the ability of the City to provide water to customers of the Water System or to pay debt service with respect to the Series 2013 Bonds.

See “CERTAIN RISK FACTORS – Increased Costs.”

## **FEASIBILITY CONSULTANT’S REPORT**

The Feasibility Consultant has been retained on a non-contingent basis to prepare a Feasibility Consultant’s Report for inclusion in this Official Statement as Appendix A. The Feasibility Consultant’s Report contains a review and analysis of technical, economic and environmental aspects of the City, the Department and other related matters. Certain information concerning the City, the Department and the Water System in this Official Statement has been excerpted from the Feasibility Consultant’s Report. *The estimates, opinions and conclusions expressed in the Feasibility Consultant’s Report (certain of which are set forth below) are based upon certain assumptions, calculations and qualifications set forth therein, and the Feasibility Consultant’s Report should be read in its entirety.* While the Feasibility Consultant believes these assumptions to be reasonable for purposes of the Feasibility Consultant’s Report, the assumptions

may vary significantly from actual future conditions due to unanticipated events and circumstances. To the extent that actual future conditions vary from those assumed in the Feasibility Consultant's Report, the actual results will vary from those contained in the Feasibility Consultant's Report. See Appendix A to this Official Statement. As described in Appendix A, the Feasibility Consultant has provided a variety of engineering and consulting services to the City. In addition to the Feasibility Report, the Feasibility Consultant has provided design services for the Sacramento River Water Treatment Plant improvements and developed the 2010 Urban Water Management Plan.

In the course of the preparation of the Feasibility Consultant's Report by the Feasibility consultant, the City provided a variety of information relating to the Water System to the Feasibility Consultant.

**The Feasibility Consultant's Report contains the conclusions and opinions set forth below. The Feasibility Consultant's Report must be read in its entirety for a complete understanding of the assumptions and qualifications relating to the conclusions and opinions set forth below. (Capitalized terms in the following excerpt from Feasibility Consultant's Report have the meanings ascribed thereto on the Feasibility Consultant's Report.)**

*"Carollo has completed a review of the Department's organization and management as it relates to the Water System, as well as capital improvement and financial planning processes and programs. Discussions with staff and managers, as well as review of existing studies and reports cited in Attachment A of this Report, were used to conduct this review. Based on the studies and investigations summarized in this Report, the financial statements provided by the City, and the considerations and assumptions set forth herein, Carollo offers the following conclusions:*

- *Department management have qualifications and experience commensurate with their responsibilities;*
- *The City's drinking water is in compliance with all current federal and State of California (State) drinking water standards and the City is positioned to meet the challenges imposed by future changes and additions to those regulations. While the City has included the estimated cost of compliance with regulatory requirements in its projected operating results, there can be no assurances that compliance with existing or future requirements will not significantly exceed such estimates;*
- *The Department's CIP projects over the Forecast Period to be funded by the Series 2013 Bonds implement treatment and distribution facility modifications and are required to improve operations and continue to comply with current federal and State regulatory requirements;*
- *Projects included in the Department's CIP over the Forecast Period have been estimated based on known regulatory requirements and conform to industry standard engineering practices. Project cost estimation procedures appear to be reasonable, and the construction schedules are achievable given implementation of effective construction management and program management;*
- *The Department's CIP addresses the most critical aboveground and belowground vulnerabilities as identified by the City's asset management program and the Department's internal organizational audit;*

- *The Series 2013 Project begins the process of addressing infrastructure reinvestment deficiencies identified in recent external audits of the Department's historical capital investment of the Water System;*
- *Staff is sufficient in numbers and qualifications to operate and maintain the Water System and to implement the Series 2013 Project. The Department has also committed to the use of additional outside consultant assistance, if and as necessary, to complete the Series 2013 Project;*
- *The Department has internal controls and procedures that meet industry standards for ongoing Water System operations and the Series 2013 Project including quarterly reports to and reviews by the Utilities Rate Advisory Commission (URAC), the CIP Programming Guide outlining the 3-year, 5-year and 30-year investment plans, and annual reports showing progress on the CIP (including the Series 2013 Project) implementation;*
- *Even considering diversion constraints, the City has sufficient water rights and entitlements (including demand reduction plans to accommodate a shortfall in supply during an extremely dry year), and expects to have sufficient capacity, to divert and treat water to serve retail demand until the year 2035 or later;*
- *As presented within this Report, the City is projected to expend approximately \$436 million (in escalated dollars) between FY 2013 and FY 2017, inclusive of the approximate \$161 million rehabilitation of the water treatment plants. The City anticipates spending an additional estimated \$1,400 million to \$1,500 million (in escalated dollars) between FY 2018 and FY 2042 to complete the water meter retrofit program and continue Water System rehabilitation projects. These expenditures represent a reasonable level of reinvestment in order to support a sustainable Water System based on known and reasonably predicted requirements;*
- *The projects to be financed by proceeds of the Series 2013 Bonds are the highest priority projects of the Water System required to protect public health and keep the Water System in a state of good repair, based on known Water System conditions;*
- *The principal assumptions used in the financial forecast are reasonable given recent experience and current economic conditions. Variations in actual inflationary or interest rates may cause subsequent adjustments to future financial plans;*
- *Projected operating results for the Forecast Period presented within the City's Pro Forma, which is a forecast of System Net Revenues, debt service, cash funding, and unrestricted Water Fund balance, are consistent with the Department's established business principles and debt service coverage requirements, and will provide funding necessary to implement the CIP as currently envisioned. The City's Pro Forma was developed independent of Carollo and was a collaborative effort among the Department, the City's Treasurer's Office, and Goldman, Sachs & Co. Carollo has reviewed the City's Pro Forma, which serves as the basis of the findings of this Report. The projected charges will provide revenue sufficient to:*
  - *Meet currently projected costs of operation, maintenance, and routine replacement of Water System facilities.*

- *Meet the existing debt service obligations and the projected requirements for the Series 2013 Bonds, the Parity Obligations, the existing obligations, and future bond issues.*
  - *Provide sufficient revenue to pay the costs of the Department's CIP through the end of the Forecast Period.*
  - *Meet coverage requirements of the Indenture.*
- *Average monthly residential service charges are forecasted to increase from \$34.98 for a typical single-family residential customer in FY 2013 to \$51.25 by FY 2017 based on a meter water charge of 18 hundred cubic feet (CCF) of water demands per year and across-the-board rate increases. Flat meter charges are projected to increase from \$37.79 to \$55.35 between FY 2013 and FY 2017 for the average flat residential monthly rate.*

*This Report has been prepared at the request of the City in connection with the Series 2013 Bonds, on behalf of the Department, to be included in the Official Statement relating to the issuance of the Series 2013 Bonds. The conclusions, observations, and recommendations contained herein constitute only the opinions of Carollo. The various background documents, statements, and other information supplied by the Department have been relied upon as being accurate in the performance of these analyses. However, no assurances are given nor warranties implied by Carollo to the accuracy of such information. Carollo makes no certification and gives no assurances except as explicitly set forth in this Report."*

### **CERTAIN RISK FACTORS**

The following factors, which represent certain major risk factors, should be considered along with all other information in this Official Statement by potential investors in evaluating the Series 2013 Bonds. There can be no assurance that other risk factors do not currently exist or will not arise at any future time due to changed circumstances or otherwise.

#### **Rate Covenant Not a Guarantee**

The ability of the City to pay the principal of and interest on the Series 2013 Bonds depends on the ability of the City to generate System Net Revenues in the levels required by the Indenture. Although the City has covenanted in the Indenture to impose rates, fees and charges as more particularly described herein, and expects that sufficient revenues will be generated through the imposition and collection of such rates, fees and charges and other System Revenues described herein, there is no assurance that such imposition of such fees, connection fees or other System Revenues will result in the generation of System Net Revenues in the amounts required by the Indenture. The City's covenant does not constitute a guarantee that sufficient System Net Revenues will be available to make debt service payments on the Series 2013 Bonds.

#### **Increased Costs**

The actual cost of operating and maintaining the Water System and implementing necessary capital improvements (including the Series 2013 Project) will depend on a variety of factors, including but not limited to potential rising costs or shortages of labor or materials, the discovery of unforeseen subsurface conditions, earthquake, flood or other natural disasters, severe weather

conditions, or other events outside of the control of the City. There can be no assurances that such costs will not significantly exceed the amounts projected by the City.

In addition, as described in “THE SERIES 2013 PROJECT- Bid Protest Relating to Portion of the Series 2013 Project” one of the bidders for a portion of the Series 2013 Project has protested the City’s determination of the lowest bidder, and there can be no assurances that such circumstances will not result in significant delays and/or increased costs related to the Series 2013 Project.

In the event that actual costs of operating and maintaining the Water System and implementing necessary capital improvements (including the Series 2013 Project) significantly exceed the amounts projected by the City, such circumstances could have a material adverse impact on the ability of the City to generate System Net Revenues in the amounts required by the Indenture.

### **Statutory and Regulatory Impact**

Laws and regulations governing the treatment and delivery of drinking water are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase. Claims against the City with respect to its facilities and services could be significant. Such claims are payable from assets of the City or from other legally available sources.

The City has identified a number of existing environmental conditions, as well as anticipated regulatory requirements, which could materially impact the City’s operations, and could require significant increases in capital and/or operating costs of the City. See “THE WATER SYSTEM—Environmental Compliance” and APPENDIX A—“FEASIBILITY CONSULTANT’S REPORT” herein.

Although rates are the major source of funding for regulatory costs and the City has covenanted in the Indenture to establish such rates as are estimated to enable the City to pay debt service with respect to the Series 2013 Bonds, no assurance can be given that the cost of remediation of identified environmental conditions or compliance with such laws and regulations will not materially adversely affect the ability of the City to generate System Net Revenues in the amounts required by the Indenture and to pay debt service with respect to the Series 2013 Bonds.

### **Potential Acceleration of Parity Obligations and Liquidity Facility Bonds; No Acceleration of Bonds**

As described herein in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Outstanding Parity Obligations,” in 2009 the City entered into the State Funding Agreement, which has an outstanding principal amount of approximately \$9.8 million as of March 8, 2013. The City’s obligations with respect to the State Funding Agreement constitute a Parity Obligation under the Indenture. The State Funding Agreement provides that all payments thereunder may be immediately due and payable in the event of material breach by the City (and failure to cure). The Bonds (including the Series 2013 Bonds) are not subject to acceleration; provided, however that if in the future any Bonds are issued as Variable Rate Obligations, such Bonds might be subject to acceleration if such Bonds become Liquidity Facility Bonds. In addition to the City’s obligations with respect to the State Funding Agreement, other Parity Obligations issued or incurred by the City in the future may be subject to acceleration upon the occurrence of an event of default thereunder.

There can be no assurances that, in the event that the payments with respect to the State Funding Agreement any Liquidity Facility Bonds, or any future Parity Obligations are accelerated, such circumstances would not materially adversely effect the ability of the City to pay debt service with respect to the Series 2013 Bonds.

### **Aging Components of Water System**

Significant portions of the pipeline within the Water System are significantly older than their originally expected useful life. There can be no assurances that this will not result in higher than expected pipe failures, or higher than expected repair and replacement costs. See “THE WATER SYSTEM – Water System Facilities.”

### **Earthquake, Flood or Other Natural Disasters**

The potential for natural disasters to cause catastrophic damage to any urban area, including its above-ground and below-ground water infrastructure, in California is great. The occurrence of a flood, earthquake or other natural disaster could result in the temporary or permanent closure of one or more components of the Water System. Certain areas in the Water System service area have been identified as being within a 100-year flood plain. See “THE WATER SYSTEM —Floods” herein.

The occurrence of a flood, earthquake or other natural disaster could result in significantly increased costs that could materially adversely affect the ability of the City to operate the Water System or to generate System Net Revenues at the levels required by the Indenture.

### **Commingling of System Revenues**

As described herein in “THE WATER SYSTEM - Budgetary and Financial Procedures,” the City commingles the System Revenues with its other funds. The Trustee and the holders of the Series 2013 Bonds may not have a perfected interest in such commingled System Net Revenues and the City may not be required to turn over to the Trustee any System Net Revenues that are in its possession and have been commingled with other moneys. Under such circumstances, there could be delays or reductions in payments on the Series 2013 Bonds.

### **Effect of City Bankruptcy**

The City is authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the holders of the Series 2013 Bonds.

If the System Net Revenues are “special revenues” under the Bankruptcy Code, then System Net Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. “Special revenues” are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. While the System Net Revenues appear to satisfy this definition and thus be “special revenues,” no assurance can be given that a court would not hold that the System Net Revenues are not special revenues or are not subject to the lien of the Indenture. If the System Net Revenues are determined to not be “special revenues,” then System Net Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Indenture. The holders of the Series 2013 Bonds may not be able to assert a claim against any property of the City other than the System Net Revenues, and if

these amounts are no longer subject to the lien of the Indenture, then there may be no amounts from which the holders of the Series 2013 Bonds are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use System Net Revenues to pay necessary operating expenses of the Water System that are greater or different than the Maintenance and Operation Costs defined in the Indenture, before the remaining System Net Revenues are made available to the Trustee to pay amounts owed to the holders of the Series 2013 Bonds. It is not clear precisely which expenses would constitute necessary operating expenses.

If the City is in bankruptcy, the parties (including the holders of the Series 2013 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Series 2013 Bonds from funds in the Trustee's possession. The Rate Covenant (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant") may not be enforceable in bankruptcy by the Trustee or the holders of the Series 2013 Bonds.

The provisions of the Indenture that provide that the commencement of a bankruptcy case by the City is an Event of Default and that certain other insolvency-related events with respect to the City are also Events of Default may be unenforceable. This may limit the ability of the Trustee to require the City to turn over to the Trustee System Net Revenues and may allow the City to continue to spend System Net Revenues for any lawful purpose as provided in the Indenture free and clear of the lien of the Indenture, notwithstanding that the City is in bankruptcy.

The City is permitted to commingle the System Revenues with its own funds for up to one year before transferring System Net Revenues to the Trustee. If the City goes into bankruptcy, the City may not be required to turn over to the Trustee any System Net Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. With respect to System Net Revenues collected after the bankruptcy filing, if the City does not voluntarily turn over such System Net Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the holders of the Series 2013 Bonds would have to follow to attempt to obtain possession of such System Net Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Under such circumstances, there may be delays or reductions in payments on the Series 2013 Bonds.

The City may be able to borrow additional money that is secured by a lien on any of its property (including the System Net Revenues), which lien could have priority over the lien of the Indenture, as long as the bankruptcy court determines that the rights of the Trustee and the holders of the Series 2013 Bonds will be adequately protected. The City may be able to cause some of the System Net Revenues to be released to it, free and clear of lien of the Indenture, as long as the bankruptcy court determines that the rights of the Trustee and the holders of the Series 2013 Bonds will be adequately protected.

The City may be able, without the consent and over the objection of the Trustee and the holders of the Series 2013 Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other

terms or provisions of the Indenture and the Series 2013 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

As described herein in “THE WATER SYSTEM - Leasing of Certain Components of the Water System,” the City has leased certain assets of the Water System in connection with the City’s Master Lease Program. In bankruptcy, if the City decided not to, failed to, or was unable to, assume the Master Project Lease, the City could lose its rights to the leased assets. Under such circumstances, the Trustee and the holders of the Series 2013 Bonds may no longer be entitled to receive any System Net Revenues generated by such leased assets and the Water System may experience an increase in operating costs, thereby further reducing the System Net Revenues available to pay debt service on the Series 2013 Bonds. Similarly, if the City is authorized by the bankruptcy court to assume the Master Project Lease and then assign it to a third party, the City could lose its rights to the leased assets. Under such circumstances, the Trustee and the holders of the Series 2013 Bonds may no longer be entitled to receive any System Net Revenues generated by such leased assets and the Water System may experience an increase in operating costs, thereby further reducing the System Net Revenues available to pay debt service on the Series 2013 Bonds.

There may be delays in payments on the Series 2013 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Series 2013 Bonds, or result in losses to the holders of the Series 2013 Bonds. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2013 Bonds.

#### **Effect of Losses in City Investment Pool**

The City intends to invest the moneys in the Project Fund in the City’s Investment Pool A. Should those investments suffer any losses, the City may have insufficient funds to complete the Project, System Net Revenues may be lower than expected, and there may be delays or reductions in payments on the Series 2013 Bonds.

Pending delivery of System Net Revenues to the Trustee, the City intends to invest System Revenues in the City’s Investment Pool A. Should those investments suffer any losses, there may be delays or reductions in payments on the Series 2013 Bonds.

#### **Limitation on Remedies**

If an Event of Default should occur, the Trustee and the holders of the Series 2013 Bonds have no ability to accelerate the maturity of the Series 2013 Bonds. This means that even after an Event of Default occurs, the Series 2013 Bonds may be paid according to the regularly-scheduled due dates. This may result in delays or reductions in payments on the Series 2013 Bonds compared to what would happen if the Trustee could accelerate the maturity of the Series 2013 Bonds, and could cause the market value of the Series 2013 Bonds to decline after the occurrence of an Event of Default.

#### **Feasibility Consultant’s Report**

The Feasibility Consultant’s Report included as Appendix A to this Official Statement contains certain assumptions and forecasts. The Feasibility Consultant’s Report should be read in its



entirety for a discussion of historical and forecast results of the Water System and the assumptions and rationale underlying the forecasts. As noted in the Feasibility Consultant's Report, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projections contained in the Feasibility Consultant's Report or that may be contained in any future certificate of the City or a consultant are not necessarily indicative of future performance, and neither the Feasibility Consultant nor the City assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the City are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Series 2013 Bonds are cautioned not to place undue reliance upon the Feasibility Consultant's Report or upon any projections or requirements for projections. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of System Net Revenues may be materially less than expected and consequently, the ability of the City to make timely payment of the principal of and interest on the Series 2013 Bonds may be materially adversely affected.

Neither the City's independent auditors, nor any other independent accountants have compiled, examined or performed any procedures with respect to the System Net Revenues forecast, and assume no responsibility for, and disclaim any association with, the System Net Revenues forecast, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the System Net Revenue forecast.

### **Certain Limitations on the Ability of the City to Impose Taxes, Fees and Charges**

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("**Proposition 218**"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIII C or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D ("**SB 919**"). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "**Bighorn Decision**") that charges for ongoing water delivery are property related fees

and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the Bighorn Decision, the Supreme Court stated that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. 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, 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 service area of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges. (In 2010, an initiative qualified for the November 2010 ballot which would have repealed rate increases for the City’s utilities, including the Water System. The initiative was not approved by the voters.)

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “**property-related service**” is defined as “a public service having a direct relationship to a property ownership.” In the Bighorn Decision, the California Supreme Court held that a public water authority’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution by expanding the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, for performing investigations, inspections, and audits, for enforcing agricultural marketing orders, and for the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees relating to the Water System that would have to be reduced or eliminated because of Proposition 26.

The City believes that it has complied with the requirements of Proposition 218 with respect to the charges that it currently imposes.

In addition to imposing fees for water service, the City also imposes development fees as a condition for connecting new properties to the Water System. The City does not believe that these development fees are subject to Proposition 218.

Pursuant to the Indenture, the City has covenanted that it will set rates for Water System services at specified levels. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant” herein. In the event that proposed increased service charges cannot be imposed as a result of a majority protest or an initiative, such circumstances may adversely affect the ability of the City to generate System Revenues in the amounts required by the Indenture, and to pay principal and interest on the Series 2013 Bonds.

#### **ABSENCE OF LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance of the Series 2013 Bonds or in any way contesting or affecting the validity of the Series 2013 Bonds or any proceedings of the City taken with respect to the execution, delivery or sale thereof.

In addition, there is no litigation pending or threatened against the City which, in the opinion of the City Attorney, would materially adversely affect the Water System or the sources of payment for the Series 2013 Bonds.

## CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Series 2013 Bonds to provide certain financial information and operating data relating to the City by not later than the end of the ninth month after the end of each fiscal year of the City (currently June 30th), commencing with the report for the 2012-13 Fiscal Year (the “**Annual Report**”), and to provide notices of the occurrence of certain enumerated events. Such reports are required to be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“**EMMA**”). The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is described in “APPENDIX E– FORM OF CONTINUING DISCLOSURE CERTIFICATE,” attached to this Official Statement. These covenants have been made in order to assist the underwriter of the Series 2013 Bonds in complying with Securities Exchange Commission Rule 15c2 12(b)(5).

The City has entered into a number of prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations, and has provided annual financial information and event notices in accordance with those undertakings. During the past five years, the City substantially complied with the requirements of its continuing disclosure undertakings, but with certain minor or technical exceptions. For example, in certain continuing disclosure filings the City provided links to the City’s website where documents could be downloaded, instead of submitting the documents as part of the filing itself; with respect to certain SCFA bonds involving the Sacramento Housing and Redevelopment Agency (“**SHRA**”), and also with respect to bonds of SHRA itself, the posting of the SHRA’s audited financial statements occurred after the due date; and certain filings related to the SCFA’s bonds and SHRA’s bonds did not expressly include all the required information (including in one instance unaudited financial statements). In addition, certain filings were made after the required filing date.

The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“**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 Series 2013 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 Series 2013 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.

Series 2013 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“**Premium Bonds**”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be

reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2013 Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2013 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2013 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2013 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2013 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2013 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2013 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 Series 2013 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends 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.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2013 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2013 Bonds. Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2013 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 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 City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2013 Bonds ends with the issuance of the Series 2013 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Series 2013 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its

appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2013 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2013 Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

### **APPROVAL OF LEGALITY**

The validity of the Series 2013 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel Opinion is contained in Appendix F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, and for the City by the City Attorney and its Disclosure Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

### **RATINGS**

Standard & Poor's and Fitch have assigned the Series 2013 Bonds the long-term ratings of "AA-" and "AA-," respectively.

The ratings reflect only the respective views of the rating agencies, and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's, 55 Water Street, 38th Floor, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or either of them, if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series 2013 Bonds.

### **UNDERWRITING**

The underwriters listed on the cover of this Official Statement (the "**Underwriters**") have agreed, subject to certain conditions, to purchase the Series 2013 Bonds at a price of \$247,359,029.28 (consisting of the aggregate principal amount of the Series 2013 Bonds plus original issue premium of \$33,317,218.50 less Underwriters' discount of \$1,153,189.22). The Purchase Contract relating to the Series 2013 Bonds provides that the Underwriters will purchase all of the Series 2013 Bonds if any are purchased. The Series 2013 Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than such public offering price, and such public offering price may be changed, from time to time, by the Underwriters.

De La Rosa & Co., one of the Underwriters of the Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreements, if applicable to the Bonds, De La Rosa & Co. will share a portion of its underwriting

compensation with respect to the Bonds, with Credit Suisse Securities USA LLC or City National Securities, Inc.

Goldman, Sachs & Co. (“Goldman Sachs”), one of the Underwriters of the Bonds, has entered into a master dealer agreement (the “Master Dealer Agreement”) with Incapital LLC (“Incapital”) for the distribution of certain municipal securities offerings, including the Bonds, to Incapital’s retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2013 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2013 Bonds.

#### **INDEPENDENT AUDITOR**

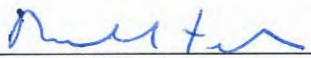
Audited financial statements of the City (including the Water Fund) for the Fiscal Year ended June 30, 2012, are attached hereto as Appendix B. The City’s financial statements were audited by the independent accounting firm of Macias Gini & O’Connell LLP of Sacramento, California (the “Auditors”). The Auditors have not reviewed or audited this Official Statement and the City has not sought the consent of the Auditors to the inclusion of the Auditor’s report in this Official Statement. The audited financial statements include information concerning the City’s General Fund and other funds, including the Water Fund and the other enterprise funds relating to, the City’s wastewater system, solid waste system and storm water drainage system. The Series 2013 Bonds are special obligations of the City, secured by and payable solely from the Trust Estate. No other funds of the City are available for payment of the Series 2013 Bonds.

## MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Series 2013 Bonds.

The execution and delivery of this Official Statement has been duly authorized by the City.

### CITY OF SACRAMENTO

By:  \_\_\_\_\_  
Russell T. Fehr, City Treasurer



**APPENDIX A**  
**FEASIBILITY CONSULTANT'S REPORT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

# Consulting Engineer's Feasibility Report Water System

---

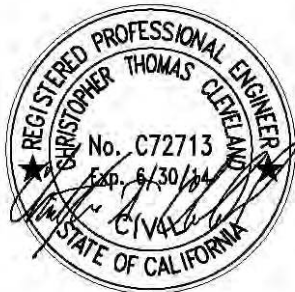
Prepared for

## City of Sacramento Department of Utilities

---

Sacramento, California

March 2013



**CAROLLO ENGINEERS, INC.**  
2700 Ygnacio Valley Road, Suite 300  
Walnut Creek, California 94598

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Sacramento

CONSULTING ENGINEER'S FEASIBILITY REPORT  
WATER SYSTEM

TABLE OF CONTENTS

Page No.

**ABBREVIATIONS AND ACRONYMS LIST**

<b>SECTION 1 - INTRODUCTION .....</b>	<b>1-1</b>
1.1 PURPOSE .....	1-1
1.2 SCOPE .....	1-3
1.3 CONSULTING ENGINEER'S QUALIFICATIONS .....	1-4
1.4 CONCLUSIONS .....	1-5
<b>SECTION 2 - DEPARTMENT OF UTILITIES .....</b>	<b>2-1</b>
2.1 BACKGROUND .....	2-1
2.2 BUSINESS PRINCIPLES .....	2-2
2.3 ORGANIZATION .....	2-2
2.3.1 Organization Structure .....	2-2
2.4 ACCOMPLISHMENTS .....	2-6
2.5 EMPLOYEE POPULATION AND BARGAINING UNITS .....	2-6
2.6 INDEPENDENT REVIEWS .....	2-7
2.7 CONCLUSIONS .....	2-9
<b>SECTION 3 - WATER SYSTEM .....</b>	<b>3-1</b>
3.1 OVERVIEW .....	3-1
3.2 SYSTEM DESCRIPTION .....	3-3
3.2.1 Service Area .....	3-3
3.2.2 System Components .....	3-3
3.2.2.1 Water Sources .....	3-6
3.2.2.2 Distribution and Storage Facilities .....	3-9
3.3 REGULATORY REQUIREMENTS .....	3-10
3.4 WATER RIGHTS AND WATER DEMANDS .....	3-12
3.4.1 Water Rights and Agreements .....	3-12
3.4.1.1 Extremely Dry Years (Conference Years) .....	3-15
3.4.1.2 Hodge Flow Conditions .....	3-15
3.4.1.3 Groundwater .....	3-16
3.4.2 System Capacity and Water Demand .....	3-16
3.5 CONCLUSIONS .....	3-20
<b>SECTION 4 - CAPITAL IMPROVEMENT PROGRAM .....</b>	<b>4-1</b>
4.1 CIP DEVELOPMENT AND MANAGEMENT .....	4-1
4.1.1 Asset Management .....	4-2
4.2 PROGRAM MANAGEMENT/PROJECT DELIVERY .....	4-4
4.3 CAPITAL IMPROVEMENT PROGRAM .....	4-5

4.4	5-YEAR STRATEGY .....	4-5
4.4.1	5-Year (FY 2013 to FY 2017) CIP Projects .....	4-6
4.4.2	5-Year (FY 2013 to FY 2017) CIP Funding Sources .....	4-6
4.5	THE SERIES 2013 PROJECT .....	4-7
4.5.1	Series 2013 Project Elements .....	4-8
	4.5.1.1 Water Treatment Plants Rehabilitation .....	4-8
	4.5.1.2 Water Meter Program/Pipeline Replacement .....	4-8
	4.5.1.3 Groundwater Wells Rehabilitation .....	4-9
4.5.2	Permits and Approvals.....	4-10
4.5.3	Project Management.....	4-10
4.6	CONCLUSIONS .....	4-11
<b>SECTION 5 - FINANCIAL PERFORMANCE.....</b>		<b>5-1</b>
5.1	FINANCIAL PLANNING AND MANAGEMENT .....	5-1
5.1.1	Financial Planning .....	5-1
	5.1.1.1 Development of a Financial Plan.....	5-1
	5.1.1.2 Preparation of Annual Budget Request .....	5-2
	5.1.1.3 Utilities Rate Advisory Commission.....	5-2
5.1.2	Financial Guidelines .....	5-3
5.2	RATES AND CHARGES .....	5-3
5.2.1	Rates .....	5-3
5.2.2	Revenue Collection Procedures .....	5-4
5.2.3	Impact Fees .....	5-5
5.3	REVENUE NEEDS.....	5-5
5.3.1	Production and Maintenance.....	5-5
5.3.2	Non-Discretionary Fixed Costs.....	5-6
5.3.3	Other Expenses.....	5-6
5.3.4	Capital Expenses.....	5-6
5.3.5	General Fund Tax.....	5-6
5.4	HISTORICAL PERFORMANCE.....	5-7
5.4.1	Expenses.....	5-7
5.4.2	Historical Operating Results.....	5-7
5.4.3	Historical Capital Improvements.....	5-7
5.5	FORECASTED PERFORMANCE.....	5-9
5.5.1	Water Fund Resources and Requirements .....	5-9
	5.5.1.1 Revenue Requirements Forecast.....	5-10
5.5.2	Capital Financing.....	5-12
5.5.3	Forecast Operating Results and Debt Service Coverage.....	5-12
5.6	RATE COMPARISON .....	5-12
5.7	PRINCIPAL ASSUMPTIONS .....	5-16
5.8	CONCLUSIONS .....	5-18

**ATTACHMENT A - References**

## LIST OF TABLES

Table 2.1	Bargaining Units Representing the Department Work Force.....	2-7
Table 3.1	Account Distribution by Customer Class for FY 2008 through FY 2012.....	3-2
Table 3.2	Top 10 Water Customers by Revenue in Calendar Year 2011 .....	3-2
Table 3.3	Average Water Production for FY 2009 to FY 2012 .....	3-6
Table 3.4	Hodge Flow Criteria for FWTP Defined .....	3-8
Table 3.5	City Water Right Permits Summary .....	3-13
Table 3.6	Maximum Annual Diversion Allowed to Year 2035.....	3-15
Table 3.7	Sustainable Treatment Capacity in Million Gallons per Day .....	3-16
Table 3.8	Maximum Daily Demand – Future City Retail Demand with Existing Wholesale and Wheeling Customers.....	3-17
Table 4.1	Summary of Water System Project Expenditures in Past Five Years (thousand dollars) .....	4-5
Table 4.2	Summary of FY 2013 to 2017 Project Costs (thousand dollars).....	4-6
Table 4.3	Summary of Costs for the Major Elements of the Series 2013 Project (thousand dollars) .....	4-7
Table 5.1	Rate Increases on Typical Water Service Charges .....	5-3
Table 5.2	Uncollected Water System Charges (thousand dollars) .....	5-5
Table 5.3	Historical Operating Results (thousand dollars) .....	5-8
Table 5.4	Summary of Water System Project Expenditures in Past Five Years (thousand dollars) .....	5-9
Table 5.5	Operating Revenues and Expenditures (thousand dollars) .....	5-11
Table 5.6	CIP Cash Flow (thousand dollars) .....	5-13
Table 5.7	Projected Debt Service (thousand dollars) .....	5-14
Table 5.8	Projected Operating Results (thousand dollars) .....	5-15
Table 5.9	Projected Average Single-Family Monthly Metered Rate .....	5-16

## LIST OF FIGURES

Figure 2.1	Department of Utilities Internal Operating Divisions .....	2-3
Figure 3.1	City Service Area, Limits, and Places of Use .....	3-4
Figure 3.2	City Water Treatment and Distribution Components .....	3-5
Figure 3.3	Historical Per Capita Water Consumption .....	3-19
Figure 5.1	Regional Water Rate Comparison for Fiscal Year 2013.....	5-16

[THIS PAGE INTENTIONALLY LEFT BLANK]



---

## ABBREVIATIONS AND ACRONYMS LIST

ACWA	Association of California Water Agencies
AF	Acre-feet
AFY	Acre-feet per year
ARRA	American Recovery and Reinvestment Act
ASCE	American Society of Civil Engineers
AWWA	American Water Works Association
BSG	Business Solutions Group
BuRec	U.S. Bureau of Reclamation
Carollo	Carollo Engineers, Inc.
CA SWTR	California Surface Water Treatment Rule
CDPH	California Department of Public Health
CEQA	California Environmental Quality Act
CFS	Cubic feet per second
CIP	Capital Improvement Plan
City	City of Sacramento
County	Sacramento County
CPI	Consumer Price Index
CSS	Combined Sewer System
DBP	Disinfection Byproducts
D/DBP	Disinfectants and Disinfection Byproducts
Department	Department of Utilities
DWR	Department of Water Resources
EBMUD	East Bay Municipal Utility District
ENR	Engineering News Record
EPA	Environmental Protection Agency
FTE	Full-time Equivalent
FWTP	E.A. Fairbairn Water Treatment Plant
FY	Fiscal Year
GPCD	Gallons per capita per day
GWUDI	Groundwater Under Direct Influence
HAA5	Haloacetic Acids
Indenture	First Supplemental Indenture
IT	Information Technology
L2ESWTR	Long-term 2 Enhanced Surface Water Treatment Rule
MCL	Maximum Contaminant Level
MG	Million gallons
MGD	Million gallons per day
MOU	Memorandum of Understanding
O&M	Operations and Maintenance

OPEB	Other Post Employment Benefits
PFM	Public Financial Management, Inc.
Plan	Financial Plan
POU	Place of use
Program	Water Infrastructure Investment Program
PSA	Purveyor Specific Agreement
PWS	Public Water Systems
Report	Bond Feasibility Report
R&R	Rehabilitation and Replacement
SASD	Sacramento Area Sewer District
SCADA	Supervisory Control and Data Acquisition
SCXEA	Sacramento City Exempt Employees Association
SDWA	Safe Drinking Water Act
SRCSD	Sacramento Regional County Sanitation District
SRWTP	Sacramento Regional Water Treatment Plant
SSS	Sanitary Sewer System
SSWD	Sacramento Suburban Water District
State	State of California
SWRCB	State Water Resources Control Board
SWTR	Surface Water Treatment Rule
TCR	Total Coliform Rule
THM	Trihalomethane
UCMR	Unregulated Contaminant Monitoring Rule
URAC	Utilities Rate Advisory Commission
U.S.	United States
UWMP	Urban Water Management Plan
UWMPA	Urban Water Management Planning Act
WCE	Western Council of Engineers
WCP	Water Conservation Plan
WFA	Water Forum Agreement
WTP	Water Treatment Plant

---

## INTRODUCTION

Presented herein is a Consulting Engineer's Bond Feasibility Report (the "Report") prepared by the Consulting Engineer, Carollo Engineers, Inc. (Carollo). The Report summarizes our analyses and studies with regard to the issuance by the City of Sacramento (the "City") of bonds payable from the revenues of the City's Water System, referred to as the "Series 2013 Bonds."

### 1.1 PURPOSE

The City intends to use the proceeds of the Series 2013 Bonds to:

- Fund identified capital improvements to the Water System with net proceeds of \$239,500,000;
- Fund a projected deposit of \$7,450,000 (subject to change) to the debt service reserve fund equal to the Reserve Account Requirement for the Series 2013 Bonds; and
- Pay \$2,530,000 (subject to change) in projected expenses related to the issuance and sale of the Series 2013 Bonds expected in March 2013.

The Series 2013 Bonds are being issued pursuant to an Indenture, dated as of March 1, 2013, as supplemented by a First Supplemental Indenture dated as of March 1, 2013 (the "Indenture"), between the City and U.S. Bank National Association, as Trustee. The Series 2013 Bonds are limited obligations of the City, secured by and payable solely from the Trust Estate, which primarily consist of all System Net Revenues.

"System Net Revenues" means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable. The City may issue additional bonds (together with the Series 2013 Bonds, the "Bonds") and incur other obligations (the "Parity Obligations") secured by and payable from the Trust Estate on a parity basis with the Series 2013 Bonds and may also issue or incur other obligations secured by and payable from the Trust Estate on a basis junior and subordinate to the Series 2013 Bonds, other Bonds, and Parity Obligations (the "subordinate obligations"), subject to the terms of the Indenture. The City has previously incurred a debt (the American Recovery and Reinvestment Act, ARRA, Loan) that is secured under the Indenture as a Parity Obligation.

The primary purpose of this Report is to present a summary description of the Water System, its operations, and its finances. In addition, the Report addresses the financial projections of the Water System for the fiscal years (FY) ending June 30, 2013 through and including 2017 (the "Forecast Period") and the ability of the revenues derived from Water System operations to meet the expenditure and funding obligations of the Water System.

The Report includes, among other things, a discussion of the:

- Facilities that comprise the Water System and previous assessments of the general condition of the facilities and compliance with regulatory and permit requirements;
- The Water System facilities in service including statistics regarding capacity utilization and availability;
- The capital improvement plan (CIP) identified by the City for the Water System, of which a portion (the "Series 2013 Project") will be funded from the proceeds of the Series 2013 Bonds, and discussion of other sources of funding;
- A review of the Water System rates, fees and charges for water utility service rendered by the City;
- Projections of customers served and service area needs;
- A presentation of current management and the historical operating results of the Water System; and
- Recent historical and projected financial operations and the ability of the estimated System Net Revenues to meet the rate covenant requirements set forth in the Indenture during the Forecast Period.

The Report has been developed based on discussions with City personnel that are responsible for planning, operating, maintaining, and upgrading the Water System, and review of Water System planning and financial documents provided by the City. The Report is organized into five sections, with one attachment, as follows:

- Section 1 – Introduction: Outlines the purpose and scope of the report, a review of the Series 2013 Bonds, Consulting Engineer's qualifications, report organization, and conclusions.
- Section 2 – Department of Utilities: Provides an overview of the Department of Utilities ("Department") of the City of Sacramento, its business principles, organizational structure, and accomplishments.
- Section 3 – Water System: Describes the Water System's service areas, facilities, operations, and assets. Also provides information on legal and regulatory requirements.
- Section 4 – Capital Improvement Program: Describes the Department's capital planning process and a summary of the CIP over the Forecast Period. Projects are assessed in terms of compliance with regulatory requirements as well as the operational integrity and reliability of the Water System.
- Section 5 – Financial Performance: Provides information on the Department's current water rates and historical operating results; and establishes projections of revenues

and expenses, and financial performance metrics, including debt service coverage and fund balances for the Forecast Period.

- Attachment A – References: Provides references used to prepare this Report.

## 1.2 SCOPE

In preparation of this Report, Carollo has relied upon financial and operational data regarding the Water System derived from:

- Historical operating reports and records from FY 2008 through 2012 prepared by the Department's management and staff and summary of capital expenditures from FY 2008 through 2012;
- Information presented in operating and financial records and the Comprehensive Annual Financial Reports (annual audits) prepared by or for the City; and
- Other information provided by the City and Department.

In addition, Carollo has been furnished information, assumptions, and projections from the Department and others, including the estimated levels of debt service requirements on the Series 2013 Bonds by the City's bond underwriter, and Carollo has utilized information obtained from other utility systems in California and other sources. Carollo believes the sources of such information, assumptions, and projections to be reasonable for the purposes of this Report. Carollo has no reason to believe that such information is unreliable for purposes of this Report. The actual results achieved during the Forecast Period reflected in this Report may vary from those projected due to unforeseen changing future conditions (e.g., regulatory). The timing, sizing, and implementation of expansion related projects to meet capacity requirements of new development are subject to change based on future growth, per capita water demand changes, and geographic location of development. Such projections are subject to adjustment and Carollo can give no assurances or guarantees that the projections will be realized.

This Report was prepared for the City in accordance with applicable professional standards at the time the services were performed and in accordance with the contract between the City and Carollo. This document is governed by the specific scope of work authorized by the City. Carollo has relied on information or instruction provided by the City and, unless otherwise expressly indicated, has made no independent investigation as to the validity, completeness, or accuracy of such information.

This document sets forth the results of certain services performed by Carollo. The City recognizes and acknowledges that these services were designed and performed within various limitations, including budget and time constraints. These services were not designed or intended to determine the existence and/or nature of all possible environmental risks (which term shall include the presence or suspected or potential presence of any hazardous waste or hazardous substance, as defined under any applicable law or

regulation, or any other actual or potential environmental problems or liabilities) affecting the Water System's facilities.

This Report summarizes the results of Carollo's studies and analyses up to the date of this Report. Changed conditions occurring or becoming known after such date could affect the material presented herein to the extent of such changes. In addition, due to the unknown nature of future drinking water standards (for example, future regulation of both chromium and arsenic in groundwater), Carollo cannot provide any estimate of future cost increases or capital investment requirements that may be required due to unanticipated regulatory changes. This Report does not account for unknown costs that could impact the projected operating results.

Carollo did not perform an independent review of the Water System components (i.e., existing water distribution and other associated belowground facilities) condition or functionality, nor did Carollo perform independent reviews of any engineering matters related to such facilities other than as specified within this Report. Carollo has relied on information, assumptions, and projections from the City and others as of the date of this Report.

In summary, this Report provides no guarantee, warranty, or projection of future physical or financial performance of the Water System. Rather the findings included within this Report are based on information and performance at the date of the Report. Information used to complete this Report is referenced in Attachment A.

### **1.3 CONSULTING ENGINEER'S QUALIFICATIONS**

Carollo is one of the nation's largest environmental engineering firms specializing exclusively in the planning, design, and construction of water and wastewater facilities. Since 1933, Carollo has successfully completed more than 20,000 projects for public sector clients. Carollo is currently ranked within Engineering News-Record's (ENR) top 100 design firms and among the top firms for water and wastewater treatment plant design. Carollo's staff is familiar with the Department and the Water System.

Carollo's Business Solutions Group (BSG) provides business, financial, and information system solutions to municipal water, wastewater, and stormwater utilities throughout the U.S.

The BSG services are grouped within one of the following six disciplines:

- Finance, Funding, and Economic Sustainability;
- Asset Management;
- Strategy and Business Case Evaluations;
- Information Management;

- Organizational Development; and
- Operations and Maintenance Management.

Carollo's BSG staff has been providing utility financial assistance to the City since 2009 and the project manager, while employed with another firm, led the firm's engagement by the City to assist it in the development of the recommendations for rate increases for the Water System recently adopted by the City Council. Additionally, Carollo has also performed a variety of engineering, planning, and design assignments for the City, including the Sacramento Regional Water Treatment Plant (SRWTP) and E.A. Fairbairn Water Treatment Plant (FWTP) Capacity Optimization, Remaining Life, and Reliability Improvement Study in 2009. Finally, Carollo is currently serving as the design engineer for the Department's water treatment plants rehabilitation project, which is a significant portion of the Series 2013 Project (described in Section 4).

## 1.4 CONCLUSIONS

Carollo has completed a review of the Department's organization and management as it relates to the Water System, as well as capital improvement and financial planning processes and programs. Discussions with staff and managers, as well as review of existing studies and reports cited in Attachment A of this Report, were used to conduct this review. Based on the studies and investigations summarized in this Report, the financial statements provided by the City, and the considerations and assumptions set forth herein, Carollo offers the following conclusions:

- Department management have qualifications and experience commensurate with their responsibilities;
- The City's drinking water is in compliance with all current federal and State of California (State) drinking water standards and the City is positioned to meet the challenges imposed by future changes and additions to those regulations. While the City has included the estimated cost of compliance with regulatory requirements in its projected operating results, there can be no assurances that compliance with existing or future requirements will not significantly exceed such estimates;
- The Department's CIP projects over the Forecast Period to be funded by the Series 2013 Bonds implement treatment and distribution facility modifications and are required to improve operations and continue to comply with current federal and State regulatory requirements;
- Projects included in the Department's CIP over the Forecast Period have been estimated based on known regulatory requirements and conform to industry standard engineering practices. Project cost estimation procedures appear to be reasonable, and the construction schedules are achievable given implementation of effective construction management and program management;

- The Department's CIP addresses the most critical aboveground and belowground vulnerabilities as identified by the City's asset management program and the Department's internal organizational audit;
- The Series 2013 Project begins the process of addressing infrastructure reinvestment deficiencies identified in recent external audits of the Department's historical capital investment of the Water System;
- Staff is sufficient in numbers and qualifications to operate and maintain the Water System and to implement the Series 2013 Project. The Department has also committed to the use of additional outside consultant assistance, if and as necessary, to complete the Series 2013 Project;
- The Department has internal controls and procedures that meet industry standards for ongoing Water System operations and the Series 2013 Project including quarterly reports to and reviews by the Utilities Rate Advisory Commission (URAC), the CIP Programming Guide outlining the 3-year, 5-year and 30-year investment plans, and annual reports showing progress on the CIP (including the Series 2013 Project) implementation;
- Even considering diversion constraints, the City has sufficient water rights and entitlements (including demand reduction plans to accommodate a shortfall in supply during an extremely dry year), and expects to have sufficient capacity, to divert and treat water to serve retail demand until the year 2035 or later;
- As presented within this Report, the City is projected to expend approximately \$436 million (in escalated dollars) between FY 2013 and FY 2017, inclusive of the approximate \$161 million rehabilitation of the water treatment plants. The City anticipates spending an additional estimated \$1,400 million to \$1,500 million (in escalated dollars) between FY 2018 and FY 2042 to complete the water meter retrofit program and continue Water System rehabilitation projects. These expenditures represent a reasonable level of reinvestment in order to support a sustainable Water System based on known and reasonably predicted requirements;
- The projects to be financed by proceeds of the Series 2013 Bonds are the highest priority projects of the Water System required to protect public health and keep the Water System in a state of good repair, based on known Water System conditions;
- The principal assumptions used in the financial forecast are reasonable given recent experience and current economic conditions. Variations in actual inflationary or interest rates may cause subsequent adjustments to future financial plans;
- Projected operating results for the Forecast Period presented within the City's Pro Forma, which is a forecast of System Net Revenues, debt service, cash funding, and unrestricted Water Fund balance, are consistent with the Department's established business principles and debt service coverage requirements, and will provide funding necessary to implement the CIP as currently envisioned. The City's Pro Forma was



developed independent of Carollo and was a collaborative effort among the Department, the City Treasurer's Office, and Goldman, Sachs & Co. Carollo has reviewed the City's Pro Forma, which serves as the basis of the findings of this Report. The projected charges will provide revenue sufficient to:

- Meet currently projected costs of operation, maintenance, and routine replacement of Water System facilities.
  - Meet the existing debt service obligations and the projected requirements for the Series 2013 Bonds, the Parity Obligations, the existing obligations, and future bond issues.
  - Provide sufficient revenue to pay the costs of the Department's CIP through the end of the Forecast Period.
  - Meet coverage requirements of the Indenture.
- Average monthly residential service charges are forecasted to increase from \$34.98 for a typical single-family residential customer in FY 2013 to \$51.25 by FY 2017 based on a meter water charge of 18 hundred cubic feet (CCF) of water demands per year and across-the-board rate increases. Flat meter charges are projected to increase from \$37.79 to \$55.35 between FY 2013 and FY 2017 for the average flat residential monthly rate.

This Report has been prepared at the request of the City in connection with the Series 2013 Bonds, on behalf of the Department, to be included in the Official Statement relating to the issuance of the Series 2013 Bonds. The conclusions, observations, and recommendations contained herein constitute only the opinions of Carollo. The various background documents, statements, and other information supplied by the Department have been relied upon as being accurate in the performance of these analyses. However, no assurances are given nor warranties implied by Carollo to the accuracy of such information. Carollo makes no certification and gives no assurances except as explicitly set forth in this Report.

[THIS PAGE INTENTIONALLY LEFT BLANK]

---

**DEPARTMENT OF UTILITIES****2.1 BACKGROUND**

The City, through the Department, provides and maintains water, wastewater, storm drainage, and flood control services and facilities. These services and facilities are in place to safeguard the health and safety of the public, contribute to economic development, and improve quality of life. The Department works in conjunction with other City departments and Sacramento County, as well as regional, State, and federal agencies in the development and rehabilitation of urban utility infrastructure. The Department develops long-range financial plans to evaluate alternatives for funding its capital and operational needs related to its water, wastewater, and storm drainage systems. Budgets, CIP programs and rates and charges are subject to approval by the City Council.

Water, wastewater, and storm drainage services are operated as separate and distinct enterprise funds of the City. An enterprise fund is a government facility or service that is self-supporting through the fees associated with operating that particular service. The following are brief descriptions of the City's utility enterprise funds administered by the Department:

**Water Utility** – The Water Enterprise Fund is used to account for the activities associated with the production, distribution, and transmission of potable water by the City to its users. The Water Fund supports both the capital and operating costs of providing potable water throughout the City including production, treatment, and distribution systems. The City's water service produced and distributed water to over 135,000 accounts in FY 2012. According to the City's Charter, the Department operates the entire domestic and municipal water supply for the City (City of Sacramento Charter, 2012).

**Wastewater Utility** – The Wastewater Enterprise Fund is used to account for the activities associated with the maintenance, repair, and replacement of facilities for collecting, conveying, and pumping sanitary and combined sewage to the interceptor sewers of the Sacramento Regional County Sanitation District (SRCSD), and primary treatment of combined sewage. Wastewater services in the City are broken down into three areas. The combined sewer system (CSS) serves an area of approximately 7,545 acres in the older central City. The rest of the City is served by one of two separated sewer systems (SSS), one owned and operated by the City of Sacramento and the other by the Sacramento Area Sewer District (SASD), covering an area of about 20,750 acres. The City-owned and operated systems, the CSS, and the SSS consist of 45 pump stations and approximately 830 miles of pipelines. SRCSD provides treatment and disposal services to the entire area within the City's political boundaries.

Storm Drainage Utility – The Storm Drainage Enterprise Fund is used to account for the activities associated with the operations, maintenance, repair, and rehabilitation of the storm drainage system, which consists of the collection system and drainage pump stations, ditches, channels, and secondary levees. The City’s storm drainage system serves the entire City and consists of 104 sump pump stations, 62 detention basins, 429 miles of creeks, ditches, channels and canals, 841 miles of pipe, and approximately 38,410 drain inlets. The Department also administers the “City of Sacramento Stormwater Quality Improvement Program” comprised of various program elements and activities designed to reduce stormwater pollution and eliminate prohibited non-stormwater discharges. The Department operates the storm drainage system within the City’s political boundaries.

## 2.2 BUSINESS PRINCIPLES

The City has established a set of business principles to provide each utility with the framework to make day-to-day or long-term decisions. These business principles include, but are not limited to:

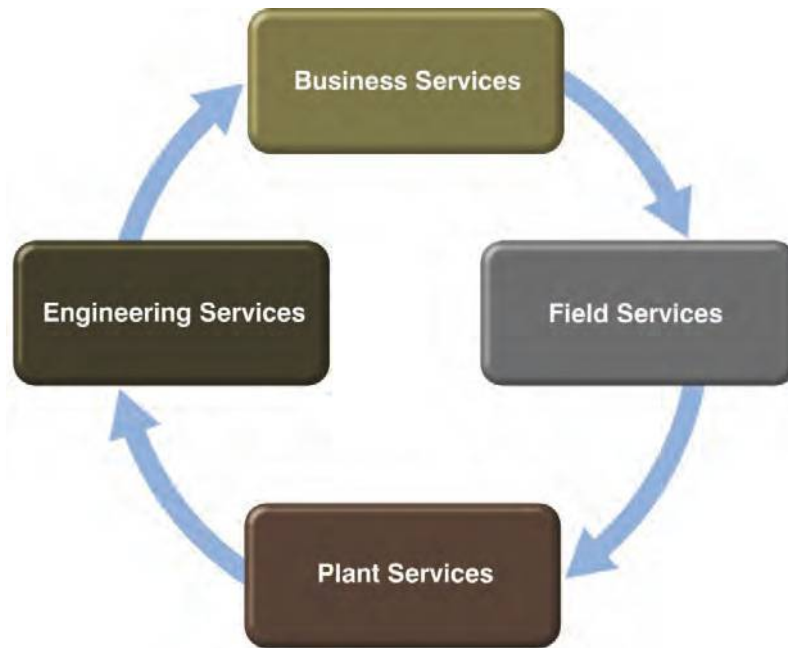
- **Regulatory Compliance** – This includes compliance with regulations imposed by State, federal, and local agencies in order to meet public health and safety requirements;
- **Self-Sustainability** – Rates for each utility enterprise should be designed to recover the cost of providing service and provide enough revenue for the utility to recover the cost of current operations as well as provide funding for future Water System repair and replacement needs;
- **Financial Stability** – Rates should be set so each utility remains financially viable and maintains its financial creditworthiness;
- **Future Growth** – The utility’s financial and capital plan should recognize that “growth should pay for growth.” This may include developer contributions, consisting of impact fees or capacity charges that pay for the carrying costs of capacity in advance of connection; and
- **Performance Measures** – It is important to establish financial and service policies that comply with industry-best management practices and meet regulatory requirements.

## 2.3 ORGANIZATION

### 2.3.1 Organization Structure

The Department is generally structured to provide services based on major functional areas. There are four (4) major functional areas (or operating divisions). These divisions include the areas of business services, field services, engineering services, and plant services.

Figure 2.1 Department of Utilities Internal Operating Divisions



**Business Services** – The “Business Services” division provides fiscal support and customer service for the Department. Key levels of service are to:

- Assist divisions with delivery of services within approved operating budget;
- Develop enterprise fund rates and long-term financing strategies;
- Maintain timely and accurate customer service charges; and
- Maintain timely customer call wait times.

**Field Services** - The “Field Services” division operates and maintains the water distribution system and wastewater and storm drainage collection systems, as well as associated ditches and levees. Key levels of service are to:

- Provide reliable services to customers; and
- Provide timely emergency and non-emergency (water, wastewater, and storm drainage service) response during business hours and/or after hours.

**Plant Services** – The “Plant Services” division operates and maintains facilities for water production, wastewater and storm drainage pumping, and wet weather combined wastewater treatment. Key levels of service are to:

- Provide reliable water, wastewater, and storm drainage services to its customers;
- Maintain electrical and mechanical systems for water, wastewater, and storm drainage pump stations, wells, reservoirs and treatment plants; and
- Ensure compliance with drinking water regulations.

**Engineering Services** – The “Engineering Services” division provides engineering support for capital projects, plant and field support units, and ensures compliance with State and federal regulations. Key levels of service are to:

- Effectively and efficiently manage capital projects;
- Plan long-range growth and maintenance of City infrastructure;
- Review private development projects to assure consistency with City standards and compliance with federal, State, and local codes; and
- Manage and oversee compliance with regulatory programs.

The following are biographies of key Department management personnel involved in the management of the Water System (some of who also oversee management of the wastewater system and the storm drainage system). The Director of the Department reports directly to the City Manager. Program management and project delivery procedures are discussed in Section 4.

*Dave Brent, Department Director* – Mr. Brent has over 26 years of experience in water resources including more than 21 years with the Department. He has held a variety of positions with the Department starting in 1991 as the Senior Engineer managing the Department’s municipal stormwater management program. Mr. Brent also served as the Engineering Services Manager from 2002 to 2010 and as Government Affairs Coordinator position from 2010 until his appointment as Director of Utilities in September 2011. He holds a Bachelor of Science in Civil Engineering from California State University Sacramento and is a licensed Professional Engineer in the State of California.

*Jamille Moens, Business Services Manager* – Ms. Moens has over 25 years of experience in finance and administration as well as policy and systems analysis. She has worked in both the private and public sectors in the U.S. and internationally. Ms. Moens has been the Business Services Manager for over 4 years and oversees the finance, customer service charges, and customer service operations for the Department. She holds a Bachelor of Science in Industrial and Labor Relations from Cornell University and a Master of Arts in Political Science from Stanford University. She is a registered Project Management Professional.

*Michael Malone, Field Services Manager* – Mr. Malone has over 22 year of experience in underground utility management. He has served in several capacities with the Department and the San Jose Water Company including Water and Wastewater Superintendent and Senior Maintenance Supervisor. Mr. Malone has been in the position of Field Services Manager since January of 2008 and is also the acting Plant Services Manager. He holds a Bachelor of Arts in Management from Saint Mary’s College and a State of California Water Distribution Grade 3 Certification, and is a member of the American Water Works Association and is the current 2-Year Director of the local American Public Works Association chapter.

*Bill Busath, Engineering Services Division Manager* – Mr. Busath has over 16 years experience in the design, construction, operation and management of water, drainage and wastewater systems with the Department. He has held several positions in the Department including managing the City's stormwater management and floodplain management programs. Mr. Busath has been the Manager of the Engineering Services Division for almost two years. He holds a Bachelor of Science in Civil Engineering and a Master's of Science in Engineering Management from the California State University, Sacramento, and has been a licensed Professional Engineer for 18 years.

*Susan Goodison, Supervising Financial Analyst* – Ms. Goodison joined the Department in March 2012, coming into the position with over 20 years experience in municipal finance and accounting with the State of California. As Supervising Financial Analyst, she is responsible for overseeing the budgetary and accounting activities for the Department. Ms. Goodison has extensive experience in the sale, issuance and administration of debt, as well as governmental accounting and financial reporting. She graduated from Cornell University with a Bachelor of Science in Business Management and Marketing and is a member of the Government Finance Officers Association.

*Dan Sherry, Supervising Engineer* – Mr. Sherry has over 17 years of experience in the planning, design, construction and operation of water distribution systems with the City and Yuba City. He has managed the City's water planning and design section for 8 years. Mr. Sherry holds a Bachelor of Science in Civil Engineering from the California State University, Sacramento. He has been a licensed Professional Engineer for 17 years and has been a certified Water Treatment Plant T3 Operator for 8 years.

*Michelle Carrey, Senior Civil Engineer, Meter Program* – Ms. Carrey began her engineering career with the City in 1994 and has over 18 years experience in water related capital project management. In 2009, she was promoted to a Senior Engineer position to oversee the Department's Water Meter Program. Ms. Carrey holds a Bachelor of Science in Civil Engineering from California Polytechnic State University, San Luis Obispo. She has been a licensed Professional Engineer with the State of California for 15 years and is also a Grade 2 Water Treatment Plant Operator.

*Chris Powell, Field Service Construction Coordinator, Meter Program* – Mr. Powell began his career with the City in 1984 and has over 28 years experience in operations and maintenance of the City's water distribution system. In 2005, he was promoted from Water Distribution Supervisor to the position of Field Service Construction Coordinator. One of the key responsibilities of the position is to co-manage the Department's Water Meter Program working closely with Engineering Services. Mr. Powell is also a Grade 3 Water Distribution Operator.

*Ian Pietz, Senior Engineer, Water Treatment Rehabilitation* – Mr. Pietz joined the Department in October 2012, with over 8 years of experience in the water utility industry. He has overseen numerous high profile and controversial projects in his previous

employment with Yuba City, including a major expansion to its water treatment plant, groundwater conversion project, and proposition 218 water rate increases. His water resources background includes project and construction management, water supply and facilities planning, budget management, and overseeing water treatment operations. Mr. Pietz has a Bachelor of Science in Mechanical Engineering from California State University, Chico and has been a licensed Professional Engineer for 7 years.

## **2.4 ACCOMPLISHMENTS**

The Department has a history of success in design and delivery of capital projects and has been recognized by the engineering and construction community on a number of occasions including:

- Recipient of the Association of California Water Agencies (ACWA) 2012 Best in Blue Award for the public outreach campaign, "Your Utilities, Your Voice."
- AWWA 2012 Exemplary Source Water Protection award for metropolitan-sized water systems;
- American Water Works Association (AWWA) California/Nevada Section's 2010 Exemplary Source Water Protection award. The Lower American River and Sacramento River Source Water Protection Program Partners received this award (this watershed program is led by the City of Sacramento);
- Awarded more than \$22 million in ARRA monies and installed more than 21,000 water meters between 2009 and 2012 using those funds;
- Environmental Working Group's 2009 No. 1 for Best Drinking Water Quality for California Big Cities;
- Environmental Working Group's 2009 No. 18 for Best Drinking Water Quality nationally amongst Big Cities (<http://www.ewg.org/tap-water/rating-big-city-water>);
- Participated in award winning water conservation educational programs;
- Installed more than 33,000 water meters since 2005; and
- Completed 33 projects over the last five years.

## **2.5 EMPLOYEE POPULATION AND BARGAINING UNITS**

The Department's FY 2013 budget provides funding for 510.5 full-time equivalent (FTE) positions. Within this employee population, there are many certified drinking water treatment (T) and distribution (D) operators of varying levels (grades 1 through 5). On the treatment side, there are approximately 35 certified operators for grades T2 to T5. On the distribution side, there are approximately 46 certified operators for grades D2 to D5.



The Department administers each of the enterprise funds. As such, many of the Department employees provide services and support for multiple funds. Employee costs are distributed among the three funds based on a direct and indirect cost allocation. In FY 2011, roughly 42 percent of the FTE positions were funded by the Water Fund.

Table 2.1 provides a list of the bargaining units representing the current Department work force. The Water System managers are included in the Sacramento City Exempt Employees Association.

<b>Table 2.1 Bargaining Units Representing the Department Work Force Bond Feasibility Report City of Sacramento</b>		
<b>Bargaining Unit</b>	<b>Number of Employees</b>	<b>MOU Effective Until</b>
Western Council of Engineers (WCE)	13	June 29, 2013
UA Local 447 – Plumbers and Pipefitters	170	June 24, 2016
Stationary Engineers Local 39		December 27, 2013
<i>L39A – O&amp;M, Office &amp; Tech, Prof</i>	119.5	
<i>L39B – Plant Operator</i>	53	
<i>L39C – General Supervisory</i>	32	
Sac Sierra Building Trades & Council	53	June 28, 2013
Sacramento City Exempt Employees Association (SCXEA)	66	June 27, 2014
Non-Represented		
<i>Temporary – Student Interns</i>	3	
<i>Director of Utilities</i>	1	
<b>Total</b>	<b>510.5</b>	

## 2.6 INDEPENDENT REVIEWS

The Department is currently developing a new strategic plan and conducting a review of its internal organizational structure to ensure the continued achievement of level of service objectives and ongoing regulatory compliance requirements, and to improve efficiencies. The Department will propose to the City Council some organizational changes that may result in restructuring for improved delivery of services. The target date for this to go into effect is July 1, 2013. In addition, the City commissioned three recent audits, which include reviews of aspects of Department operations and are referenced below:

- In April 2010, Management Partners Inc. performed the *City of Sacramento Citywide Financial and Operational Review* and developed 52 recommendations to move the City to a condition of service and financial stability. Of the 52 recommendations, 2 are

directly related to the Department's water services. These two recommendations related to:

- The adoption of a multi-year water rate plan to meet infrastructure investment needs of the Water System over the next 20 years; and
  - The elimination of the Water System's fluoridation program.<sup>1</sup>
- On behalf of the Sacramento City Auditor's Office, Public Financial Management (PFM), Inc., and co-proposers Diemer Engineering, Inc., EMA, Inc, and Bershman, Brickner & Gratton, Inc. performed the *Sacramento Utilities Department Operational Efficiency and Cost Savings Audit* in April 2011. The audit reviewed Department staffing, use of equipment, and capital investment, and found that significant operational efficiencies and cost savings were possible by modifying the Department's approach to its water meter retrofit program, reduced staffing, energy efficiencies, investment in more productive equipment, and the use of software. The Department has implemented many of the audit recommendations and reports to the City auditor on a semi-annual basis; and
  - The Macias Consulting Group, Inc., performed the *City of Sacramento Utility Billing Audit* in June 2012 and found that, in general, the Department has an adequate internal control environment providing a consistent, accurate, and timely charging of services and payment posting operation. The Utility Billing Audit concluded that the Department's water and wastewater service charges were accurate.

The Operational Efficiency and Cost Savings Audit of the Department and the Citywide Financial and Operational Review largely concluded that the Department is effectively managing the City's utility business. However, the audits also concluded that City has historically underfunded infrastructure replacements, which is actively being addressed as part of the financial plan approved in 2012 and the planned issuance of the Series 2013 Bonds in March 2013.

Both the Operational Efficiency and Cost Savings Audit of the Department and the Citywide Financial and Operational Review concluded that the City's historical investment in its water and wastewater infrastructure systems and its maintenance is insufficient. In particular, the water and wastewater infrastructure systems are aging and investment in the City's water and wastewater CIP programs has declined significantly in recent years. According to the U.S. Environmental Protection Agency (EPA) and American Society of Civil Engineers (ASCE) established life cycles, a best practices approach to infrastructure replacement would replace most of the water and wastewater infrastructure every 70 to 100 years in order to sustain it in a condition that can reliably deliver service. The City is actively addressing the identified need for increased capital investment in the Water System as part of the recently approved financial plan and the planned issuance of the Series 2013 Bonds

---

<sup>1</sup> While this recommendation from the *City of Sacramento Citywide Financial and Operational Review* came in April 2010, the City recently received a \$500,000 grant to support the continuation of the Water System's existing fluoridation program over the next five years.

in March 2013. The Series 2013 Project specifically addresses Water System rehabilitative needs, and is designed to be the start of a long-term reinvestment program.

The findings of these audits have been relied upon in developing this Report.

## **2.7 CONCLUSIONS**

Conclusions made at the date of this Report include:

- Department management have qualifications and experience commensurate with their responsibilities;
- The Series 2013 Project begins the process of addressing infrastructure reinvestment deficiencies identified in recent external audits of the Department's historical capital investment of the Water System;
- Staff is sufficient in numbers and qualifications to operate and maintain the Water System and to implement the Series 2013 Project. The Department has also committed to the use of additional outside consultant assistance, if and as necessary, to complete the Series 2013 Project; and
- The Department has internal controls and procedures that meet industry standards for ongoing Water System operations and the Series 2013 Project including quarterly reports to and reviews by the URAC, the CIP Programming Guide outlining the 3-year, 5-year and 30-year investment plans, and annual reports showing progress on the CIP (including the Series 2013 Project) implementation.

[THIS PAGE INTENTIONALLY LEFT BLANK]

---

**WATER SYSTEM**

This section describes the Water System's service area, facilities, operations, and assets. The section also presents a discussion of the Water System's performance.

### **3.1 OVERVIEW**

The City was founded in 1849 with a population of 9,087 people. The City's population grew slowly between the end of the Gold Rush period and World War II; however, annual annexations along with expansions of the aerospace industry and military installations caused the City's population to grow significantly from shortly before World War II through today. Over the past twenty years, the City's population has increased from 369,365 in 1990 to an estimated 470,956 as of January 1, 2012 per the California Department of Finance.

For the purposes of projecting revenue, it is conservatively assumed that there is minimal growth. However, the planned improvements incorporate the necessary provisions to accommodate anticipated growth identified in the City's 2013 Water Master Plan prepared by West Yost and Associates. In addition to the currently planned CIP described in Section 4 and the City's 2005 Water Master Plan, the City also expects to complete an updated Master Plan for the Water System in the Spring of 2013. The Water Master Plan considers the projected impact of potential future growth in the City over the next 30 years. If there is significant growth, improvements and expansions to the Water System infrastructure may be required and could be substantial depending on the level of growth expected at the time. The City's policy is that new development would bear the cost of these growth-related expansions or improvements, and therefore the costs of these expansions or improvements are not included in the projected operating results or the planned CIP costs described Sections 4 and 5. These projects will only be constructed as projected development occurs and are expected to be funded using impact fee revenues and/or developer built and dedicated.

The number of service accounts to which the City supplies potable water was approximately 135,000 as of FY 2012. Since 2010, most of the new accounts are multi-family accounts. The potable water customers are primarily residential, with about 93 percent of the City's customers being residential; about 6 percent commercial/institutional, and about 1 percent irrigation (2012 Meter Records).

Table 3.1 shows the number of residential and commercial/industrial accounts for FY 2008 through FY 2012. In FY 2012, of the 135,209 accounts, 126,282 are residential and provide about 80 percent of the total Water System revenue on average; 8,927 accounts are non-residential (i.e., commercial/industrial) and represent about 20 percent of the total Water System revenue on average; and there are only four outside wholesale customers and one

wheeling customer. The projected population is not expected to significantly increase over the Forecast Period (through and including FY 2017). Table 3.2 shows the top ten Water System customers by revenue in calendar year 2011.

<b>Table 3.1 Account Distribution by Customer Class for FY 2008 through FY 2012 Bond Feasibility Report City of Sacramento</b>					
<b>Customer Class</b>	<b>Number of Water Accounts</b>				
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Residential	125,116	125,925	126,164	126,199	126,282
Commercial/Industrial	8,494	8,673	8,616	8,766	8,927
<b>Total<sup>(1)</sup></b>	<b>133,610</b>	<b>134,598</b>	<b>134,780</b>	<b>134,965</b>	<b>135,209</b>
Note: (1) Total does not include the four outside wholesale accounts and one wheeling account.					

<b>Table 3.2 Top 10 Water Customers by Revenue in Calendar Year 2011 Bond Feasibility Report City of Sacramento</b>			
<b>Entity</b>	<b>Revenue (thousand dollars)</b>	<b>Percent of Total Revenue<sup>(1)</sup></b>	
City of Sacramento	1,762	2.31	
Sacramento Unified School District	533	0.70	
State of California	438	0.57	
Sacramento Municipal Utility District Cogeneration Facility	242	0.32	
Sacramento Housing & Redevelopment Agency	232	0.30	
Natomas Ridge - JPI	228	0.30	
CTL Management	204	0.27	
County of Sacramento	203	0.27	
Woodlake Village 40101	189	0.25	
Housing Authority of the City of Sacramento	182	0.24	
Note: (1) Total revenue for calendar year 2011 was \$76,247,694.			

## **3.2 SYSTEM DESCRIPTION**

The Department is responsible for providing and maintaining water for residents and businesses within the City limits, to some customers living in Sacramento County (outside City limits), and also provides wholesale water to four adjoining water purveyors: two privately held companies (California American Water Company and Fruitridge Vista Water Company) and two public agencies (Sacramento County Water Agency and Sacramento Suburban Water District). The Department operates a complex water supply, treatment, storage, and distribution network referred to as the “Water System.” The Water System description provided in this section is based on the 2005 Water Distribution System Master Plan prepared by West Yost and Associates, as well as the 2010 Urban Water Management Plan prepared by Carollo.

### **3.2.1 Service Area**

The City is located in the Central Valley of California, in Sacramento County (County) at the confluence of the Sacramento and American Rivers. The Sacramento River flows south from Lake Shasta, while the American River flows west from the Sierra Nevada Mountains.

Covering approximately 63,182 acres, the boundary of the City’s retail water service area is largely contiguous with the City limits as shown in Figure 3.1, with some exceptions.

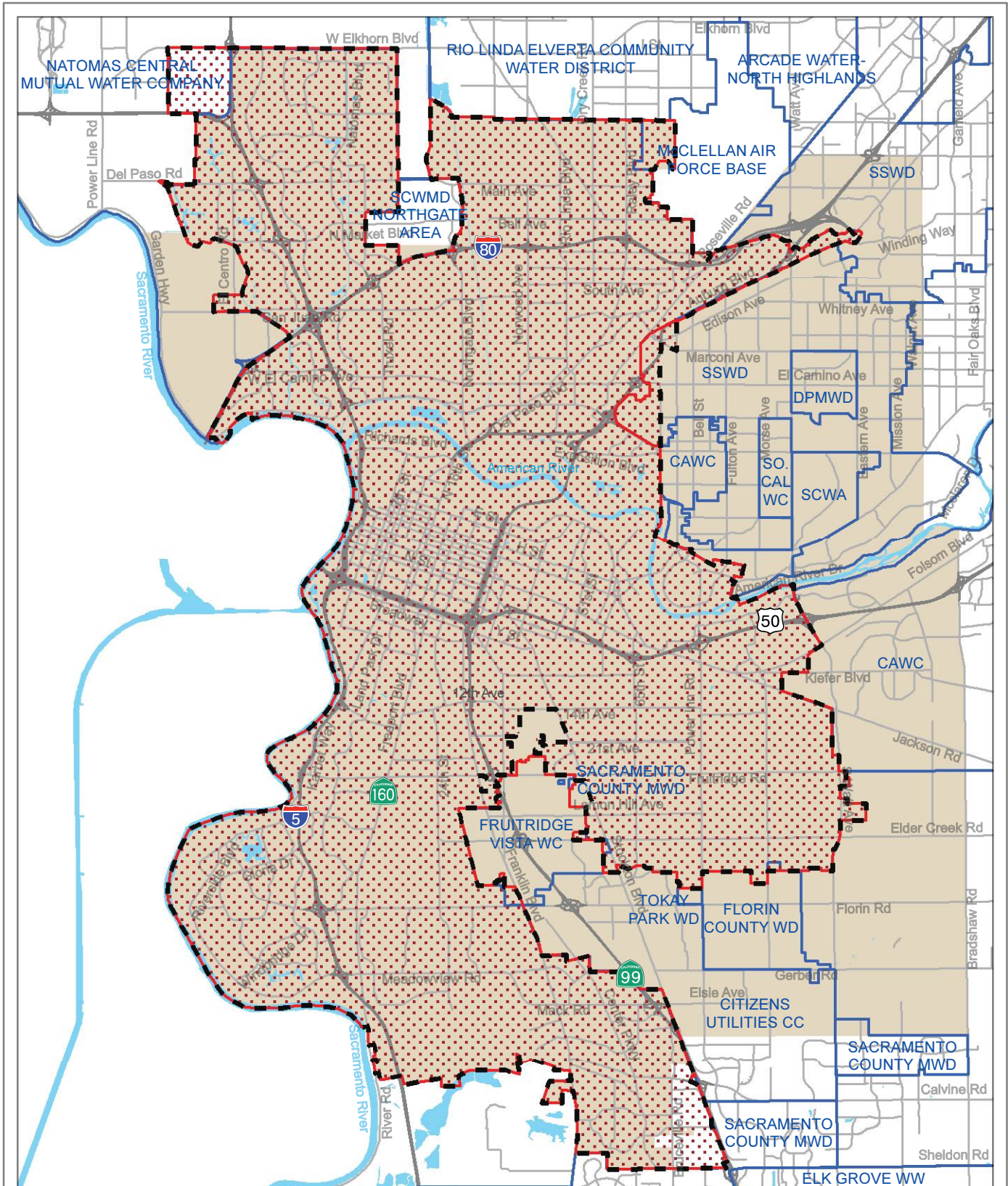
Sacramento Suburban Water District (SSWD) serves a small portion of City residents and businesses on the eastern portion of the City near the Business 80 freeway, and the City serves a number of customers in the unincorporated portion of the County adjacent to the Fruitridge Vista Water Company service area. The population within both of these areas is roughly equivalent.

The City is both a water retailer and a water wholesaler/wheeler. Ground surface elevations generally range from about 5 feet above sea level east of the Sacramento River to approximately 75 feet above sea level in the northeast part of the service area. The City is within the reclaimed flood plain of the Sacramento River.

### **3.2.2 System Components**

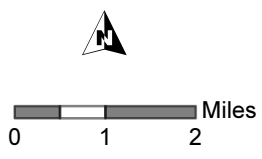
The Water System consists of two water treatment plants (WTPs), groundwater wells, storage tanks, pumping facilities, and distribution/transmission pipelines. Figure 3.2 shows the location of the Water System components.

Section 4 discusses the CIP projects planned for proactively rehabilitating and replacing major elements of the Water System, including a summary of the Series 2013 Project in Section 4.5. Rehabilitation and replacement (R&R) projects are designed to replace or refurbish infrastructure that has exceeded its useful life. As a practice, when debt is used for capital investment, the term of debt shall not exceed the reasonable useful life of the asset being acquired, constructed, or improved.



**Legend**

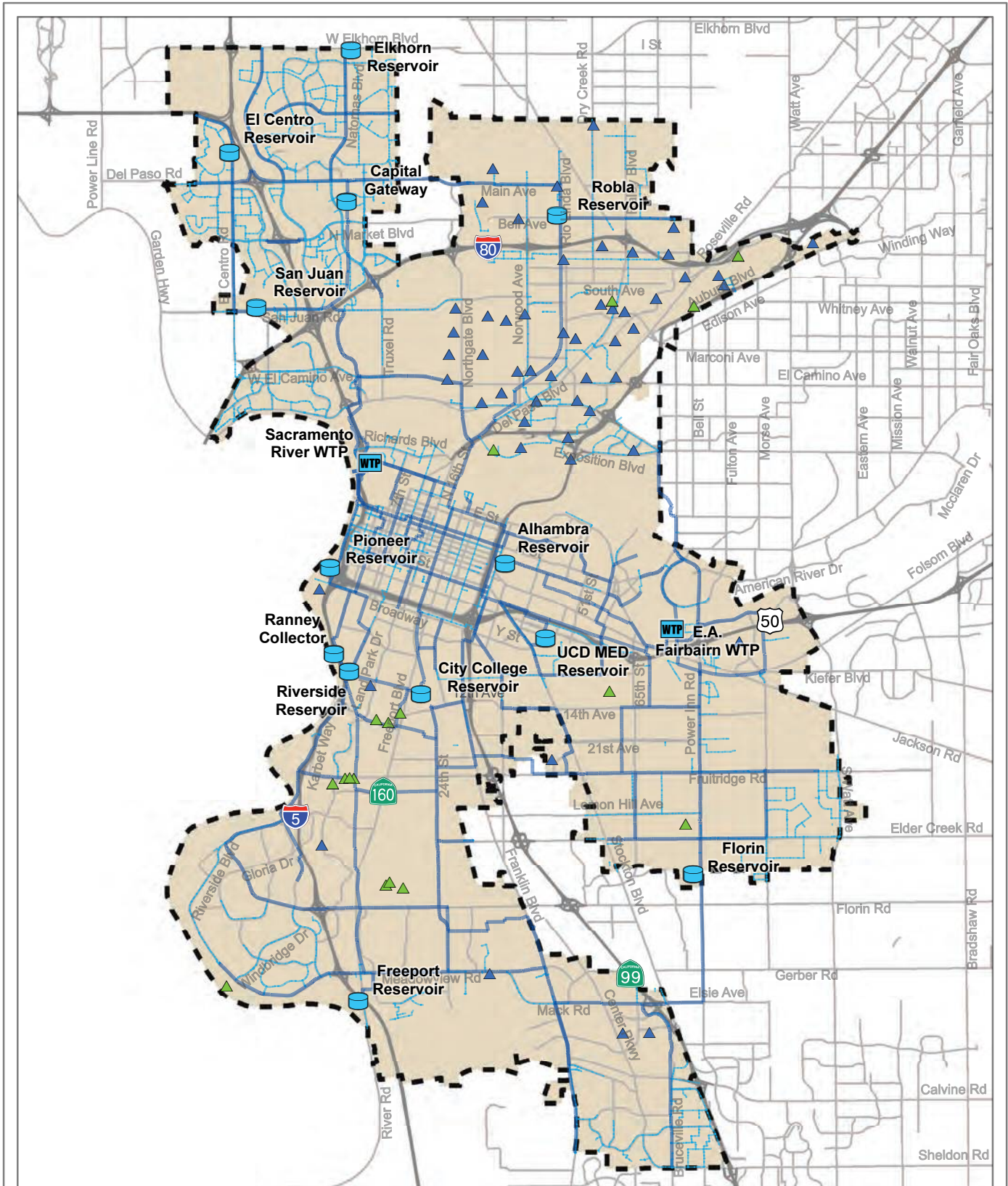
- Highways
- Major Roadways
- ⬜ City Limits
- ⬜ City Retail Area
- ⬜ Hydrology
- ⬜ Sacramento River Place of Use
- ⬜ American River Place of Use
- ⬜ Other Water Entities



**Figure 3.1**  
**City Service Area, Limits, and Places of Use**  
 Bond Feasibility Report  
 City of Sacramento















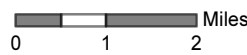


**Legend**

**Water Components**

-  Treatment Plant
-  Storage Tank
-  Potable Well
-  Irrigation Well
-  Transmission Main
-  Pipelines >= 12-inches
-  Highways

-  Major Roadways
-  City Limits
-  City Retail Area



**Figure 3.2**  
**City Water Treatment and**  
**Distribution Components**  
 Bond Feasibility Report  
 City of Sacramento



### 3.2.2.1 Water Sources

The City currently has three water supply sources:

- Sacramento River Surface Water Supply – from which the City diverts water at the SRWTP;
- American River Surface Water Supply – from which the City diverts water at the FWTP; and
- Groundwater wells – the City has 27 municipal groundwater supply wells; 25 wells are located in the northern portion of the City, north of the American River, while the remaining 2 are located south of the American River.

Table 3.3 shows the average total water production for FY 2009 through FY 2012 from the City’s three supply sources. As shown, about 45 percent of the City’s water production was from the SRWTP, about 39 percent was from the FWTP, and the remaining 16 percent was from groundwater wells.

<b>Table 3.3 Average Water Production for FY 2009 to FY 2012 Bond Feasibility Report City of Sacramento</b>				
<b>Water Source</b>	<b>Average Annual Production (MG)</b>	<b>Average %</b>	<b>Average Daily Production Rate Over Calendar Year (MGD)</b>	<b>Average Daily Max Month Production Rate (MGD)</b>
Sacramento River Water Treatment Plant	17,385	45	48	82
Fairbairn Water Treatment Plant	15,082	39	41	69
Groundwater Wells	5,952	16	16	18
<b>Total</b>	<b>38,419</b>	<b>100</b>	<b>105</b>	<b>169</b>
Notes: MG = million gallons, MGD = million gallons per day.				

Below are descriptions of each of these water sources, as well as the groundwater wells.

#### 3.2.2.1.1 *Sacramento River Water Treatment Plant (SRWTP)*

The SRWTP began operation in 1924 with an initial capacity of 32 million gallons per day (MGD), and treats water diverted approximately one-half mile downstream of the American River confluence. A new intake structure, located approximately 700 feet downstream of the old intake structure, was completed in 2004. Other expansions and modifications completed by the City since the 1920s increased the SRWTP’s design capacity to 160 MGD.

As of the date of this Report, due to the conditions of the existing facilities and hydraulic constraints, the SRWTP's reliable capacity is limited to 135 MGD. Aging elements of the SRWTP must be rehabilitated in order to continue to meet the City's water supply needs. The costs of the rehabilitation of the SRWTP represent a significant portion of the capital improvements to be funded by the Series 2013 Bonds. Based on Carollo's review and general understanding of previous reports documenting the condition of the Water System, other above-ground Water System components are considered to be in fair to good condition, are functioning as intended, and it appears that the Water System does not have any major deficiencies.

The engineering design for the R&R of the older facilities at SRWTP has been completed and a significant portion of the proceeds of the Series 2013 Bonds will be used to fund this project, restoring the reliable treatment capacity to 160 MGD by the year 2016. The SRWTP currently has three treatment trains consisting of grit removal, coagulation, flocculation, sedimentation, and filtration; all three-process trains are recombined after filtration before post-chlorination disinfection. The SRWTP rehabilitation project will deactivate but preserve the oldest historic treatment train, and replace the second oldest treatment train with a near duplicate of the newest one that was constructed in 2002.

#### **3.2.2.1.2 Fairbairn Water Treatment Plant (FWTP)**

The FWTP is located approximately seven miles upstream of the American and Sacramento Rivers confluence. Treatment at FWTP consists of grit removal, coagulation, flocculation, sedimentation, filtration, and post-chlorination disinfection. The FWTP began operation in 1964 and has a current design capacity of 200 MGD following the expansion completed in late 2005. Planning and design work for rehabilitation to the FWTP has been identified in the Series 2013 Project and will be complete by FY 2016 to continue to meet the City's water supply needs.

As of the date of this Report, the California Department of Public Health (CDPH) limits the treatment capacity of the FWTP to 160 MGD through the operating permit. However, the amount of water diverted and treated is further limited during certain times of the year by the Hodge Flow Criteria (see Table 3.4). The Hodge Flow Criteria originated in a decision issued by Judge Richard Hodge in litigation between environmental groups, Sacramento County, and the East Bay Municipal Utility District (EBMUD), relative to EBMUD's proposal to receive water diverted from the American River via the Folsom-South Canal and its potential impact on the Lower American River. Judge Hodge's decision allowed the diversion proposed by EBMUD, but only when the specified flows would remain in the lower American River. These flows have come to be known as the Hodge Flows (Water Forum Agreement January 2000). In negotiations that preceded the Water Forum Agreement

(WFA)<sup>1</sup>, the City agreed to meet similar diversion limitations for the use of expanded capacity at the FWTP.

<b>Table 3.4 Hodge Flow Criteria for FWTP Defined<sup>(1)</sup></b>													
<b>Bond Feasibility Report</b>													
<b>City of Sacramento</b>													
<b>River Flow at the Intake (CFS)</b>	<b>&lt;2,000</b>		<b>&lt;3,000</b>				<b>&lt;1,750</b>			<b>&lt;2,000</b>			
<b>Time of Year</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct 14th</b>	<b>Oct 15th</b>	<b>Nov</b>	<b>Dec</b>
<b>Maximum Diversion at FWTP (MGD)</b>	77		77			100	100		77	65		65	
<b>Note:</b>													
<b>(1) Source: Water Forum Agreement, January 2000.</b>													

Generally, during the time of peak demand, most often in June, July, or August, the Hodge Flow Criteria can, depending on the flow in the river, limit the diversion rate at the FWTP to 100 MGD.

### 3.2.2.1.3 Groundwater Wells

The City currently operates 27 municipal groundwater supply wells; 25 wells are located in the northern portion of the City, north of the American River, while the remaining 2 are located south of the American River. A majority of the wells have been in service for over 40 years. Of the 27 wells, 15 are currently offline – 9 are offline due to low water demand and/or well performance. Those wells offline due to performance issues are undergoing a condition assessment to determine whether they will be reopened in the future. Of the six remaining wells that are currently offline, four are being rehabilitated and are expected to be back online by summer 2013, and the remaining two might be abandoned due to poor groundwater quality. Groundwater underlying the City’s service area generally meets primary and secondary drinking water standards for municipal water use. The City maintains a groundwater production capacity of approximately 20 MGD.

The City is developing a conjunctive use strategy for its surface water and groundwater supply that will allow improved flexibility in meeting City water demands based on water availability and supporting regional water resources management and sustainability. As a result, the City has begun a program to evaluate and rehabilitate the City’s well system to meet future needs for Water System reliability and efficient groundwater production.

<sup>1</sup> Signed by 40 stakeholder organizations in April 2000, the Water Forum has implemented programs that serve to maintain the long-term sustainable yield of the North Area Groundwater Basin, conserve municipal and industrial water use, and protect fish and other public trust assets in the lower American River.

### **3.2.2.2 Distribution and Storage Facilities**

The City operates a complex distribution and storage network that delivers water throughout the City's service area. It consists of three major pump stations (i.e., SRWTP, FWTP, and Florin Reservoir), 16 storage reservoirs, and approximately 1,600 miles of transmission and distribution mains.

#### **3.2.2.2.1 Pressure Zones**

High service pumps at each of the WTPs pump water directly into the distribution portion of the Water System creating a pressure zone that encompasses the majority of the City. The Bell Avenue Booster Pump Station is an in-system booster pump station that creates a small pressure zone in the northeastern part of the City.

#### **3.2.2.2.2 Storage Facilities**

The City currently has 16 storage facilities: eleven distributed storage tanks are located throughout the City, while five clearwells are located at the WTPs (three at SRWTP and two at FWTP). Ten of the storage tanks located throughout the City have a capacity of three million gallons (MG) each, while one storage tank (Florin Reservoir) has a capacity of 15 MG, for a cumulative storage capacity of 45 MG. The combined plant clearwells have a nominal capacity of approximately 45 MG and a usable capacity of 32 MG.

#### **3.2.2.2.3 Pumping Facilities**

The City currently operates high lift pump stations at both the SRWTP and the FWTP. The City also has an additional 10 pump stations, one located at each storage tank within the distribution system, with the exception of the Freeport Storage Tank. Pump stations are monitored remotely through the Department's Supervisory Control and Data Acquisition (SCADA) network that provides real-time station status. Remote access allows for offsite control and monitoring of pump stations and supports deployment of maintenance personnel to address problems that may occur.

#### **3.2.2.2.4 Transmission and Distribution Mains**

The City maintains approximately 1,440 miles of distribution mains ( $\leq 12$ -inches in diameter) and approximately 158 miles of transmission mains ( $> 12$ -inches in diameter). The transmission main system is considered the "backbone" of the Water System due to the larger impact on the overall system if a pipe were to fail. A recent query of the City's work order system found that within the last five years, the majority of leaks/breaks (approximately 80 percent) within the Water System occurred on older six-inch and eight-inch distribution mains. One percent of the work orders included breaks on the larger transmission mains. Of the one percent, or eleven water main breaks, the types of failures reported consisted of lateral breaks, full-circle breaks, or holes. One main break was caused by an outside contractor. In addition to pipe age, other factors that are considered

at the time of failure include type of material, tuberculation, pipe depth relative to temperature, type of soil, and surface conditions (e.g., railroad crossings, etc.).

Part of the Series 2013 Project (discussed in Section 4) consists of the R&R of portions of the City's pipelines. The City's transmission and distribution mains range from less than 10 years to over 100 years old (at the date of this Report, about 40 percent are less than 40 years old, 35 percent are between 40 and 50 years old, and about 25 percent are more than 50 years old). The majority of pipeline failures occur on the older pipelines and the frequency of failures is increasing.

The City's R&R program is intended to address the potential risk of aging infrastructure. At the date of this Report, the City has not sufficiently reinvested in its Water System according to the industry benchmarks for useful life of pipelines. Since pipelines are operating under pressure, internal visual inspections are not feasible, but the age and type of pipeline material are good indicators of risk and are commonly used in determining risk of failure. As part of its' ongoing asset management program, the City is embarking on a program in conjunction with the University of California at Davis to evaluate pipelines that fail and/or are being rehabilitated/replaced to further understand the causes of failure and the condition of the pipelines. While industry benchmarks and estimated life cycle are good indicators of the risk of failure, Carollo and the City cannot predict future pipeline breaks.

### **3.3 REGULATORY REQUIREMENTS**

The Water System is subject to State and federal regulations for drinking water quality. In general, the State is primarily concerned with the administration of federal drinking water requirements, but on some topics the State may add additional more restrictive requirements. The State<sup>2</sup> and federal requirements that guide drinking water treatment in California, and the City, are summarized in this section. Current State and federal drinking water quality regulations applicable to the Water System include primary and secondary drinking water standards, regulations on conventional surface water treatment processes including disinfection, and regulations for maintenance of disinfection residual in the distribution system. The three primary regulations that govern drinking water treatment for the protection of public health in California are the federal Surface Water Treatment Rule (SWTR) and its amendments, the federal Total Coliform Rule (TCR), and the California SWTR (CA SWTR). The SWTR applies to all public water systems using surface water sources and/or ground water under the direct influence of surface water (GWUDI). The TCR, revised in 1989, applies to all public water systems (PWSs) and establishes a maximum contaminant level (MCL) for total coliform. The CA Safe Drinking Water Act (SDWA), most recently updated in January 2006, applies to all California public water systems using surface water sources and/or GWUDI.

---

<sup>2</sup> California Code of Regulations (CCR) Title 22 and Title 17.

Other federal regulations include the Long-term 2 Enhanced Surface Water Treatment Rule (L2ESWTR) to ensure treatment is adequate for cryptosporidium, and the Unregulated Contaminant Monitoring Rule (“UCMR”) that requires special monitoring for unregulated contaminants. The UCMR provides U.S. EPA data to assist in determining new constituents to be regulated in drinking water. The UCMR results in additional monitoring costs approximately every five years, and the associated cost is built into the Water System’s budget for regulatory compliance.

State regulations include the California Waterworks Standards, which include provisions to ensure that there is adequate supply for new development and that certified materials are used meeting safety standards. The State of California and County of Sacramento institute regulations for construction and destruction of potable water wells to protect public health and the groundwater aquifer.

The Stage 2 Disinfectants and Disinfection Byproducts (“D/DBP”) Rule requires two types of DBPs, trihalomethanes (THMs) and haloacetic acids (HAA5), to be lower than their respective regulatory standards at representative monitoring locations throughout the distribution system. Based on past monitoring results, the City does not anticipate regulatory compliance issues for DBPs in its water supply.

Assembly Bill 2572, enacted in 2004, mandates that utilities install meters on all municipal and commercial service connections by January 1, 2025, and all customers with a meter need to be charged a metered rate. The law allows for one year of comparative service charges before switching to a metered rate. This law superseded the long-standing residential water meter prohibition in the City Charter.

In May 2005, the City Council adopted a resolution approving the water meter implementation plan criteria of placement of water meters in the sidewalk, a phased water meter installation program, and funding the program through rates and fees. There were approximately 108,000 unmetered services in the City at the onset of the Water Meter Program in 2005. At the date of this Report, an estimated 33,000 meters have been installed and approximately 6,000 meters will continue to be installed every year until completion in 2025.

Regulatory requirements that could affect costs are highlighted below and are expected to be minimal, however the final regulations have not been resolved and final cost impacts are unknown as of the date of this Report. One of these regulations is the federal Revised TCR, which was finalized December 20, 2012, and is expected to be published in the Code of Federal Regulations in early 2013. This regulation could require public drinking water systems to notify the public if a test exceeds the MCL for E. coli in drinking water. This regulation could result in the need to prioritize portions of the distribution system for rehabilitation and implementation of a flushing and cleaning program. In addition, the City also anticipates that the State will propose a draft MCL for hexavalent chromium by July 2013, with the final standard expected between July 2014 and July 2015. The final standard

may necessitate treatment at some of the groundwater wells or their removal from use. Either approach could increase the operation and maintenance costs of the Water System, including disposal of treatment residuals.

Fluoridation equipment upgrades at the Water System's water treatment plants and wells may also be necessary to address potential future changes to the State and federal fluoride standard, while continuing to provide fluoride addition to the CDPH's optimal level.

Upcoming regulatory requirements for hexavalent chromium described above will likely require installation of onsite treatment systems in some City wells. Future changes to drinking water standards may also result in additional treatment and associated increased costs. Existing wells that have been out of service while awaiting rehabilitation would also need fluoridation equipment installed if rehabilitation restores the wells to an acceptable level of performance. Any out of service wells are thoroughly tested before returning to service to ensure that all regulatory requirements are met.

The City's drinking water is in compliance with all current federal and State drinking water standards, and the City's drinking water program has no violations in its long history. The City is positioned to meet the challenges imposed by future changes and additions to those regulations. While the City has included the estimated cost of compliance with regulatory requirements in its projected operating results, there can be no assurances that compliance with existing or future requirements will not significantly exceed such estimates. The City's water quality standards are subject to change in the future.

### **3.4 WATER RIGHTS AND WATER DEMANDS**

This section provides a summary of the City's surface water entitlements on both the American and Sacramento Rivers, as well as a summary of the Water System's capacity and the historical and projected water demands for the City's service area. The information contained within this section was provided by the City, the 2005 Water Distribution System Master Plan prepared by West Yost and Associates, as well as the 2010 Urban Water Management Plan prepared by Carollo.

#### **3.4.1 Water Rights and Agreements**

The City has sufficient water rights and entitlements, and expects to have sufficient capacity, to divert and treat water to serve retail demand until the year 2035 or later. Moreover, in an extremely dry year, the City has demand reduction plans to accommodate a shortfall in water supplies. A description of the City's water rights and entitlements is provided below.

The City's surface water entitlements include five appropriative water rights permits issued by the State Water Resources Control Board (SWRCB), pre-1914 rights, and a water rights settlement contract with the U.S. Bureau of Reclamation (BuRec). Table 3.5 summarizes the City's five water rights permits, including application number and priority date, permit



Table 3.5 City Water Right Permits Summary Bond Feasibility Study City of Sacramento							
State Application Permit and License Number	Priority Date <sup>(1)</sup>	River Source	Maximum Amount Specified		Purpose of Use	Place of Use	Deadline to Perfect Full Use <sup>(2)</sup>
			CFS	AFY			
A. 1743 P. 992	3/30/1920	Sacramento	225 (145 MGD)	81,800 (26,655 MG)	Municipal	City of Sacramento	12/31/2030
A. 12140 P. 11358	10/29/1947	American			Municipal	79,500 acres within and adjacent to the City	12/1/2030
A. 12321 P. 11359	2/13/1948	Tributaries of American	675 <sup>(3,4)</sup> (436 MGD)	245,000 <sup>(3,4)</sup> (79,833 MG)	Municipal	96,000 acres within and adjacent to the City	12/31/2030
A. 12622 P. 11360	7/29/1948	Tributaries of American			Municipal	96,000 acres within and adjacent to the City	12/31/2030
A. 16060 P. 11361	9/22/1954	American			Municipal	79,500 acres within and adjacent to the City	12/1/2030

**Notes:**

(1) The "Priority Dates" shown above are the dates that each water right application was filed. Since 1914, a party seeking surface water rights in California has been required to apply to the State for a permit. Under permits issued by the State since 1914, when there is not adequate water available to satisfy all permittees' uses, water use is governed by a priority doctrine where permits with earlier application dates (i.e., "senior rights") take precedence over permits with later application dates (i.e., "junior rights"). Water rights obtained by water use before the permit system was instituted in 1914 are referred to as "pre-1914" rights, and during times of water shortage pre-1914 water rights take precedence over water right permits issued after 1914.

(2) The "Deadlines to Perfect Full Use" shown above are the dates specified in the City's permits to demonstrate its maximum water usage of surface water diverted. If the City anticipates additional future demands as these dates draw near, there are procedures for requesting an extension of these dates, which would require consideration and approval by the SWRCB in accordance with applicable statutory and regulatory requirements.

(3) Aggregate maximum applicable to the City's diversions under all four American River permits pursuant to the City/BuRec water right settlement contract.

(4) American River water rights can be taken out of the Sacramento River.

number and issuance date, rate of diversion in cubic feet per second (CFS) and MGD, annual limit in acre-feet (AF) and MG, purpose of use, period of use, place of use (POU), and the current deadline to perfect full use.

Surface water is currently diverted at two locations: Off the American River downstream from the Howe Avenue Bridge, and off the Sacramento River downstream of the confluence of the American and Sacramento Rivers. The City's current authorized POU for water diverted under the Sacramento River permit includes all the land within the City limits, while the POU for water diverted under the American River permits includes the City limits and adjacent portions of service areas of several other water purveyors.

The aforementioned pre-1914 rights are for water from the Sacramento River. The City's ability to utilize its entitlements with respect to the Sacramento River and the American River is subject to the provisions of a Water Rights Settlement Contract entered into in 1957 by the City and the BuRec (the "BuRec Settlement"). Under the BuRec Settlement, the City agreed to limit its combined rate of diversion under its American River water rights permits to a maximum of 675 CFS (436 MGD). The volume of the City's diversions under its American River water rights permits may scale up to 245,000 AFY (79,833 MG) by the year 2030. The City also agreed to limit its rate of diversion under its Sacramento River water rights permit to a maximum of 225 CFS (145 MGD) and a maximum amount of 81,800 AFY (26,655 MG). This limits the City's total diversions of Sacramento and American River water under its water rights permits to 326,800 AFY (106,488 MG) in the year 2030 and in succeeding years. In return, the BuRec Settlement requires the BuRec to operate BuRec facilities so as to make available in the rivers at all times enough water to enable the agreed-upon diversions by the City. The City's direct diversion of water under its American River water rights permits is allowed from November 1 to August 1. In addition, the City can re-divert water released from upstream storage year round, including water released from Folsom Reservoir to make water available to the City pursuant to the BuRec Settlement, as described above.

The settlement contract is permanent and not subject to deficiencies imposed on the BuRec's Central Valley Project customers. The BuRec Settlement, in conjunction with the City's water rights, provides the City with a reliable and secure water supply. Historically, the City has had sufficient water rights to meet its demands.

The diversion limitations contained in the BuRec Settlement are summarized in Table 3.6. The City's diversions at the FWTP are also limited under the WFA.

As part of the WFA, the City agreed in its Purveyor Specific Agreement (PSA) to limit the quantity of water diverted from the American River to the FWTP during two conditions: extremely dry years (i.e., "Conference Years") and periods when river flows are below the "Hodge Flow Criteria" issued by Judge Richard Hodge in the Environmental Defense Fund v. East Bay Municipal Utility District litigation. These two conditions were

subsequently included in the City’s American River water right permits, and are described in more detail below.

<b>Table 3.6 Maximum Annual Diversion Allowed to Year 2035 Bond Feasibility Report City of Sacramento</b>			
<b>Year<sup>(1)</sup></b>	<b>Maximum Diversion from the Sacramento River, MG<sup>(2)</sup></b>	<b>Maximum Diversion from the American River, MG<sup>(3)</sup></b>	<b>Maximum Combined Diversion, MG</b>
2010	26,655	55,558	74,131
2015	26,655	61,586	82,114
2020	26,655	67,940	90,587
2025	26,655	74,294	99,059
2030	26,655	79,833	106,488
2035	26,655	79,833	106,488

Notes:

- (1) Data obtained from Schedule A of the 1957 Water Rights Settlement Contract between the U.S. Bureau of Reclamation and the City.
- (2) The City may divert up to 26,655 MG annually from the Sacramento River as long as the total combined diversion from both the Sacramento and American Rivers does not exceed the Maximum Combined Diversion.
- (3) The City may divert up to the Maximum Diversion from the American River as long as the total combined diversion from both the Sacramento and American Rivers does not exceed the Maximum Combined Diversion.

**3.4.1.1 Extremely Dry Years (Conference Years)**

The PSA defines extremely dry years (i.e., “Conference Years”) as years in which the DWR projects an annual unimpaired flow into Folsom Reservoir of 550,000 AFY (179,200 MG) or less, or the projected March through November unimpaired flow into Folsom Reservoir is less than 400,000 AFY (130,300 MG). During extremely dry years, the City has agreed to limit its diversions for water treated at the FWTP to 155 CFS (100 MGD) and 50,000 AFY (16,300 MG). This has happened twice since 1922 (i.e., a frequency of about two years out of every 100 years). Any additional water needs must be met by diversions at other locations and/or other sources.

**3.4.1.2 Hodge Flow Conditions**

Under the City’s PSA, the FWTP may divert up to 310 CFS (200 MGD) as long as the flow in the river is greater than the Hodge Flow Criteria during the period from June to August, generally the time of year when the City experiences the greatest demand for water. When the flow in the river is less than the Hodge Flow Criteria, the City must reduce diversions. The Hodge Flow Criteria changes in other parts of the year, but tends to be most significant in the hot summer months when demand is the greatest. When the river flow is below the

Hodge Flow Criteria during these months, diversions at the FWTP must not exceed 100 MGD. This limitation is not expected to interfere with the City serving retail demands until or after the year 2030.

### 3.4.1.3 Groundwater

The City has historically relied on groundwater to satisfy a portion of its demand. As previously discussed, the City overlies two subbasins of the Sacramento Valley Groundwater Basin (the North American and South American subbasins). The City is one of many water purveyors that utilize groundwater from the subbasins. Hence, the City pumps groundwater from both subbasins, although approximately 95 percent of the amount pumped by the City is pumped from the North American subbasin. The City pumped 17,772 AF (5,800 MG) of groundwater from the North American subbasin and 665 AF (220 MG) from the South American Subbasin for potable water consumption in 2010. The Sacramento Valley groundwater basin is an unadjudicated basin.

### 3.4.2 System Capacity and Water Demand

Table 3.7 shows the Water System’s existing and future sustainable capacity to be considered for meeting existing and future water demand. Sustainable capacity is the treatment capacity that can be provided 24 hours per day 365 days per year while meeting all water quality goals. The Water System CIP includes upgrades and rehabilitation of the SRWTP, FWTP, and related facilities (including wells) that are designed to increase the total sustainable capacity to 280 MGD by 2016.

<b>Table 3.7 Sustainable Treatment Capacity in Million Gallons per Day Bond Feasibility Report City of Sacramento</b>		
	<b>Existing</b>	<b>Future<sup>(1)</sup></b>
SRWTP	135	160
FWTP <sup>(2)</sup>	100	100
Groundwater Wells	20	20
<b>Total</b>	<b>255<sup>(3)</sup></b>	<b>280</b>
<b>Notes:</b>		
(1) Total future capacity is based on the Water System CIP including upgrades and rehabilitation of the SRWTP, FWTP, and related facilities that are designed to increase the sustainable capacity to 280 MGD by 2016.		
(2) While the permitted capacity is 160 MGD, the City’s Water Forum diversion restrictions limit FWTP diversions to 100 MGD when lower American River flows fall below the Hodge Flow Criteria.		
(3) Compare to the average daily production rate and average daily maximum month production rate over the last three years of approximately 105 MGD and 169 MGD, respectively (see Table 3.3).		

Table 3.8 presents projected maximum daily demands through year 2035 assuming no change in wholesale and wheeling customers. The City wholesales water to the California American Water Company (Cal Am), Fruitridge Vista Water Company, and the Sacramento Suburban Water District (SSWD), wholesales/wheels water to the Sacramento County Water Agency (for service to Sacramento International Airport and Metro Air Park), and wheels water to the Sacramento County Water Agency (for South Sacramento Zone 40 service area). Each of these customers has an agreement stating specific maximum rates of treated City surface water it receives utilizing “firm capacity.” Firm capacity is defined as the capacity in the City’s treatment and transmission facilities to divert, treat, and deliver surface water on an equal priority to the use of such capacity to meet demands of the City’s retail customers, with two exceptions: (1) The maximum rate specified in the Cal Am agreement is reduced when flows in the lower American River at the City’s FWTP fall below the Hodge Flow Criteria; and (2) No water is delivered to SSWD when flows in the lower American River at the City’s FWTP fall below the Hodge Flow Criteria. The City also wheels water to the Sacramento County Water Agency Zone 40 under an agreement that provides “non-guaranteed” capacity for this purpose, which means that the City’s other capacity demands take priority over the use of this non-guaranteed capacity to wheel water to Zone 40. These maximum rates are shown as maximum daily demands estimated in Table 3.8. Depending on the agreement, the City meets these single-day demands using surface water and/or groundwater production.

<b>Table 3.8 Maximum Daily Demand – Future City Retail Demand with Existing Wholesale and Wheeling Customers Bond Feasibility Report City of Sacramento</b>						
<b>Customer</b>	<b>Demand, Million Gallons Per Day</b>					
	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>	<b>2035</b>
City of Sacramento Retail Demand	169	240	234	246	259	281
Sacramento International Airport and Metro Air Park	2.8	2.8	2.8	2.8	2.8	2.8
California American Water Company	1.1	2.3	2.3	2.3	2.3	2.3
Sacramento County Water Agency Zone 40	11	11	11	11	11	11
Fruitridge Vista Water Company	3.2	3.2	3.2	3.2	3.2	3.2
<b>Total</b>	<b>187</b>	<b>259</b>	<b>253</b>	<b>265</b>	<b>278</b>	<b>300</b>
Source: 2010 Urban Water Management Plan.						

The City has sufficient water supply entitlements to meet projected water demands during various hydrologic conditions to the year 2035 and therefore, is not currently seeking additional surface water supply. However, as discussed previously, the City does not have

sufficient diversion or treatment capacity to use 100 percent of its ultimate surface water entitlements during all hydrologic conditions.

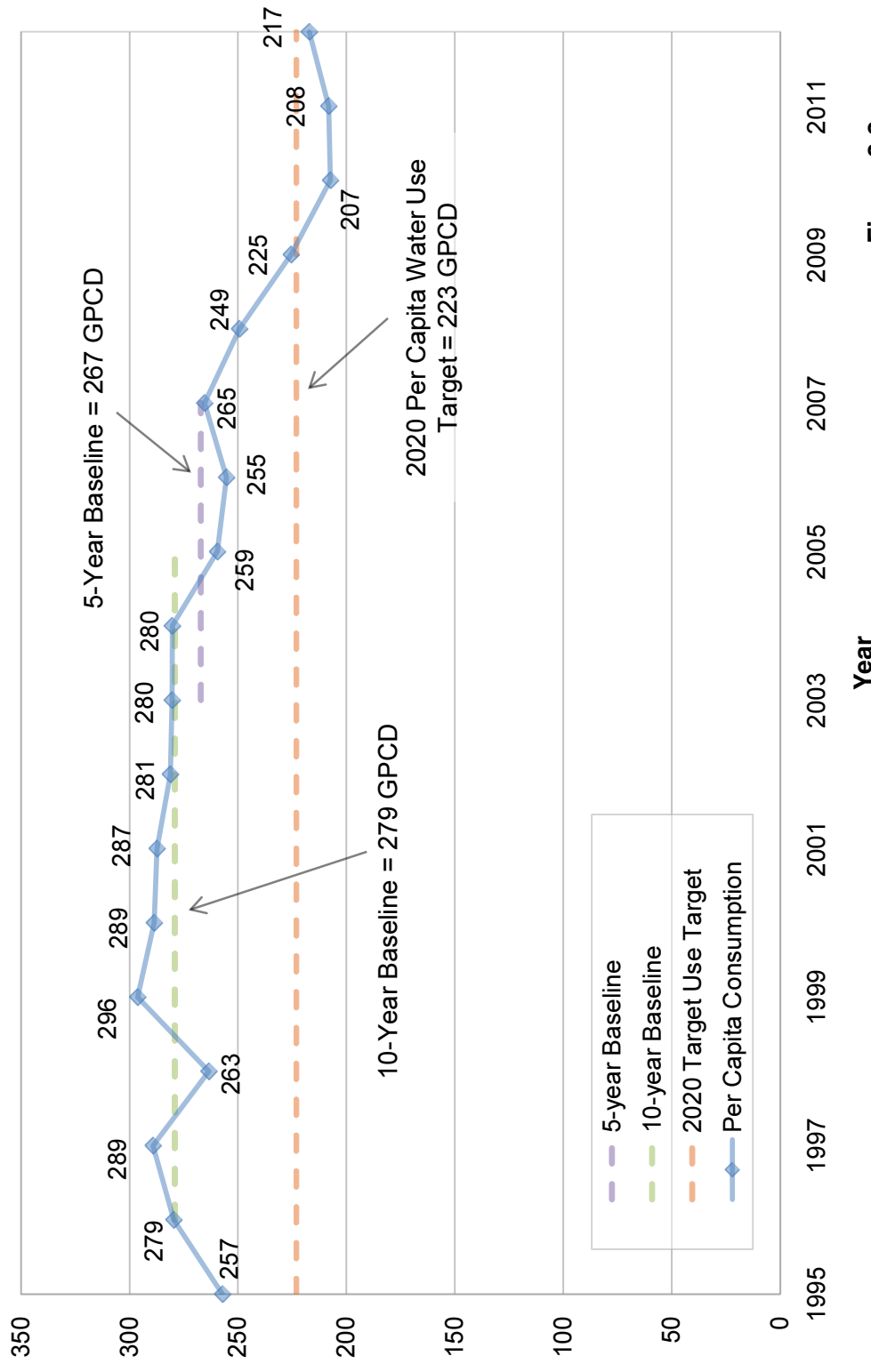
The City does have sufficient water production capacity to the year 2030 during below Hodge Flow Criteria conditions assuming 1) plant rehabilitation projects scheduled in the Series 2013 Project are constructed at the SRWTP and 2) no additional wholesale and wheeling customers are served.

Water demands served by the City are primarily residential, but also include commercial, institutional, and landscape irrigation. In 2010, the City maintained approximately 53,200 water meters, which represents nearly 40 percent of the total connections in the service area. The City classified these meters into the following categories: 43,148 single-family residential, 2,113 multi-family residential, 5,975 commercial, 642 institutional, and 1,320 landscape irrigation.

The Urban Water Management Planning Act (UWMPA) requires urban water suppliers to determine interim and urban water use targets for 2015 and 2020, respectively. The City determined its 10-year baseline water use of 279 gallons per capita per day (GPCD) and urban water use targets in accordance with methods described in the State of California Department of Water Resources (DWR) 2010 UWMP Guidebook. The 2015 target of 251 GPCD and 2020 target of 223 GPCD water uses were both higher than the 2011 per capita water use of 208 GPCD as shown in Figure 3.3. If the City can maintain its low water consumption rates, it will meet the 2020 conservation goals. However, it is unknown if this level of use will continue in future years, since it is likely influenced by the economic slowdown and other factors that may change in future years. If consumption rates begin to rise above interim and 2020 target water use goals, the City will need to implement additional conservation measures to meet its 2020 goals.

Figure 3.3 also shows how per capita water demands have been decreasing in the City since the year 2000, with dramatic decreases observed since 2008. There are a number of reasons for the decreasing trend in water demands, including:

- The City's increased water conservation efforts, including the revitalization of the City's Water Conservation Ordinance adopted in December 2009 which outlines how customers can save water outdoors through adjusting their irrigation schedule and other measures, as well as enforcement measures including fines for repeat water waste offenders;
- Newer buildings constructed with water conserving fixtures;
- Recession impacts (i.e., increased vacancies and reduced economic activity);
- Replacement of dilapidated water pipelines and subsequent reduction of leaks;
- Increased public awareness of drought conditions and the reduced supplies in the Sacramento-San Joaquin Delta; and



) DCP & not p musnoCred a Wati pa CrEP

**Figure 3.3**  
**Historical Per Capita Water Consumption**

Bond Feasibility Report  
 City of Sacramento



- Meter retrofit program making customers with meters more conscious of the water use through economic incentives.

City staff anticipates bringing an updated Water Conservation Plan (WCP) to the City Council in March 2013 for adoption. The WCP identifies the funding and programs required to meet the targets discussed above.

### **3.5 CONCLUSIONS**

Conclusions made at the time of this Report include:

- The City's drinking water is in compliance with all current federal and State drinking water standards and the City is positioned to meet the challenges imposed by future changes and additions to those regulations. While the City has included the estimated cost of compliance with regulatory requirements in its projected operating results, there can be no assurances that compliance with existing or future requirements will not significantly exceed such estimates.
- Even considering diversion constraints, the City has sufficient water rights and entitlements (including demand reduction plans to accommodate a shortfall in supply during an extremely dry year), and expects to have sufficient capacity, to divert and treat water to serve retail demand until the year 2035 or later.



---

## CAPITAL IMPROVEMENT PROGRAM

The purpose of this section is to explain the methodologies used in developing and managing the CIP for the Water System. Additionally, this section presents the type and magnitude of projects that have been completed in the last five years by the City for the Water System. Finally, a 5-year investment strategy is presented for improving the Water System infrastructure.

### 4.1 CIP DEVELOPMENT AND MANAGEMENT

A CIP consists of projects undertaken by the City for the rehabilitation, replacement, and/or improvement of an existing capital asset, or construction or acquisition of a new capital asset. The Water System's CIP addresses capital needs over a 30-year period and has been developed to achieve three primary objectives:

- To fully comply with regulatory, legislative, and other requirements;
- To accelerate Water System infrastructure replacement to the "Best Practices" level; and
- To improve the Water System as necessary to meet level of service objectives.

In developing a multi-year CIP for the Water System, the City prioritizes mandated or regulatory projects and R&R projects based on an assessment of the condition of assets and the long-term viability of their use in meeting the performance and quality standards required and expected for providing ongoing, uninterrupted service to its customers. This process develops the R&R portion of the CIP. The regulatory and R&R portion of the CIP is funded through water rates. The CIP is designed to address necessary improvements and expansions to the Water System based upon forecasts of future growth and development in the City. In addition to the currently planned CIP described in this section and the City's 2005 Water Master Plan, the City also expects to issue an updated Water Master Plan prepared by West Yost and Associates in the Spring of 2013. Capacity related projects required to meet increased water demands for growth over the next 30 years have been identified in the 2013 Water Master Plan. Growth driven improvements and expansions to the Water System infrastructure may be required and could be substantial. The City's policy is that new development would bear the cost of these growth-related expansions or improvements, and therefore the costs of these expansions or improvements are not included in the projected operating results or the planned CIP costs. These projects will only be constructed as projected development occurs and are expected to be funded using impact fee revenues and/or developer built and dedicated.

Proposed CIP projects are reviewed first by the appropriate operating divisions of the Department. R&R projects are prioritized and presented for funding based upon the

criticality and condition of the asset and the level of funding estimated to be available for the coming FY and subsequent FYs. The Budget, Policy & Strategic Planning Division of the Department of Finance of the City reviews the proposed projects and prepares the CIP for submittal to the Mayor and City Council by May 1<sup>st</sup> of each year. The proposed CIP is presented, discussed, and acted upon by the Mayor and City Council in public session during the budget hearings. Members of the community can comment on the proposed CIP and provide input to the Mayor and City Council during the hearing process. The City Council can make changes to the proposed CIP and then take action on final project approval for inclusion in the Approved Capital Improvement Program Budget and Program.

The capital projects addressed in this Report are site specific and have a defined budget and completion date. This section identifies the Water System's 5-year CIP for the Forecast Period. This CIP includes the following:

- Projects expected to be funded using proceeds from the Series 2013 Bonds, including the timing and expenditures. The project funds derived from the Series 2013 Bonds are expected to be expended over a 36-month period following the issuance of the Series 2013 Bonds expected in March 2013.
- Other projects that are anticipated to be constructed using other funding sources (such as pay-as-you-go and projected Series 2016 Bonds) and/or are projected to be constructed outside of the 36-month expenditure period.

#### **4.1.1 Asset Management**

Utility systems are capital intensive and require ongoing maintenance, repair, and replacement to sustain the integrity of the infrastructure. In 2008, the City, with assistance from its consultant Brown and Caldwell, originally developed an asset management program for the Water System. The goal of this program is to achieve a fair to good condition of infrastructure used to supply, treat, convey, and deliver water, including many of the critical pipelines, treatment plants, reservoirs, and wells. Actual remaining life of these assets depends on many variables, including soil conditions, pipeline material, etc. Some assets are past their useful life including the older portions of the SRWTP and water distribution lines exceeding a service life of 80 to 100 years. These portions of the SRWTP along with a portion of the distribution lines will be rehabilitated or replaced with projects financed by the proceeds from the Series 2013 Bonds. Historic investment has been insufficient to fund an industry best practice 100-year replacement cycle for pipelines. The three-year rate program, presented to the Sacramento City Council in March 2012, is a first step in moving forward on a best practice 100-year replacement program. This program will require continued support and funding by City Council to achieve the best practice 100-year replacement cycle.

While catastrophic failures of critical facilities have been relatively few, the condition of the aging infrastructure is such that breakdowns, which could cause wide-ranging impacts,

will become more likely with increased level of repair and replacements of the Water System. Even without major failures, maintenance costs of the Water System are increasing and the levels of service City customers and ratepayers expect are becoming more difficult to meet due to regulatory mandates and the aging facility condition. To address this issue, the City has been utilizing an asset management approach to develop a CIP program to repair, replace, or rehabilitate aging infrastructure in a timely, cost-effective manner.

This approach systematically incorporates infrastructure criticality, condition assessment, life cycle costing, and prioritized replacement timetables. The approach includes the following steps:

- Identifying assets (i.e., taking inventory of all Water System assets, collecting data, and storing information on a geographic information system (GIS) database);
- Assigning a level of relative criticality to these assets;
- Evaluating, where applicable and practical, the condition of these assets to identify those nearing failure;
- Determining how and when assets are likely to fail, based on collected data; and
- Prioritizing rehabilitation projects based on anticipated failure rate and potential impact of failure.

The projects generated involve upgrades to or replacement of existing facilities and additions or extensions of existing facilities in response to ongoing development, which is compatible with the City's General Plan. This approach enables the City to prioritize its R&R efforts, and to maintain higher service levels while attempting to efficiently use its limited resources to achieve its performance goals.

The City has identified several objectives and long-term benefits of its asset management program, including, but not limited to, the following:

- Better operational decision making;
- Greater ability to plan and pay for future R&R projects;
- Increased knowledge of critical and non-critical Water System assets;
- Better defined capital projects that more efficiently meet the needs of the Water System;
- Extended useful lives of assets; and
- Improved ability to meet service expectations and regulatory requirements.

## 4.2 PROGRAM MANAGEMENT/PROJECT DELIVERY

The Water System CIP development and delivery (i.e., implementation) process is as follows:

- CIP projects are developed and prioritized based on the asset management approach and a risk assessment analysis. General project descriptions and cost estimates are prepared for each project;
- City Council approves the annual CIP budget and the proposed projects based on prioritized projects and available funding;
- Individual CIP projects are assigned to project managers from the Engineering Services Division of the Department. The more complicated projects are assigned to the more senior project managers. The CIP section for the Water System has a supervising engineer, three senior engineers, an associate engineer, and two engineering technicians that plan, design and manage the construction of a variety of projects including pipelines, meter retrofits, water storage tanks, pump stations, water treatment plants, and miscellaneous facility improvements. The City utilizes consultants for specialty work such as master planning, water treatment plant design, geotechnical studies, surveying, and structural analysis. Other engineers in the division and outside consultants are also utilized to manage water projects;
- Project managers develop a project report that details the project objective, cost, schedule, and identifies potential conflicts that could impact the schedule and cost. Projects are input into a project management database that is used as a tool to track each project through the construction and delivery process;
- Projects that require design work typically go through a preliminary, 30 percent, 60 percent, 90 percent, and final design review process. The project managers typically solicit input from the Department's Plant and Field Services divisions, and as necessary, the City's Department of Public Works and Building Division of the City's Community Development Department;
- Project managers prepare construction bid packages for each project that typically include plans, specifications, and cost estimates. Projects are typically subject to a public bid between four to six weeks depending on the complexity of the project. Typically, the responsive low bidder is awarded the project with City Council approval;
- Projects are assigned a construction inspector from the City's Department of Public Works. Large and more complex projects may require a consultant for inspection and construction management;
- If a construction change order is over 10 percent of the overall contract amount and/or \$100,000, City Council approval is required; and

- The Department benchmarks the success of CIP projects based on three key performance indicators: 1) project delivery costs are under 33 percent of the construction cost, 2) construction change orders are less than 10 percent of the construction cost, and 3) all tasks (“punch list” items) associated with a final close out of a project are completed within 120 days of notice of completion.

### 4.3 CAPITAL IMPROVEMENT PROGRAM

The City has completed approximately 33 projects within the Water System over the last 5 years. Table 4.1 summarizes the amount spent on the projects in each of several project categories.

<b>Table 4.1 Summary of Water System Project Expenditures in Past Five Years (thousand dollars)</b>						
<b>Bond Feasibility Report</b>						
<b>City of Sacramento</b>						
<b>Project Type</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>Total</b>
Development	109	216	41	30	-	<b>396</b>
Improvement	1,455	648	3,828	3,756	2,498	<b>12,185</b>
IT	150	18	148	6	21	<b>343</b>
Maintenance	1,888	323	21	-	-	<b>2,232</b>
O&M <sup>(1)</sup>	186	7	100	189	122	<b>604</b>
Regulatory	3,609	3,115	20,315	13,160	7,253	<b>47,452</b>
Rehabilitation	2,917	3,067	4,688	2,707	6,501	<b>19,880</b>
<b>Total</b>	<b>10,314</b>	<b>7,394</b>	<b>29,141</b>	<b>19,848</b>	<b>16,395</b>	<b>83,092</b>
Note:						
(1) Includes capitalizable O&M only.						

These projects were largely funded using reserves, grants, loans, and annual rate revenues. In addition, the City funded part of the water meter program through a 2009 ARRA loan.

### 4.4 5-YEAR STRATEGY

In order to meet the immediate needs of the Water System, a specific 5-year CIP program has been developed. As opposed to the more general 30-year CIP, the 5-year CIP program identifies specific projects for funding. As noted above, the Water System CIP includes the mandated water meter retrofit program, the rehabilitation of the SRWTP and FWTP, and, in an effort to phase in water infrastructure investment to achieve sustainable (best practices) levels, well rehabilitation, and pipe replacement in the distribution and transmission main systems. In addition to capital investment, the CIP includes continuity of existing production, maintenance and regulatory activities, as well as addressing new

regulatory requirements that are performed as part of the City's production and maintenance activities.

#### 4.4.1 5-Year (FY 2013 to FY 2017) CIP Projects

The projects scheduled for the FY 2013 to FY 2017 period are for upgrades to the SRWTP and FWTP, the water meter retrofit program, rehabilitation, and replacement of distribution pipelines, groundwater well rehabilitation, and other miscellaneous projects. These FY 2013 to FY 2017 project costs are summarized in Table 4.2. The costs include a contingency that accounts for unanticipated failures due to the increased risk (e.g., uncertain belowground conditions) associated with aging infrastructure.

<b>Project Type</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>Total</b>
Water Treatment Plants Rehabilitation	2,564	71,084	80,190	20,140	10,650	184,628
Water Meter Program/Pipeline Replacement	18,088	51,204	6,784	44,638	42,009	162,723
Groundwater Wells Rehabilitation	1,418	3,771	1,440	3,394	2,958	12,982
Other	4,577	5,689	6,583	24,423	35,107	76,379
<b>Total</b>	<b>26,647</b>	<b>131,748</b>	<b>94,997</b>	<b>92,595</b>	<b>90,724</b>	<b>436,711</b>

#### 4.4.2 5-Year (FY 2013 to FY 2017) CIP Funding Sources

The anticipated funding sources for the FY 2013 to FY 2017 CIP expenditures (adjusted for inflation) are the Series 2013 Bonds with proceeds in the amount of \$239.5 million and the projected Series 2016 Bonds with proceeds in the amount of \$216.0 million to fund capital projects through FY 2018. Proceeds from the Series 2013 Bonds will fund a portion of the project costs. The City also anticipates funding \$49.5 million of capital through pay-as-you-go using annual rate revenues. As mentioned, a debt issuance in FY 2016 would be required to fund the last two years of the 5-year CIP.

In order to provide a source of funding for the implementation of the first three years of the 5-year CIP, the City Council adopted a program of rate increases for the three fiscal years (beginning in FY 2013 through FY 2015). The rate adjustments that took effect July 2012 were presented to the City Council in March 2012 and are part of a comprehensive finance plan that proposes a mix of bond and cash financing that allows the City to invest in Water System infrastructure and meet regulatory requirements while smoothing rate increases and avoiding rate spikes for Water System customers. The long-term financing plan gradually builds up the cash funding portion and decreases the debt financing component to ultimately achieve a sustainable "pay-as-you-go" funding program.

One of the key objectives of the 3-year CIP and rate package is to fund the long-term debt for the Series 2013 Bonds. City Council has not yet approved the long-term CIP and associated debt and rate increases beyond the 3-year period. However, as part of the rate adoption process, City staff informed the City Council of the Water System's long-term regulatory and infrastructure needs (beyond three years) and projections of the corresponding rate increases that would be necessary to support the CIP. While no assurances can be provided, it appears reasonable to believe that the City Council will continue to invest in the long-term capital and infrastructure needs of the Water System in order to implement both their short-term and long-term investment strategies.

#### 4.5 THE SERIES 2013 PROJECT

The Series 2013 Project consists of a portion of the Water System's five-year CIP to be funded from the proceeds of the Series 2013 Bonds and Water System revenues.

Table 4.3 identifies costs associated with major elements of the Series 2013 Project, followed by short descriptions of those elements.

<b>Table 4.3 Summary of Costs for the Major Elements of the Series 2013 Project (thousand dollars) Bond Feasibility Report City of Sacramento</b>	
<b>Major Element</b>	<b>Estimated Project Costs<sup>(1)</sup></b>
Water Treatment Plants Rehabilitation	
Bond Financing <sup>(2)</sup>	161,000
Pay-as-you-go Financing	0
Water Meter Program/Pipeline Replacement	
Bond Financing <sup>(2)</sup>	65,500
Pay-as-you-go Financing	11,700
Groundwater Wells Rehabilitation	
Bond Financing <sup>(2)</sup>	6,300
Pay-as-you-go Financing	0
Other	
Bond Financing <sup>(2)</sup>	6,700
Pay-as-you-go Financing	9,300
<b>Total</b>	<b>260,500</b>
Notes:	
(1) Estimated project costs are escalated through FY 2016.	
(2) Funded by Series 2013 Bond proceeds.	

Municipal water and wastewater agencies have experienced a favorable construction market partially due to the downturn in the overall U.S. construction market. The projected construction costs are rough estimates that are based on the best-known information at the date of this Report and are considered reasonable. In the latter part of 2012, construction costs have increased. The costs of projects to be bid in the latter part of the next 36 months are susceptible to change with a change in the construction market.

#### **4.5.1 Series 2013 Project Elements**

The Series 2013 Project consists of improvements throughout the Water System.

##### **4.5.1.1 Water Treatment Plants Rehabilitation**

The rehabilitation projects needed to maintain and optimize capacity at SRWTP and FWTP were previously developed as part of the “*SRWTP and EAFWTP Capacity Optimization, Remaining Life, and Reliability Improvement Study*” dated February 2009 based on the capacity and condition of the facilities. The proposed rehabilitation projects were selected in order to restore the SRWTP capacity to 160 mgd and improve efficiency and reliability at both plants. At the date of this Report, the estimated project cost<sup>1</sup> for the WTPs Rehabilitation is approximately \$161 million, and is based on the selected construction cost bid of approximately \$113.8 million submitted January 30, 2013. A bid protest was filed with the City contending that the bid submitted contained an arithmetic error that renders the bid non-responsive. The written decision of the hearing examiner is expected to be issued by April 1, 2013. Details regarding the bid protest are discussed in the Preliminary Official Statement. The City believes that any project delays or cost increases which might reasonably be expected to result from the bid protest (including the potential rebidding of the portion of the Series 2013 Project consisting of the rehabilitation of SRWTP and FWTP) would not materially adversely affect the ability of the City to provide water to customers of the Water System or to pay debt service with respect the Series 2013 Bonds.

Rehabilitation of the SRWTP includes the construction of new pretreatment and filtration facilities in order to restore rated capacity. Additional improvements to address efficiency and reliability include, but are not limited to, a new high service pump station, a new primary electrical substation, and mechanical solids handling facilities. Improvements at the FWTP include new mechanical solids handling equipment.

##### **4.5.1.2 Water Meter Program/Pipeline Replacement**

California legislation enacted September 29, 2004 requires the installation of water meters on all existing non-metered water service connections by 2025. The Department

---

<sup>1</sup> The estimated project cost is the cost the City should expect to pay from start to finish of the project and includes costs for engineering, legal and administration fees. Engineering, legal, and administration fees include consultant costs for detailed design, construction services, as well as internal City costs associated with legal and administration.



presented a 20-year meter retrofit plan in 2005 that anticipated 144 new projects to be completed over a 20-year period. There were approximately 108,000 (municipal and commercial) unmetered services in the City at the onset of the Water Meter Program in 2005. At the date of this Report, an estimated 33,000 meters have been installed and approximately 6,000 meters will continue to be installed every year until completion in 2025. According to the legislation, all customers with a meter must be charged a metered rate after one year of comparative service charges.

Approximately one-third of the meters to be installed in the City are in neighborhoods with old, backyard water mains. The City will continue its current practice of abandoning backyard water mains and constructing new mains in the street in conjunction with the installation of meters in these neighborhoods. This approach of replacing old backyard water mains in conjunction with the water meter retrofit program has been approved by City Council and verified as a practical, cost effective approach through an independent assessment by CH2M Hill. It will also provide for easier access to and maintenance of the mains and associated facilities with significantly less disruption to City residents and their property. The joint construction project will include the following: installation of a new water main in the street, meter installation, and new water service to the house, as well as abandonment of backyard water mains.

As noted above, the backyard main replacement program the City is implementing is supported by data, analyses, and findings from previously prepared reports, including the *“Water Infrastructure Condition Assessment & Criticality Methodology Project: Review Water Meter Retrofit Program”* dated May 2012, developed by CH2M Hill. The total cost of the City’s 20-year water meter retrofit program is currently estimated to be \$396.4 million (in 2011 dollars) with a significant portion of that estimate (about 76 percent) for the backyard main replacement projects. Only \$57.8 million of this work has currently been completed, leaving a significant portion to be undertaken in the next 12 years. The City will be increasing spending on this program to be able to comply with the legislative mandate. Failure to do so could put the City out of compliance and jeopardize the ability to obtain State grant funding.

The City’s water R&R program includes replacement of aging infrastructure, including water distribution and transmission mains, that have exceeded their useful life based on age (assuming a 80 to 100-year replacement cycle), as well as other factors such as leak history and pipe material. Results of this analysis will include replacing aging “in street” mains within proposed water meter projects. The City is incorporating the pipe replacement program into the water meter retrofit program so that “in street” distribution and transmission pipes that are at the end of their useful life will be replaced in conjunction with the water meter projects.

At the date of this Report, the estimated project cost for the water meter program and the pipeline replacements in the Series 2013 Project is \$77.2 million.

#### **4.5.1.3 Groundwater Wells Rehabilitation**

The Series 2013 Project includes rehabilitation of six wells, including new pumps, motors, chemical feed systems, electrical switchgear, and monitoring equipment where necessary. At the date of this Report, the estimated project cost for rehabilitation of groundwater wells in the Series 2013 Project is \$6.3 million.

#### **4.5.2 Permits and Approvals**

Acquisition and construction of the various components of the Series 2013 Project requires certain governmental permits and approvals, including demonstration of compliance with the California Environmental Quality Act (CEQA). For the component that entails rehabilitation of the WTP, the City complied with CEQA by adopting a mitigated negative declaration and filing a notice of determination with the Sacramento County Clerk/Recorder in April 2012. The balance of the Series 2013 Project consists of several smaller components that by their nature qualify as categorically exempt from CEQA under the CEQA Guidelines (14 Cal. Code Regs., tit. 14, §§ 15301, 15302, 15303):

- Repair or minor alteration of existing public structures, facilities, and mechanical equipment involving negligible or no expansion of use (e.g., meters, pipelines, fire hydrants, gate valves, fluoride equipment, reservoirs, office building);
- Replacement or reconstruction of existing structures and facilities where the new structures will be on the same site and have substantially the same purpose and capacity (e.g., fire hydrants, gate valves, fluoride equipment, backflow-prevention devices); and
- Construction and location of limited numbers of new, small facilities or structures, and installation of small new equipment and facilities in small structures (e.g., pipeline replacement and meter retrofit, new backup engine, new storage building).

#### **4.5.3 Project Management**

The City is committed to delivering projects that are to be funded with the proceeds from the Series 2013 Bonds within 36 months of bond issuance expected in March 2013. A three-prong approach is in place to meet this commitment:

1. The City hired MWH as the construction manager to oversee completion of the Water Treatment Plants Rehabilitation Project.
2. The City hired CH2M Hill to evaluate the water meter and lateral (i.e., pipeline) replacement program. CH2M Hill has also confirmed the cost estimates and overall program scope.

3. The City will use a combination of in-house staff and outside consultants to complete the remaining Water System projects, which are primarily water meter and pipe replacement projects.

The treatment plant rehabilitation is a large project and will be delivered with the aid of outside firms. The water meter, pipeline replacement, and groundwater well rehabilitation projects comprise approximately 32 percent of the total CIP over the 36 month period. These projects are more routine activities for the Department's engineering group and the City is confident that it can deliver this program in the course of its normal activities, which will include the use of in-house resources and outside firms as necessary.

The City's program management approach is consistent with industry practices. Carollo believes, based on the City's plan, it is reasonable to expect that the City can deliver the projects on time. The City will monitor progress over the 36-month period. If the City experiences unforeseen difficulty implementing the Water System's CIP, the City can and will rely on external support to deliver the Water System's CIP without delay.

## **4.6 CONCLUSIONS**

Conclusions made at the time of this Report include:

- The Department's CIP addresses the most critical aboveground and belowground vulnerabilities as identified by the City's asset management program and the Department's internal organizational audit;
- The Department's CIP projects over the Forecast Period to be funded by the Series 2013 Bonds implement treatment and distribution facility modifications and are required to improve operations and continue to comply with current federal and State regulatory requirements;
- Projects included in the Department's CIP over the Forecast Period have been estimated based on known regulatory requirements and conform to industry standard engineering practices. Project cost estimation procedures appear to be reasonable, and the construction schedules are achievable given implementation of effective construction management and program management;
- As presented within this Report, the City is projected to expend approximately \$436 million (in escalated dollars) between FY 2013 and FY 2017, inclusive of approximately \$161 million rehabilitation of the water treatment plants. The City anticipates spending an additional estimated \$1,400 million to \$1,500 million (in escalated dollars) between FY 2018 and FY 2042 to complete the water meter retrofit program and continue Water System rehabilitation projects. These expenditures represent a reasonable level of reinvestment in order to support a sustainable Water System based on known and reasonably predicted requirements; and

- The projects to be financed by proceeds of the Series 2013 Bonds are the highest priority projects of the Water System required to protect public health and keep the Water System in a state of good repair, based on known Water System conditions.

---

## FINANCIAL PERFORMANCE

The following section presents an analysis of Water System financing and revenues, including discussions of financial planning and management, water rates, historical and projected operating results, capital financing, and water rate comparisons. All data presented herein were supplied by the City.

### 5.1 FINANCIAL PLANNING AND MANAGEMENT

An overview of the Department's financial planning process follows.

#### 5.1.1 Financial Planning

The Department operates under a set of business principles presented within Section 2.2 of this Report. These business principles serve as the foundation for the Department's financial planning process, which consists of the development of a long-term financial plan, preparation of an annual budget request, performing routine revenue requirement analyses, review of the rate setting and implementation process with the URAC (see Section 5.1.1.3), and annual approval of budgets by the City Council.

##### 5.1.1.1 Development of a Financial Plan

The Department works in conjunction with other City departments, Sacramento County, regional, State, and federal agencies in the development and rehabilitation of Water System infrastructure. Part of this effort includes the development of long-range financial plans to evaluate alternatives for funding its capital and operational needs related to the Water System. The current version of the Financial Plan for the Water System was presented to the City Council on March 27, 2012. The Plan included a 30-year Water Infrastructure Investment Program (Program) and a three-year rate plan, which allows the City to begin to implement the Program.

To develop the Plan, proposed CIP and operational revenue requirements were consolidated and reviewed against available funding over the Forecast Period. As necessary, the CIP and operating expenditures were re-examined for potential reductions and for opportunities to reschedule projects based on a prioritization of needs. The assumptions regarding inflation, customer growth, interest earnings, and other financial parameters reflect the City's estimates and are presented in the following sections.

Following completion of the FY 2012 rate adoption process, the City refined the CIP based on current construction estimates and submitted bids, updated the FY 2013 budget estimates and FY 2014 projections, and incorporated bond sizing and debt service requirements. The following sections reflect the updated forecast and Pro Forma for FY 2013 through FY 2017 developed by the City and reviewed by the Consulting Engineer.

### **5.1.1.2 Preparation of Annual Budget Request**

The Department submits the annual budget request for review and eventual inclusion within the City Manager's budget proposal submitted to the Mayor and City Council by May 1<sup>st</sup> of each year preceding the start of the FY (July 1).

### **5.1.1.3 Utilities Rate Advisory Commission**

The City acknowledges that public involvement is critical to garnering and maintaining support for the Department's activities and funding levels. To this end, the Department increased its public involvement and outreach efforts during the recent rate adoption process. As recognition of these efforts, the City was awarded the 2012 ACWA Best in Blue Award for communication excellence, which honors outstanding public water agency efforts in communicating with customers, legislators, media, the public, and others.

The City Council also formed the URAC in 2008 to provide input to the Mayor and City Council on the City's utility service rates. The main tasks of the URAC include:

- Provide an avenue for residents to actively participate in setting rates;
- Provide a sounding board for proposed utility rate changes;
- Work as a ratepayer and expert advisory panel to the Mayor and City Council; and
- Be a community liaison that provides information about utility service rates to the public and collects feedback from the public.

Through public surveys and the public outreach process, customer feedback indicated that the water and wastewater program and funding strategy should focus on the following:

- Continued high-level customer service;
- Environmental stewardship;
- Regulatory compliance;
- Investment in infrastructure;
- Identify and implement cost efficiencies;
- Plan for competitive credit rating/borrowing costs; and
- Competitive user rates, at-cost customer charges.

Based on these principles, the URAC reviewed and commented on the Department's proposed Plan, and ultimately made a recommendation that the City Council approve a three-year utility rate increase plan for the water and wastewater enterprise funds. These rate increases were presented to the City Council on March 27, 2012. The URAC supported the Department's pursuit of obtaining sufficient funding to meet infrastructure replacement needs through the issuance of the Series 2013 Bonds (expected in March 2013). Additionally, in supporting the proposed rate program and Series 2013 Bond issuance, the

URAC requested that City Council implement a low-income utility rate assistance program is funded by the City’s utility tax and create an oversight process for the delivery of the capital projects to be funded from proceeds of the Series 2013 Bonds. Because the low-income rate program would be funded using City tax revenues, no financial impact is anticipated to the Water System.

**5.1.2 Financial Guidelines**

The Department currently has guidelines to fund reserves and capital projects for the Water System. City Council has not adopted formal fiscal policies for the Department. In working with the URAC and the City’s financial advisory team, the Department used guiding business principles in development of the current three-year rate increases for the Water System. These business principles included the following:

- Maintain adequate working capital reserves;
- Evaluate establishing a Rate Stabilization Fund as part of the 2013 Series Bonds; and
- Strive to achieve a long-term pay-as-you-go funding strategy for capital replacements for Water System projects, with a focus on underground infrastructure.

**5.2 RATES AND CHARGES**

**5.2.1 Rates**

On March 27, 2012, a three-year rate increase for the Water System was presented to the City Council. The first increase was effective July 1, 2012. Table 5.1 shows the adopted percentage increases for FY 2011 through FY 2015, and the projected rate increases for FY 2016 and FY 2017 for residential and non-residential customers.

<b>Table 5.1 Rate Increases on Typical Water Service Charges Bond Feasibility Report City of Sacramento</b>							
	<b>Adopted</b>					<b>Projected</b>	
	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Residential	15.00%	0.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Non-Residential	15.00%	0.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Note:  
 (1) Increases for FY 2011 and FY 2012 are historic, and those for FY 2013 through FY 2015 are based on the March 2012 adopted rate increases, FY 2016 and FY 2017 are projected rate increases based on the City’s Pro Forma results, which are based on the Department’s capital investment plan. Rate increases in FY 2016 and FY 2017 are not approved and will require City Council approval.

It should be noted that the City has some wholesale water customers whose increases may vary compared to those noted in Table 5.1. These wholesale customers are a minor portion

of the Water System's annual revenues and currently account for approximately \$1 million per year. Revenue fluctuations are addressed below.

## **5.2.2 Revenue Collection Procedures**

The City charges the legal owner(s) of City parcels for water service connections to the City's water infrastructure. Water service connections include domestic potable, irrigation, and fire service. Service charges for water service are included on a monthly statement that may include other utility services provided by the City. Service charges are generated within 16 billing cycles per month. Typically, one cycle is charged per day.

Service charges are due 20 days from the statement generation date in accordance with the City Code, and late payment penalties are automatically assessed once an account becomes 15 days past due; which is 35 days from the statement date. A 10 percent late penalty is added to each service charge on the account for a single statement's current charges once it becomes 15 days past due. An additional 1.5 percent late penalty is added each month to the portion of the overall outstanding balance that is 45 days past due. A delinquency notice is generated to the legal owner(s) once an account becomes 45 days past due. If the account is not paid current, a lien is then assessed against the parcel at 75 days past due (95 days from statement date).

Annually, customers with delinquent accounts, that have a balance greater than 75 days past due, are noticed with a special assessment levy. Customers are given the opportunity to protest the charges and have a hearing before an independent hearing officer. Unpaid delinquent amounts are assessed to the County property tax statement annually during the Special Assessment Levy process, once approved by City Council in July of each year. (The City currently does not shut off water service for failure to pay for service charges.)

In the past two years, an average of 14,471 liens have been recorded against properties having delinquent service charges each year, and an average of 8,747 properties have had levies placed on their property tax statement. The number of liens and levies represent the properties that had at least one delinquent utility service charge. Since 2010, an annual average of \$1.4 million in late fees has been assessed on utility statements for past due water service charges, and an annual average of \$3.6 million in delinquent water service charges have been placed on delinquent customers' property tax statements as a special assessment levy.

The use of liens to secure the payment of delinquent charges and late fees is an effective tool to ensure collection of delinquent accounts. If a property changes ownership and there is a lien on the property, the title companies issue a demand notice and payment is made to the utility. If a subject property is foreclosed and a Trustee Deed is in place, the lien with respect to the utility statements is removed (without payment of the delinquent amounts). Accounts with these types of foreclosures as well as accounts that close with delinquent



amounts less than 75 days past due, these are sent to a collection agency that then pursues collection of the unpaid amount on the closed accounts.

Table 5.2 shows unpaid water charges collected through the lien and special assessment processes, which the City was unable to collect through the lien process described above. When establishing rates each year, the City takes into account projected amounts of charges that it will be unable to collect.

<b>Table 5.2    Uncollected Water System Charges (thousand dollars)</b>					
<b>Bond Feasibility Report</b>					
<b>City of Sacramento</b>					
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Uncollected Charges	605	1,476	1,123	1,121	1,024
Note: This table shows unpaid water charges collected through the lien and special assessment processes.					

### **5.2.3    Impact Fees**

The City assesses impact fees to new developments connecting to the Water System. Impact fees are a one-time charge to purchase capacity within the Water System, paying a proportionate share of the infrastructure costs required to provide service to the development. Impact fee revenues may be used to pay for future capital expansion costs or debt obligations the proceeds of which were used for Water System expansion purposes.

Annual impact fee revenues were less than \$3 million in FY 2011 and FY 2012. Due to the uncertain nature of annual impact fee revenues, the forecast presented within this report assumes no additional impact fee revenues. However, the City does project minimal growth during the Forecast Period.

## **5.3    REVENUE NEEDS**

The water rate increases for FY 2013 through FY 2017 as shown in Table 5.1 are largely driven by capital program needs, including the rehabilitation of the SRWTP and FWTP and the water meter retrofit program, ongoing operating costs, and debt repayment costs. These expenditures were forecasted based on utility planning schedules and the Department provided escalation factor projections. Costs can be grouped into four major categories: production and maintenance; non-discretionary fixed costs; regulatory and other; and capital.

### **5.3.1    Production and Maintenance**

While production and maintenance costs compose a large percentage of total Water System expenditures, cost increases are only slightly above projected Consumer Price Index (CPI) increases.

### **5.3.2 Non-Discretionary Fixed Costs**

Non-discretionary fixed costs are composed of indirect costs and property tax assessments.

### **5.3.3 Other Expenses**

Beyond the core current budget, the City will collect rate revenues to meet added regulatory requirements, fund prudent working capital fund reserves, and meet other miscellaneous expenditure requirements. Total regulatory costs associated with multi-year operating projects are projected to cost roughly \$3 million annually over the Forecast Period.

### **5.3.4 Capital Expenses**

Capital expenditures can be broken into five major components: treatment plant rehabilitation; the water meter retrofit program; pipeline replacements and rehabilitation; groundwater well rehabilitation; and other ongoing capital R&R of aging infrastructure. The City is projected to expend \$436.7 million (escalated) on the Water System capital program between FY 2013 and FY 2017. The rehabilitation of the SRWTP and FWTP is projected to cost \$184.6 million through FY 2017 and is the largest capital expenditure. An additional \$146.3 million (escalated) is projected to be expended on the water meter program.

Capital expenditures are to be funded through a combination of direct rate funding, debt financing, and use of fund balances on hand. Annual capital expenditures for the Water System range from \$26.6 million in FY 2013 to \$131.7 million in FY 2014 and an average of \$93 million between FY 2015 through FY 2017. While water production and other operating expenditures remain relatively steady over the Forecast Period, reserve set asides and capital expenditures fluctuate annually. Ongoing operation expenses, debt service, and pay-as-you-go capital funding must be funded through rate revenues, wholesale rates, other miscellaneous revenues, and reserves.

### **5.3.5 General Fund Tax**

The voter approved general fund tax, which is currently 11 percent of collected utility rate revenues and thus increases proportionally with any rate adjustments, is expected to increase by \$4.8 million over the Forecast Period. The general fund tax is an inter-fund transfer and is not included in the definition of System Revenue or maintenance and operating expenditures as defined by the Indenture of the Series 2013 Bonds.

The City Council may impose a tax rate higher or lower than the 11 percent on one or more of the enterprises, so long as the total tax paid by all of the enterprises does not exceed 11 percent of the total gross revenues from user fees and charges of all of the enterprises combined.

The City currently imposes the tax at the rate of 11 percent of the collected utility user fees of each of the enterprises. In preparing the budget for the Water System each year, the City takes into account the requirement that 11 percent of collected utility user fees be paid as

the tax, and sets rates and charges accordingly. The City estimates the total amount of the general tax that will be due, and by the first day of each month during the FY, one-twelfth of that amount is recorded to the General Fund on the City's books from the receipts of the Water System. At the end of each FY, the City compares the total amount of monthly amounts allocated to 11 percent of the actual collected utility user fees of the Water System, and reconciliation is made between the Water Fund and the General Fund.

## **5.4 HISTORICAL PERFORMANCE**

The City has maintained water rates and charges at levels sufficient to fund operating expenditures, and existing debt service and bond coverage requirements. However, the City has not fully funded Water System replacements due to limited rate revenues.

Total revenue from service charges has increased annually, resulting largely from the rate increases and growth in number of customer accounts. Total operating revenues, including rate revenues, impact fees, and miscellaneous revenues, have increased from \$72.9 million in FY 2008 to \$86.6 million in FY 2012.

### **5.4.1 Expenses**

Total operating costs increased from \$41.7 million in FY 2008 to \$43.2 million in FY 2012.

### **5.4.2 Historical Operating Results**

For the period FY 2008 through FY 2012, the Department maintained sufficient net revenues to fund operating expenditures and debt service requirements.

Table 5.3 presents a brief overview of the financial performance of the Department from FY 2008 through FY 2012.

### **5.4.3 Historical Capital Improvements**

Over the last five years, the City has completed 33 projects in the Water System totaling approximately \$83.1 million, which is an average of \$16.6 million per year. Table 5.4 illustrates these annual expenditures.

<b>Table 5.3 Historical Operating Results (thousand dollars)</b>					
<b>Bond Feasibility Report</b>					
<b>City of Sacramento</b>					
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Operating Revenues<sup>(1)</sup></b>					
User Fees & Charges <sup>(2)</sup>	62,305	61,415	67,928	78,845	79,758
Impact Fee Revenue <sup>(3)</sup>	284	10,742	401	2,694	2,193
Interest Earnings	2,580	2,249	1,662	1,306	1,072
Other Revenues	2,822	1,204	2,535	470	99
Transfers In <sup>(4)</sup>		914	10	10	54
Grants and Other Capital Contributions <sup>(3)</sup>	4,955	6,462	9,584	5,966	2,397
Revenues from Other Agencies <sup>(5)</sup>					980
<b>Total Operating Revenues</b>	<b>72,946</b>	<b>83,031</b>	<b>82,120</b>	<b>89,291</b>	<b>86,553</b>
<b>General Fund Tax Transfer Out<sup>(6)</sup></b>	<b>(6,670)</b>	<b>(6,616)</b>	<b>(7,327)</b>	<b>(8,738)</b>	<b>(8,439)</b>
<b>Operating Expenses<sup>(1)</sup></b>					
Employee Services	21,722	23,952	23,425	23,360	23,409
Services and Supplies	20,008	21,084	15,232	16,943	19,774
<b>Total Operating Expenses</b>	<b>41,730</b>	<b>45,036</b>	<b>38,657</b>	<b>40,303</b>	<b>43,183</b>
<b>Net Revenues</b>	<b>24,546</b>	<b>31,379</b>	<b>36,136</b>	<b>40,250</b>	<b>34,931</b>
<b>Debt Service<sup>(7)</sup></b>					
2005 Refunding Bonds <sup>(8)</sup>	2,968	3,204	3,190	3,180	3,181
2006 Capital Improvement Bonds <sup>(8)</sup>	7,317	8,014	8,005	7,997	7,989
ARRA Loan	-	-	-	34	141
<b>Total Debt Service</b>	<b>10,285</b>	<b>11,218</b>	<b>11,195</b>	<b>11,212</b>	<b>11,311</b>
Notes:					
(1) This historical summary of the Comprehensive Annual Financial Report (CAFR) results for the Water Fund includes revenue and expense amounts, which have been excluded from Table 5.8 due to the provisions of the Indenture. Examples include restricted grants, and development impact fee-funded capital projects, which provide for future facilities, but not current ratepayers.					
(2) User fees and charges include rate revenue and wholesale water sale revenue.					
(3) Impact Fee Revenue and Grants and Other Capital Contributions are reported combined in the CAFR as Capital Contributions.					
(4) Transfers in are generally income derived from fleet vehicle sales. The \$914,000 transfer reported in FY 2009 was a refund of excess contributions from the City's workers compensation fund.					
(5) Prior to FY 2012, revenue from operating grants and other agreements were shown in the CAFR in the Miscellaneous line. Beginning with FY 2012, these amounts are shown in the CAFR in the Revenue from Other Agencies line.					
(6) The voter-approved general fund tax is equal to 11 percent of the collected utility rate revenue.					
(7) With the exception of the ARRA Loan, Debt Service includes both principal amortization and interest expense. Debt Service for the ARRA Loan through FY 2012 is associated with interest expenses only with principal amortization to begin in FY 2013.					
(8) Existing payments by the Water Fund to the City's General Fund to cover existing General Fund debt for water-related facilities associated with the City's Master Lease revenue Bond Program. The Water Fund revenue is utilized, but not directly pledged, to make debt service payments. See "Security and Sources of Payment for the Bonds – Other Outstanding Obligations" discussion in the Official Statement.					

<b>Table 5.4 Summary of Water System Project Expenditures in Past Five Years (thousand dollars) Bond Feasibility Report City of Sacramento</b>						
<b>Project Type</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>Total</b>
Development	109	216	41	30	-	<b>396</b>
Improvement	1,455	648	3,828	3,756	2,498	<b>12,185</b>
IT	150	18	148	6	21	<b>343</b>
Maintenance	1,888	323	21	-	-	<b>2,232</b>
O&M <sup>(1)</sup>	186	7	100	189	122	<b>604</b>
Regulatory	3,609	3,115	20,315	13,160	7,253	<b>47,452</b>
Rehabilitation	2,917	3,067	4,688	2,707	6,501	<b>19,880</b>
<b>Total</b>	<b>10,314</b>	<b>7,394</b>	<b>29,141</b>	<b>19,848</b>	<b>16,395</b>	<b>83,092</b>
Note: (1) Includes capitalizable O&M only.						

## 5.5 FORECASTED PERFORMANCE

Based upon available information and expected revenues, expenditures, debt service, reserve balances, and the City's Pro Forma, the City is projected to meet operational and debt obligations of the water enterprise fund over the Forecast Period. These findings are based on the adopted FY 2013 through FY 2015 rates and projected FY 2016 and FY 2017 rates presented in Table 5.8.

### 5.5.1 Water Fund Resources and Requirements

Anticipated increases beyond the three-year adopted rate plan assume that the City will continue to invest in infrastructure replacement and that operating costs will continue to increase at stated escalation levels. It should be noted that the City Council only adopted rate increases through FY 2015, consistent with the capital expenditure period for projects or partial projects to be funded with the Series 2013 Bonds. These increases are specifically intended to fund projected production and maintenance expenditures, debt issuance, and pay-as-you-go capital funding through FY 2015. The City will be required to set rates at specified levels to meet its operating and debt service obligations and coverage under the Indenture. The City should continue to fund Water System replacements. The conclusions of this Report are premised on the City Council continuing its support of the Department's infrastructure replacement program for the Water System.

Annual revenue from water rates is projected to increase based on the adopted rate increases. Other revenue sources include impact fees, interest revenue, and other fees and charges. As stated previously, impact fee revenues are projected to be negligible and are excluded from net revenue for calculation of debt coverage requirements.

### **5.5.1.1 Revenue Requirements Forecast**

Annual Water System revenues must be sufficient to fund production and maintenance, annual debt service requirements, reserve targets, and cash funded capital projects. After General Fund Tax transfers, annual Water System revenues are projected to increase from \$77.5 million in FY 2013 to \$110.9 million in FY 2017, based on adopted rate increases and projected rate revenue increases. Over the same time duration, operating and debt service expenses are projected to increase from \$60.3 million to \$95.3 million. This forecast is also based on the City's assumptions that approximately 6,000 residential service charge accounts will be transitioned from the flat to the metered water rate annually and per capita metered water usage levels will remain level.

Operating expenses include salaries, non-salary personnel costs (e.g., retirement and health benefits), current expenses (e.g., materials, supplies, and contractual services), administrative support, equipment, office space rental, and payments to other City agencies. The operating expense forecast reflects the Department's existing operating budget, assumed cost escalation factors, as well as adjustments for one-time expenses and operational efficiencies. While the Department will reevaluate cost escalators annually based on actual performance, the following escalation assumptions serve as the basis of the financial analysis within this Report:

- General Inflation – 2 percent in FY 2013, 2.5 percent in FY 2014 and 3 percent thereafter.
- Construction Cost Inflation – 3.5 percent annually.
- Labor Inflation (including OPEB) – 1 percent in FY 2014 and FY 2015, and 5.3 percent thereafter.
- Utilities Inflation – 5 percent annually.
- Fuel Inflation – 11 percent annually.
- Chemicals Inflation – 6 percent annually.

Table 5.5 summarizes the forecast sources of funds and revenues and operating expenditures for the Water System through FY 2017. The City Council has adopted rate increases from FY 2013 through FY 2015. During the 2012 rate adoption process, projected rate increases for FY 2016 and FY 2017 were presented to the City Council as informational. The rate revenue increase projections assume that the City would continue the long-term system reinvestment program beyond the Series 2013 Project. The City Council has not yet adopted the projected rate increases in FY 2016 and FY 2017. Projected system-wide average water rate increases through FY 2017 were shown in Table 5.1.

Total debt service requirements are projected to increase through FY 2017 based on the issuance of the Series 2013 Bonds and projected Series 2016 Bonds. The CIP was presented

<b>Table 5.5 Operating Revenues and Expenditures (thousand dollars) Bond Feasibility Report City of Sacramento</b>					
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Operating Revenues</b>					
Utility Rate Fees <sup>(1)</sup>	84,358	92,521	101,420	111,108	121,478
Wholesale Water Sales	997	997	997	997	997
Water Impact Fees <sup>(2)</sup>	-	-	-	-	-
Interest Earnings <sup>(3)</sup>	400	473	517	566	618
Miscellaneous Revenues	1,026	1,052	1,083	1,116	1,149
<b>Total Operating Revenues</b>	<b>86,780</b>	<b>95,043</b>	<b>104,017</b>	<b>113,787</b>	<b>124,242</b>
<b>General Fund Tax<sup>(4)</sup></b>	<b>(9,279)</b>	<b>(10,177)</b>	<b>(11,156)</b>	<b>(12,222)</b>	<b>(13,363)</b>
<b>Total System Revenues</b>	<b>77,501</b>	<b>84,865</b>	<b>92,861</b>	<b>101,565</b>	<b>110,879</b>
<b>Maintenance and Operation Costs</b>					
Employee Services <sup>(5)</sup>	(23,725)	(23,962)	(24,202)	(25,485)	(26,835)
Services and Supplies <sup>(6)</sup>	(23,712)	(25,176)	(26,578)	(27,618)	(28,539)
<b>Total Maintenance and Operation Costs</b>	<b>(47,438)</b>	<b>(49,138)</b>	<b>(50,780)</b>	<b>(53,103)</b>	<b>(55,375)</b>
<b>(Deposit to) / Withdrawal From Rate Stabilization Fund<sup>(7)</sup></b>	<b>-</b>	<b>(2,496)</b>	<b>(1,028)</b>	<b>-</b>	<b>(2,847)</b>
<b>System Net Revenues</b>	<b>30,063</b>	<b>33,231</b>	<b>41,053</b>	<b>48,462</b>	<b>52,658</b>
Notes:					
(1) Utility rate increases of 10 percent are approved for FYs 2013, 2014 and 2015. Rate increases of 10 percent from FY 2016 onward are not approved and will require City Council Approval.					
(2) Water development impact fee revenue is estimated at \$0 before FY 2015 to account for the zero growth assumption. Beginning in FY 2016, account growth is estimated at 2 percent, but impact fees continue to be estimated at \$0 to be conservative.					
(3) Interest Earnings on the Water Fund are estimated at 0.5 percent of the Water Fund revenue collected in each year.					
(4) The voter-approved General Fund Tax is equal to 11 percent of the collected utility user fees. Please see Section 5.3.5 for more information on this tax.					
(5) Employee Services cost increases are subject to approval by the City Council. There is an assumption of 1 percent increase per year attributable to rising pension costs. After FY 2015, Employee Services is estimated to increase by 5.3 percent per year, of which 1 percent is attributable to pension costs.					
(6) Services and Supplies costs include annual increases of 5 percent for utilities, 11 percent for fuel, and 6 percent for chemicals. All other Services and Supplies are expected to increase 2.0 percent in FY 2013, 2.5 percent in FY 2014, and 3.0 percent every year thereafter.					
(7) Adjustments to the Rate Stabilization Reserve Fund are estimated to result in a Rate Stabilization Reserve that is equal to 25 percent of all debt service (parity, subordinate and unsecured).					

in detail in Section 4. The 5-year CIP will be funded predominantly through debt proceeds (reflected in the increased debt service shown in Table 5.8) and net operating revenues.

### **5.5.2 Capital Financing**

Capital costs are to be funded through a combination of direct rate funding, debt financing and use of fund balances on hand. Excluding the General Fund Tax, annual operations and maintenance expenditures for the Water System range from \$47.4 million to \$55.4 million over the Forecast Period. Including debt service, rate funded additions to the rate stabilization fund, and pay-as-you-go capital funding, expenditures range from \$67.4 million to \$107.4 million.

Table 5.6 illustrates the forecast resources and requirements for the CIP through FY 2017. The Series 2013 Bonds will fund \$239.5 million in capital projects. A second debt issuance is currently projected in FY 2016, with net proceeds totaling \$216 million. Table 5.7 presents the forecast debt service requirements for existing and planned future debt obligations.

### **5.5.3 Forecast Operating Results and Debt Service Coverage**

Table 5.8 presents forecast operating results and debt service coverage for the Forecast Period. Water System revenues, including water rate revenues, interest income, and other charges are estimated to total \$77.5 million in FY 2013, and are projected to increase to \$110.9 million in FY 2017.

If there is significant growth, improvements and expansions to the Water System may be required and could be substantial depending on the level of growth expected at the time. The City's policy is that new development would bear the cost of these growth-related expansions or improvements, and therefore the costs of these expansions or improvements are not included in the projected operating results or the planned CIP costs. It is reasonably anticipated that these projects will be funded through impact fees or direct developer contributions.

The legal debt service coverage requirement is 1.20 times the annual required debt service on Bonds and Parity Obligations, 1.10 times for Bonds, Parity Obligations, and Subordinate Obligations, and 1.00 times for all obligations. Based on the forecast net revenues and projected annual debt service requirements (including debt service on planned additional bonds), the projected coverage exceeds the debt service coverage requirements in each year of the Forecast Period.

## **5.6 RATE COMPARISON**

The City's FY 2013 water rates are within the range of other nearby service providers and comparable national agencies. A comparison of typical FY 2013 monthly single-family water service charges is shown in Figure 5.1. Table 5.9 shows the projected average single-family monthly metered rate for the City through FY 2017.

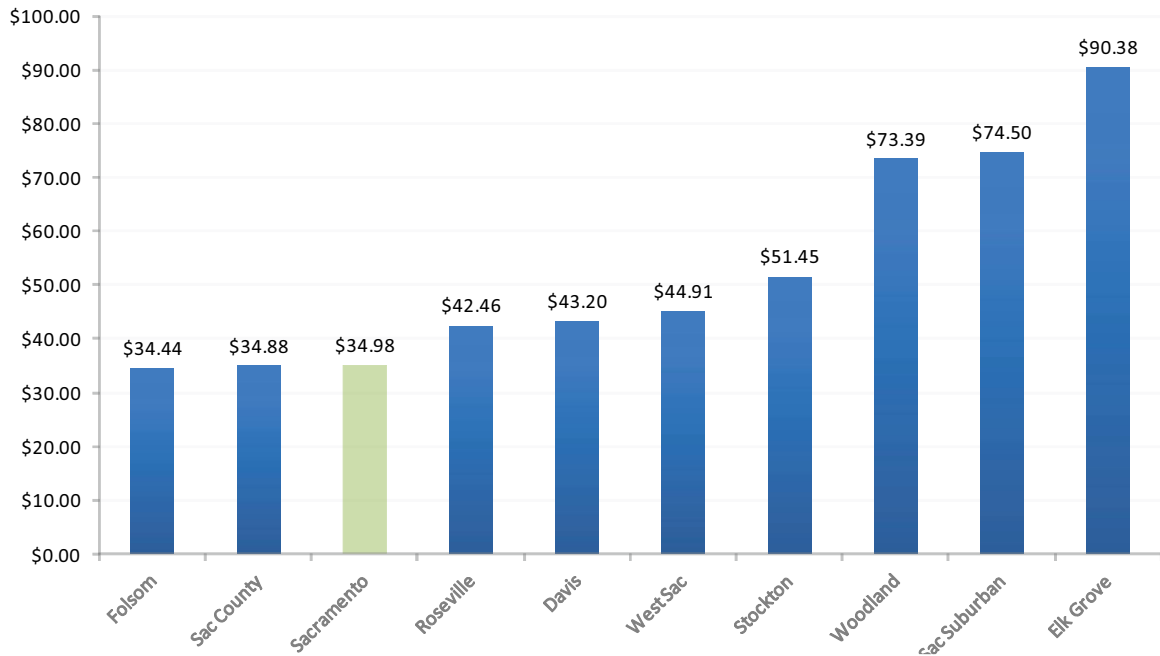


<b>Table 5.6 CIP Cash Flow (thousand dollars) Bond Feasibility Report City of Sacramento</b>					
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>CIP Project Costs</b>	26,647	131,749	94,997	92,595	90,725
<b>Funding Sources</b>					
PAYGO/Rate Financing	7,000	4,000	10,000	19,500	9,000
Use of Impact Fee Balance	-	-	-	-	-
Grant Financing	-	-	-	-	-
Use of Bond Proceeds (Series 2013)	19,647	127,749	84,997	7,107	-
Use of Bond Proceeds (Series 2016)	-	-	-	65,988	81,725
<b>Total CIP Funding</b>	<b>26,647</b>	<b>131,749</b>	<b>94,997</b>	<b>92,595</b>	<b>90,725</b>
<b>Bond Issuance Detail</b>					
Bond Proceeds for Projects	239,500	-	-	216,000	-
Plus: Issuance Costs	2,003	-	-	2,521	-
Plus: Reserve Amount	7,009	-	-	8,029	-
<b>Total Bond Proceeds</b>	<b>248,512</b>	<b>-</b>	<b>-</b>	<b>226,550</b>	<b>-</b>

<b>Table 5.7 Projected Debt Service (thousand dollars) Bond Feasibility Report City of Sacramento</b>					
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Parity Obligations and Bonds</b>					
California Department of Public Health Loan (ARRA Loan) <sup>(1)</sup>	469	702	702	702	702
Water Revenue Bonds Series 2013	-	9,731	14,011	14,017	14,016
Water Revenue Bonds Series 2016 <sup>(2)</sup>	-	-	-	-	11,941
Subtotal Parity Obligations and Bonds Debt Service	469	10,433	14,714	14,719	26,659
<b>Subordinate Obligations</b>					
Subordinate Debt Service (N/A at this time)	-	-	-	-	-
Subtotal Subordinate Obligations Debt Service	-	-	-	-	-
<b>Unsecured Obligations <sup>(3)</sup></b>					
2005 Refunding Revenue Bonds - Plant Expansion	7,511	7,597	7,591	7,586	7,577
2006 Capital Improvement Bond, Series E - Plant Expansion	4,845	4,845	4,845	4,845	4,845
Subtotal Unsecured Obligations Debt Service	12,356	12,442	12,436	12,431	12,422
<b>Total Water Fund Debt Service (Parity/Bonds + Subordinate + Unsecured)</b>	<b>12,825</b>	<b>22,875</b>	<b>27,149</b>	<b>27,149</b>	<b>39,081</b>
<b>Debt Service Coverage Requirement Compliance</b>					
Parity Obligations and Bonds	64.08 x	3.19 x	2.79 x	3.29 x	1.98 x
Parity / Bonds + Subordinate Obligations + Unsecured Obligations	2.34 x	1.45 x	1.51 x	1.79 x	1.35 x
Notes:					
(1) Pursuant to the terms of the Funding Agreement between the California Department of Public Health and the City, deposits to the reserve fund must be made over the first ten years of the loan repayment term. The amounts shown here include \$31,926 per semiannual payment for this purpose					
(2) The assumed par amount of Bonds in FY 2016 is approximately \$227 million and an interest rate of 5.75 percent with a partial year interest payment in FY 2017.					
(3) Existing payments by the Water Fund to the City's General Fund to cover existing General Fund debt for water-related facilities associated with the City's Master Lease revenue Bond Program. The Water Fund revenue is utilized, but not directly pledged, to make debt service payments. See "Security and Sources of Payment for the Bonds – Other Outstanding Obligations" discussion in the Official Statement.					

<b>Table 5.8 Projected Operating Results (thousand dollars) Bond Feasibility Report City of Sacramento</b>					
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Operating Revenues</b>	86,780	95,043	104,017	113,787	124,242
General Fund Tax Transfer Out	(9,279)	(10,177)	(11,156)	(12,222)	(13,363)
<b>System Revenues</b>	77,501	84,865	92,861	101,565	110,879
Less: Operating Expenses	(47,438)	(49,138)	(50,780)	(53,103)	(55,375)
Less: Rate Stabilization Contributions	-	(2,496)	(1,028)	-	(2,847)
<b>System Net Revenues Available for Debt Service</b>	30,063	33,231	41,053	48,462	52,658
Annual Debt Service	(12,825)	(22,875)	(27,149)	(27,149)	(39,081)
<b>Total Net Revenue</b>	17,238	10,356	13,904	21,313	13,577
<b>Debt Service Coverage Requirement Compliance</b>					
Parity Obligations and Bonds	64.08 x	3.19 x	2.79 x	3.29 x	1.98 x
Parity / Bonds + Subordinate Obligations + Unsecured Obligations	2.34 x	1.45 x	1.51 x	1.79 x	1.35 x
<b>Cash Funding</b>	(7,000)	(4,000)	(10,000)	(19,500)	(9,000)
<b>Net Change to Unrestricted Water Fund Balance</b>	10,239	6,355	3,905	1,813	4,577
Beginning Balance <sup>(1)</sup>	11,267	21,506	27,861	31,766	33,579
Ending Balance	21,506	27,861	31,766	33,579	38,156
<b>Notes:</b>					
(1) The Beginning Unrestricted Fund Balance is based on the City's budgetary basis of accounting which treats purchase order encumbrances and multi-year project appropriations as expended in the year appropriated. As a result, the Beginning Unrestricted Fund Balance is significantly lower than the unrestricted cash and investments reported in the City's CAFR. The FY 2013 Beginning Unrestricted Water Fund Balance has been reduced by approximately \$3.22 million to reflect the funding of the initial deposit to the Department's Rate Stabilization Fund.					

Figure 5.1 Regional Water Rate Comparison for Fiscal Year 2013



Note: Assumed usage is based on 18 ccfs of consumption per month and 1-inch meter size.

<b>Table 5.9 Projected Average Single-Family Monthly Metered Rate Bond Feasibility Report City of Sacramento</b>					
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Charges</b>					
Average Monthly Single Family Metered Water Rate	34.98	38.49	42.35	46.59	51.25
Increase Over Prior Year	3.19	3.51	3.85	4.24	4.66

## 5.7 PRINCIPAL ASSUMPTIONS

The financial forecast presented in this Report represents a preliminary assessment by the Department of projected operating results for the Forecast Period. Carollo has reviewed the forecast, its underlying analysis and assumptions, and finds it to be sound and feasible. The Department's revision of its financial forecast in future years could result in changes to its projected operating results.

In developing the financial forecast, the Department relied on certain assumptions related to future Water System conditions. There will usually be differences between assumed and actual conditions because events and circumstances frequently do not occur as expected,

and those differences may be significant. Any material changes in these assumptions would impact the findings as defined in this Report.

The principal assumptions used in the forecast are:

- Capital expenditures are assumed to be incurred as reflected in Table 5.6 in order to meet regulatory needs, rehabilitation of existing facilities, and other capital program needs. The capital expenditures reflect an average inflation factor of 3.5 percent.
- Rate increases through FY 2015 (identified in Table 5.1) are assumed to be implemented on schedule.
- The feasibility analysis assumes 10 percent increases in FY 2016 and FY 2017. Rate increases in FY 2016 and FY 2017 are not approved and will require City Council approval. The City will be required to revise as necessary in the future to accommodate any additional operating expenditures, reserve funding needs, and/or capital improvement requirements.
- Interest earnings on cash balances are assumed to be 0.5 percent of the Water Fund revenue collected each year.
- All future debt service reserve requirements are expected to be funded from revenue bond proceeds.
- The projected Series 2016 Bonds are assumed to be issued at an interest rate of 5.75 percent.
- Bond issuance costs for the Series 2013 Bonds are estimated at 1 percent of the total par amount (issuance costs include Underwriter's discount and other costs of issuance.)
- Any future rate structure changes will conform to established system-wide revenue requirements and statutory requirements.
- Operating expenditures are projected to total \$47.4 million in FY 2013. Operation and maintenance costs will increase to \$55.4 million in FY 2017. Included in these operating expenditures are employee services costs. Employee services cost increases are subject to approval by the City Council. There is an assumption of one percent increase per year attributable to rising pension costs. After FY 2015, employee services is estimated to increase by 5.3 percent per year, of which one percent is attributable to pension costs.
- No catastrophic events resulting from natural or human causes will occur that will have a substantial adverse impact on the integrity of the Department's facilities or the activities of customers served.

## 5.8 CONCLUSIONS

- The principal assumptions used in the financial forecast are reasonable given recent experience and current economic conditions. Variations in actual inflationary or interest rates may cause subsequent adjustments to future financial plans.
- Projected operating results for the Forecast Period presented within the City's Pro Forma, which is a forecast of System Net Revenues, debt service, cash funding, and unrestricted Water Fund balance, are consistent with the Department's established business principles and debt service coverage requirements, and will provide funding necessary to implement the CIP as currently envisioned. The City's Pro Forma was developed independent of Carollo and was a collaborative effort among the Department, the City Treasurer's Office, and Goldman, Sachs & Co. Carollo has reviewed the City's Pro Forma, which serves as the basis of the findings of this Report. The projected charges will provide revenue sufficient to:
  - Meet currently projected costs of operation, maintenance, and routine replacement of Water System facilities.
  - Meet the existing debt service obligations and the projected requirements for the Series 2013 Bonds, the Parity Obligations, the existing obligations, and future bond issues.
  - Provide sufficient revenue to pay the costs of the Department's CIP through the end of the Forecast Period.
  - Meet coverage requirements of the Indenture.
- Average monthly residential service charges are forecasted to increase from \$34.98 for a typical single-family metered residential customer in FY 2013 to \$51.25 in FY 2017 based on a meter water charge of 18 hundred cubic feet (ccf) of water demands per year and across-the-board rate increases. Flat meter charges are projected to increase from \$37.79 to \$55.35 between FY 2013 and FY 2017 for the average flat residential monthly rate.

---

## ATTACHMENT A - REFERENCES

The following documents were used in the development of the Consulting Engineers and Bond Feasibility Report. The various background documents, statements, and other information supplied by the Department of Utilities have been relied upon and, unless otherwise expressly indicated, Carollo has made no independent investigation as to the validity, completeness, or accuracy of such information.

- 2010 Urban Water Management Plan. October 2011. By Carollo Engineers for the City of Sacramento Department of Utilities.
- 2012 Meter Records.
- California Department of Water Resources Guidebook to Assist Urban Water Suppliers to Prepare a 2010 Urban Water Management Plan. March 2011. Prepared by City of Sacramento.
- City and County Combined Wastewater Operation and Maintenance Agreement. November 2009.
- City of Sacramento Capital Improvement Programming Guide. Draft June 2012. City of Sacramento Department of Utilities.
- City of Sacramento Charter. Accessed December 14, 2012.  
[http://www.qcode.us/codes/sacramento/view.php?topic=city\\_of\\_sacramento\\_charter](http://www.qcode.us/codes/sacramento/view.php?topic=city_of_sacramento_charter)
- City of Sacramento Citywide Financial and Operational Review. April 2010. Prepared by Management Partners, Inc.
- City of Sacramento Climate Action Plan. Final Draft January 2012. Prepared by City of Sacramento in consultation with Ascent Environmental, Inc., Mintier Harnish, Fehr & Peers, and The Energy Alliance Association.
- City of Sacramento Department of Utilities Utility Rate Financial Plan. Draft July 2012. FCS Group.
- City of Sacramento Sewer System Management Plan 2008-2009.
- City of Sacramento Utility Billing Audit. June 6, 2012. Prepared by Macias Consulting Group, Inc. for the Sacramento City Auditor's Office.
- City of Sacramento Water Distribution Master Plan. October 2005. By West Yost & Associates for the City of Sacramento Department of Utilities.
- Interviews/teleconferences with Department staff.
- Preliminary Hydraulic Analysis Separated Sewer Basins. Draft November 2009. City of Sacramento Department of Utilities.
- Sacramento 2030 General Plan. March 2009. Prepared by City of Sacramento in collaboration with other consultants.

- Sacramento Department of Utilities Operational Efficiency and Cost Savings Audit. April 29, 2011. By Public Financial Management, Inc., Diemer Engineering, Inc., EMA, Inc., and Gershman, Brickner & Bratton, Inc. for the Office of the City Auditor.
- SRWTP and EAFWTP Capacity Optimization, Remaining Life, and Reliability Improvement Study. February 2009. Prepared by Carollo Engineers for the City of Sacramento Department of Utilities.
- Water Conversation Study. Draft July 2012. Prepared by FCS Group for the City of Sacramento Department of Utilities.
- Water Forum Agreement. January 2010.



**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS OF THE CITY**

The audited financial statements of the City have been prepared in accordance with generally accepted accounting principles. The projected operating results and certain other information presented in the Official Statement and in the Feasibility Consultant's Report have been prepared in accordance with the requirement and definitions contained in the Indenture, which may differ from generally accepted accounting principles.

The audited financial statements include information concerning the City's General Fund and other funds, including the Water Fund and the funds relating to the City's wastewater system, solid waste system and stormwater drainage system. The Series 2013 Bonds are special obligations of the City, secured by and payable solely from the Trust Estate. No other funds of the City are available for payment of the Series 2013 Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]



# Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

CITY OF SACRAMENTO, CALIFORNIA

**City of Sacramento**

**California**

**Comprehensive Annual  
Financial Report**

**Fiscal Year Ended June 30, 2012**

**Prepared by the Department of Finance,  
Accounting Division**

**Leyne Milstein, Director of Finance  
Dennis Kauffman, Accounting Manager**

# CITY OF SACRAMENTO, CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

### TABLE OF CONTENTS

#### **INTRODUCTORY SECTION**

**PAGE**

Letter of Transmittal .....	i
Organization Chart .....	v
Directory of City Officials .....	vi
GFOA Certificate .....	vii

#### **FINANCIAL SECTION**

Independent Auditor's Report .....	1
Management's Discussion and Analysis (Required Supplementary Information) .....	3

#### **BASIC FINANCIAL STATEMENTS**

Government-wide Financial Statements:	
Statement of Net Position .....	19
Statement of Activities .....	20
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	24
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds .....	26
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	27
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances to the Statement of Activities - Governmental Funds .....	28
Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) with Budget to GAAP Reconciliation – General Fund .....	30
Statement of Net Position – Proprietary Funds .....	32
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds .....	36
Statement of Cash Flows – Proprietary Funds .....	38
Statement of Fiduciary Net Position – Fiduciary Funds .....	42
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	43
Notes to the Financial Statements .....	45

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress – Pension Plans .....	99
Schedule of Funding Progress – Other Post Employment Benefits .....	100

#### **COMBINING FUND FINANCIAL STATEMENTS**

##### **Other Governmental Funds**

Combining Balance Sheet – Other Governmental Funds .....	101
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds .....	102

# CITY OF SACRAMENTO, CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

### TABLE OF CONTENTS, Continued

Other Governmental Funds	PAGE
Special Revenue Funds:	
Combining Balance Sheet .....	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	106
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, Transportation and Development Special Revenue Fund .....	108
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, Culture and Leisure Special Revenue Fund .....	109
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, Parks and Recreation Special Revenue Fund .....	110
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, CCOMWP Special Revenue Fund .....	111
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, Special Districts Special Revenue Fund .....	112
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, CAL EPA Special Revenue Fund .....	113
Other Debt Service Funds:	
Combining Balance Sheet .....	115
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	118
Other Capital Projects Funds:	
Combining Balance Sheet .....	123
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	124
Permanent Funds:	
Combining Balance Sheet .....	126
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	128
Other Proprietary Funds	
Other Enterprise Funds:	
Combining Statement of Net Position .....	132
Combining Statement of Revenues, Expenses and Changes in Fund Net Position .....	135
Combining Statement of Cash Flows .....	136
Water Fund:	
Combining Statement of Net Position .....	140
Combining Statement of Revenues, Expenses and Changes in Fund Net Position .....	143
Combining Statement of Cash Flows .....	144
Wastewater Fund:	
Combining Statement of Net Position .....	148
Combining Statement of Revenues, Expenses and Changes in Fund Net Position .....	151
Combining Statement of Cash Flows .....	152

# CITY OF SACRAMENTO, CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

### TABLE OF CONTENTS, Continued

	PAGE
Other Proprietary Funds	
Internal Service Funds:	
Combining Statement of Net Position .....	156
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	159
Combining Statement of Cash Flows.....	160
Fiduciary Funds	
Investment Trust Funds:	
Combining Statement of Fiduciary Net Position .....	163
Combining Statement of Changes in Fiduciary Net Position .....	164
Agency Funds:	
Combining Statement of Fiduciary Assets and Liabilities.....	165
Combining Statement of Changes in Fiduciary Assets and Liabilities.....	166

### **STATISTICAL SECTION (Unaudited)**

Net Position by Component - Last Ten Fiscal Years .....	170
Changes in Net Position - Last Ten Fiscal Years.....	172
Fund Balances, Governmental Funds - Last Ten Fiscal Years .....	178
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years .....	180
Tax Revenues by Source, Governmental Funds - Last Ten Fiscal Years .....	182
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years.....	183
Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years.....	184
Principal Property Taxpayers - Current Fiscal Year and Nine Years Ago.....	185
Property Tax Levies and Collections - Last Ten Fiscal Years .....	187
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years.....	188
Ratios of Net General Bonded Debt Outstanding - Last Ten Fiscal Years .....	190
Direct and Overlapping Governmental Activities Debt - As of June 30, 2012.....	191
Legal Debt Margin - Last Ten Fiscal Years .....	192
Demographic and Economic Statistics - Last Ten Calendar Years.....	193
Principal Employers - Current Fiscal Year and Nine Years Ago .....	194
Successor Agency Trust Fund – Assessed Value of Taxable Property - Last Ten Fiscal Years .....	196
Successor Agency Trust Fund – Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction - As of June 30, 2012 .....	200
Successor Agency Trust Fund – Principal Property Taxpayers - Current Fiscal Year and Nine Years Ago .....	211
Successor Agency Trust Fund – Debt Coverage Analysis - Last Eight Fiscal Years .....	222
Full-time Equivalent Employees by Function/Program - Last Ten Fiscal Years .....	227
Operating Indicators by Function/Program - Last Ten Fiscal Years .....	228
Capital Asset Statistics by Function/Program - Last Ten Fiscal Years .....	229
Miscellaneous Statistics - Current Fiscal Year and Nine Years Ago.....	230

# Introductory Section





OFFICE OF THE  
CITY MANAGER

CITY OF SACRAMENTO  
CALIFORNIA

CITY HALL  
915 I STREET, 5<sup>TH</sup> FLOOR  
SACRAMENTO, CA  
95814-2604

PH 916-808-5704  
FAX 916-808-7618

December 28, 2012

Honorable Mayor, Members of the City Council  
and Citizens of the City of Sacramento:

We are pleased to transmit the Comprehensive Annual Financial Report (CAFR) of the City of Sacramento (City) for the fiscal year ended June 30, 2012. Article IX of the City Charter, as well as federal and state law, requires that the City issue an annual report on its financial position and activity, and that the report be audited by an independent firm of certified public accountants. Macias Gini & O'Connell, LLP, a statewide certified public accounting firm, performed the audit for the fiscal year ended June 30, 2012. Their unqualified ("clean") opinion has been included as the first component of the financial section of the CAFR.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

#### **PROFILE OF THE CITY**

The City of Sacramento, capital of the State of California, was established in 1849. The sixth largest city in California based on population, Sacramento also serves as the seat of Sacramento County government. The State of California Department of Finance estimates the population on January 1, 2012 at 470,956 for the City and 1,435,153 for the County of Sacramento. Encompassing 99 square miles, Sacramento is located in the northern section of California's Central Valley at the confluence of the Sacramento and American rivers.

Sacramento is a charter city operating under a Council-Manager form of government. The City provides a full range of municipal services including police, fire, emergency medical response, water, wastewater, storm drainage, solid waste, construction and maintenance of streets and parks, community development, recreational and cultural activities, economic development, and administrative services.

### Reporting Entity

This CAFR presents the financial status of the City and its four component units:

- Sacramento City Financing Authority (SCFA)
- Sacramento City Employees' Retirement System (SCERS)
- Successor Agency to the Redevelopment Agency of the City of Sacramento
- Sacramento Regional Arts Facilities Financing Authority (SRAFFA)

Component units are separate legal entities included in this report due to significant operational or financial relationships with the City.

The SCFA is reported on a blended basis as part of the primary government because its board is composed of all of the City Council members. The SCFA is an entity created to issue debt to finance City projects.

SCERS, a single employer pension plan for certain City employees and retirees, is reported as a fiduciary-type component unit. The SCERS pension plan was closed to new enrollment of employees in 1978.

The Successor Agency to the Redevelopment Agency of the City of Sacramento, created to serve as a custodian for the assets and to wind down the affairs of the former Redevelopment Agency of the City of Sacramento, is reported as a fiduciary-type component unit.

Discretely presented component units are legally separate and do not function as an integral part of the primary government. SRAFFA is reported in a separate column in the government-wide financial statements to differentiate its financial position and operational results from those of the City. SRAFFA was created for the purpose of financing the expansion of the H Street Theater complex.

### Budget Information

The City Charter requires that the City Manager submit a proposed budget to the City Council at least 60 days prior to the start of each fiscal year. Once approved by City Council, the annual budget serves as the foundation for the City's financial planning, control and reporting. Budgetary control is maintained at the department level by fund. Budgetary control for multi-year projects is maintained at the individual project level by fund. Additional budgetary information can be found in Note 1 to the financial statements and at the City of Sacramento's website.

## **LOCAL ECONOMY**

The regional economy and employment base continues in a long-term transition to expand beyond state government to health care and other private industries. The Sacramento region continues its work to diversify the economic base and is home to high-tech manufacturers, software development companies, biotechnology and medical research laboratories, food processors, and medical equipment manufacturers. The region is also a transportation hub served by air cargo airports, an international airport, a deep water shipping port, two major interstate freeways, freight and passenger rail lines, and an extensive regional commuter bus and light-rail system. These key industries interface with Sacramento's service, hospitality, and government employers.

Like most cities in the country, Sacramento is struggling to emerge from the severe national recession. As of June 2012, unemployment for the Sacramento metropolitan area and Sacramento County was 10.8% and 11.0%, respectively. According to the latest University of California, Los Angeles Economic Forecast, a modest recovery is expected in 2013. The unemployment rate is projected to decrease to 10.3% in 2013. Although job losses will continue to occur in some industries, it is anticipated that many industries in the state will register gains. Though the housing market is projected to remain sluggish, 2012 appears to have been an adjustment year as the economy recovers with the rate of foreclosures slowing and home sales prices rising. However, the relatively high level of unemployment combined with the associated reductions in property and sales revenue, have placed financial constraints that will continue to challenge the City over the coming years.

## **BUDGET INITIATIVES AND LONG-TERM FINANCIAL PLANNING**

Despite significant progress in realigning its revenues and expenditures, the City's financial position is not secure and more difficult decisions will need to be made. In light of these continuing fiscal constraints, the voters in the City passed a six-year ½ cent sales tax to provide resources to protect and restore vital City programs and services. However, given the temporary nature of these resources, we must consider new ways of delivering programs and services and continue efforts to identify and implement operational efficiencies. Our management team continues to look for ways to build a stronger, more sustainable fiscal framework and to provide the leadership and discipline needed to ensure that we are implementing long-term solutions to address the City's financial challenges.

## **RELEVANT FINANCIAL POLICIES**

The City used a substantial portion of its General Fund Economic Uncertainty Reserve (EUR) during the recession to provide the time necessary to implement long-term reduction strategies, and to mitigate even greater reductions in services. As directed by the City Council in the FY2011/12 budget hearing process, the City's goal for the General Fund EUR is 10% of annual General Fund revenues. The FY2012/13 adopted budget maintains the reserve at its current level of approximately 5.5% of annual General Fund budgeted revenues. Resources to fund this reserve will be identified on an ongoing basis and can include positive year-end results or other one-time resources. The EUR is reported in the CAFR as committed fund balance in the General Fund.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2011. This marks the 23rd consecutive year the City has received this award. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

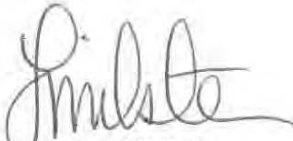
In order to receive this award, the City published an easily readable and efficiently organized CAFR. The report satisfied accounting principles generally accepted in the United States of America and applicable legal requirements. We believe this CAFR also meets the requirements of the program and we will be submitting it to the GFOA to determine its eligibility for the certificate.

The Department of Finance, in particular the Accounting Division, takes great pride in the preparation of the CAFR. The professionalism, commitment and effort of each employee of the Accounting Division have made this report possible. We also want to thank the other employees of the Department of Finance as well as those in other City departments who contributed to the preparation of this report. Finally, we thank the Mayor and City Council for their continuing interest and support in planning and conducting the City's financial operations in a responsible manner, consistent with the City's mission to protect, preserve and enhance the quality of life for present and future generations.

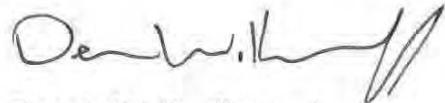
Respectfully submitted,



John F. Shirey  
City Manager

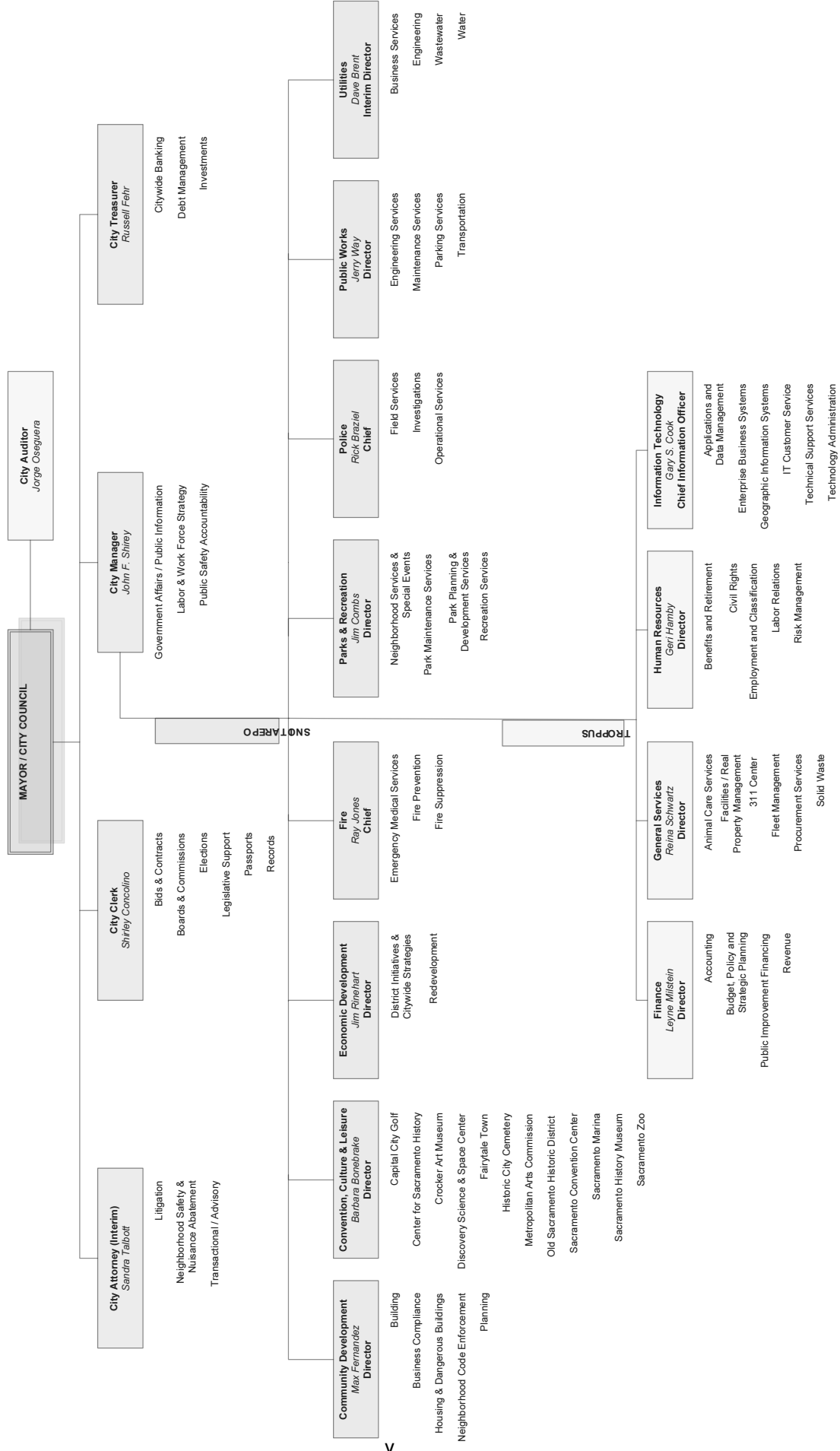


Leyne Milstein  
Director of Finance



Dennis W. Kauffman, Jr.  
Accounting Manager

# City of Sacramento Organization Chart As of June 30, 2012



# **City of Sacramento**

## **Directory of City Officials**

**June 30, 2012**

---

**Kevin Johnson**  
Mayor

**Angelique Ashby**  
Vice Mayor, District 1

**Jay Schenirer**  
Councilmember, District 5

**Sandy Sheedy**  
Councilmember, District 2

**Kevin McCarty**  
Councilmember, District 6

**Steve Cohn**  
Councilmember, District 3

**Darrell Fong**  
Councilmember, District 7

**Robert King Fong**  
Councilmember, District 4

**Bonnie J. Pannell**  
Councilmember, District 8

---

**John F. Shirey**  
City Manager

**Sandra Talbott**  
Interim City Attorney

**Shirley Concolino**  
City Clerk

**Russell Fehr**  
City Treasurer

---

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sacramento  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

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.



*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Financial Section

To the Honorable Mayor and  
Members of the City Council  
Sacramento, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sacramento, California (the City), as of and for the fiscal year ended June 30, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of funding progress for the pension plan and other post employment benefits plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sacramento, California's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

*Macias Gini & O'Connell LLP*

Sacramento, California  
December 28, 2012

**City of Sacramento**  
**Management's Discussion and Analysis**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2012. City management recommends this information be read in conjunction with the transmittal letter located in the introductory section, and with the City's financial statements which follow this discussion.

**FINANCIAL HIGHLIGHTS**

- The City began construction on the Track Relocation project at the Downtown Sacramento Railyards in the spring of 2011. The track project is Phase 1 of the larger Intermodal Transportation Facilities project that will create a regional multimodal transportation hub. The Track Relocation project will straighten freight and passenger rail tracks and provide new passenger platforms at the existing Depot building. The project is expected to be completed in December 2012. Total project costs upon completion are estimated at \$80 million and are funded from a variety of federal, state and local transportation and other funding sources. The construction of 5<sup>th</sup> and 6<sup>th</sup> Streets and Railyards Boulevard is expected to begin in early 2013, with completion expected in spring of 2014. Phase 2 of the Intermodal project is being designed and will provide rehabilitation of the historic Depot. The \$30 million construction project, for which the City has been awarded a \$15 million federal grant, is scheduled to begin in September 2013.
- The City's General Fund reported revenue in excess of expenditures and net transfers of \$8.1 million in fiscal year 2012, primarily attributable to budgetary expenditure savings resulting from vacant positions and department spending controls on services and supplies. Total General Fund fund balance increased for the first time since fiscal year 2005.
- The City's total government-wide net position, excluding the discretely presented component unit, increased \$33.1 million in 2012, an increase of 1.3% from 2011. The net position of governmental activities increased \$15.7 million, or 0.9%, and the net position of business-type activities increased \$17.4 million, or 2.1%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The City's Comprehensive Annual Financial Report consists of four main components: (1) management's discussion and analysis, (2) the basic financial statements, (3) required supplementary information, and (4) combining fund financial statements. The basic financial statements include two kinds of statements that present different views of the City, the government-wide and the fund financial statements.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

The basic financial statements also include notes that provide additional information essential to understanding the data contained in the government-wide and fund financial statements. The statements and notes are followed by the Schedules of Funding Progress for the City's pension and other post employment benefit plans, which are required supplementary information. In addition to these required elements, we have included combining statements and schedules that provide details about the City's other governmental funds, other enterprise funds, internal service funds, investment trust funds, and agency funds, each of which is presented in a column in the basic financial statements.

**Government-wide Financial Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's assets and liabilities, as well as any deferred outflows or inflows. The statement of activities includes all current year revenues and expenses regardless of when cash is received or paid. These government-wide statements report the City's net position and how the City's net position has changed during the fiscal year. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the City is improving or deteriorating.

The government-wide financial statements of the City are divided as follows:

- *Governmental activities* - Most of the City's basic services are included here, such as police, fire, transportation, community development, parks and recreation, and general government. Taxes and state and federal grants finance most of these activities.
- *Business-type activities* - Certain services provided by the City are funded by customer fees. Among these are the City's utility services, convention center, and off-street parking facilities.
- *Component unit* - The City includes the Sacramento Regional Arts Facilities Financing Authority in its basic financial statements because, although legally separate, the City is financially accountable for it.

**Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the City's largest funds, not the City as a whole.

The City has three types of fund financial statements:

- *Governmental funds* - Governmental funds statements tell how general government services such as police, fire and transportation were financed in the short-term as well as what remains for future spending. Most of the City's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources, and (2) the

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

remaining year-end balances available for spending. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations that explain the relationship (or differences) between governmental funds and governmental activities follow the governmental funds statements.

- *Proprietary funds* - Services for which customer fees are intended to finance the costs of operations are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide short-term and long-term financial information about the activities the City operates like businesses, such as utility services.
- *Fiduciary funds* - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources belong. For example, the City is the trustee, or *fiduciary*, for a closed pension plan. It is also responsible for other assets, reported in an investment trust fund, which because of trust agreements, can be used only for the trust beneficiaries. As of February 1, 2012, the City elected to serve as the successor agency for its former redevelopment agency which was dissolved by state law. The successor agency activity is accounted for in a private purpose trust fund.

The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these resources to finance its operations.

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

**City of Sacramento**  
**Summary of Net Position**  
As of June 30, 2012 and 2011  
(in millions)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>Total Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	
Current and other assets	\$ 596	\$ 607	\$ 263	\$ 240	\$ 859	\$ 847	1.4%
Capital assets	1,847	1,813	1,023	1,032	2,870	2,845	0.9%
Total assets	2,443	2,420	1,286	1,272	3,729	3,692	1.0%
Deferred outflow of resources	13	11	0	0	13	11	18.2%
Long-term liabilities	703	696	392	398	1,095	1,094	0.1%
Other liabilities	61	58	31	29	92	87	5.7%
Total Liabilities	764	754	423	427	1,187	1,181	0.5%
Net position							
Net investment in							
capital assets	1,501	1,451	706	701	2,207	2,152	2.6%
Restricted	199	210	34	30	233	240	-2.9%
Unrestricted	(8)	16	123	114	115	130	-11.5%
Total net position	\$ 1,692	\$ 1,677	\$ 863	\$ 845	\$ 2,555	\$ 2,522	1.3%

**Analysis of net position**

Total net position of the primary government increased 1.3% this year, up \$33 million from 2011. Total assets increased \$37 million, up 1%, and total liabilities increased \$6 million, up 0.5%, from the prior year. The following analysis of governmental and business-type activities provides more detailed information for these changes.

**Governmental activities:**

Current and other assets declined \$11 million due to utilization of development impact fees and capital improvement bond proceeds.

Deferred outflows of resources (and the corresponding liability) increased by \$2 million due to a reduction in the fair value of the City's hedging derivative instrument. See Note 7 for more information about the City's hedging derivative instrument.

Long-term liabilities increased by \$7 million due to increases in the City's Other Post-Employment Benefits (OPEB), claims and judgments, and compensated absence liabilities, which were partially offset by the retirement of \$22 million in existing capital-related debt. More detailed information

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

about the City's long-term liabilities is located in the Debt Administration section of this MD&A and in Note 7 of the financial statements.

Other liabilities increased by \$3 million due to higher accounts payable balances in the City's capital grant funds related to the track relocation project.

Net investments in capital assets increased \$50 million because current year additions, combined with retirement of capital-related debt, exceeded depreciation expense.

Restricted net position represents amounts that must be used in accordance with external restrictions, and decreased \$11 million from the prior year primarily due to utilization of development impact fees and capital improvement bond proceeds.

Unrestricted net position decreased by \$24 million during the year due to increases in the City's OPEB, claims and judgments, and compensated absence liabilities. The City no longer has adequate unrestricted resources to fund all of its long-term liabilities.

**Business-type activities:**

Current and other assets of business-type activities increased \$23 million due to an increase in restricted and unrestricted cash and investments for business-type activities.

Capital assets decreased \$9 million due to current year depreciation of \$38 million offset by capital asset additions and transfers of \$29 million. More detailed capital asset information is located in the Capital Asset section of this MD&A and in Note 4 of the financial statements.

Long-term liabilities decreased \$6 million mostly due to the retirement of \$25 million of existing debt, offset by \$19 million in debt additions. More detailed information about long-term liabilities can be found in the Debt Administration section of this MD&A and in Note 7 of the financial statements.

Net investments in capital assets increased \$5 million mostly due to the retirement of capital-related debt, partially offset by depreciation expense.

Restricted net position, representing amounts that must be used in accordance with external restrictions, increased \$4 million primarily due to development impact fee revenue collected for infrastructure improvements.

Unrestricted net position increased by \$9 million during the year primarily because user fees in the Solid Waste Fund are set to address increasing operating costs and right-sizing the fund's financial position.



**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

<b>City of Sacramento</b>							
<b>Changes in Net Position</b>							
For the Fiscal Years Ended June 30, 2012 and 2011							
(in thousands)							
	<b>Governmental</b>		<b>Business-type</b>		<b>Total Primary</b>		<b>Total</b>
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>		<b>Percent</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>
Revenues							
Program revenues:							
Charges for services	\$ 120,062	\$ 121,145	\$ 232,803	\$ 229,954	\$ 352,865	\$ 351,099	0.5%
Operating grants & contributions	54,287	51,289	3,744	2,358	58,031	53,647	8.2%
Capital grants & contributions	112,247	69,234	5,289	10,417	117,536	79,651	47.6%
General revenues:							
Property taxes	114,874	118,801	-	-	114,874	118,801	-3.3%
Utility users tax	58,787	58,907	-	-	58,787	58,907	-0.2%
Other taxes	17,403	18,327	15,781	15,403	33,184	33,730	-1.6%
Unrestricted:							
Sales taxes shared state revenue	50,683	47,680	-	-	50,683	47,680	6.3%
State of California in-lieu sales tax	14,081	14,548	-	-	14,081	14,548	-3.2%
Investment earnings	10,953	8,870	2,957	3,449	13,910	12,319	12.9%
Miscellaneous	11,005	12,464	-	-	11,005	12,464	-11.7%
Gain on disposition of capital assets	-	2,336	7	-	7	2,336	-99.7%
<b>Total revenues</b>	<b>564,382</b>	<b>523,601</b>	<b>260,581</b>	<b>261,581</b>	<b>824,963</b>	<b>785,182</b>	<b>5.1%</b>
Expenses							
General Government	40,846	42,238	-	-	40,846	42,238	-3.3%
Police	153,392	159,908	-	-	153,392	159,908	-4.1%
Fire	116,418	111,174	-	-	116,418	111,174	4.7%
General Services	26,148	25,679	-	-	26,148	25,679	1.8%
Transportation	98,384	97,350	-	-	98,384	97,350	1.1%
Economic Development	9,704	10,467	-	-	9,704	10,467	-7.3%
Convention, Culture & Leisure	19,857	21,348	-	-	19,857	21,348	-7.0%
Parks & Recreation	45,448	56,162	-	-	45,448	56,162	-19.1%
Community development	24,286	25,821	-	-	24,286	25,821	-5.9%
Library	13,301	14,635	-	-	13,301	14,635	-9.1%
Interest on long-term debt	23,583	24,903	-	-	23,583	24,903	-5.3%
Water	-	-	67,335	63,073	67,335	63,073	6.8%
Wastewater	-	-	20,491	18,990	20,491	18,990	7.9%
Storm Drainage	-	-	37,692	37,815	37,692	37,815	-0.3%
Solid Waste	-	-	53,205	48,203	53,205	48,203	10.4%
Community Center	-	-	18,125	18,530	18,125	18,530	-2.2%
Parking	-	-	15,732	15,786	15,732	15,786	-0.3%
Child Development	-	-	5,885	6,274	5,885	6,274	-6.2%
Marina	-	-	2,008	2,662	2,008	2,662	-24.6%
<b>Total expenses</b>	<b>571,367</b>	<b>589,685</b>	<b>220,473</b>	<b>211,333</b>	<b>791,840</b>	<b>801,018</b>	<b>-1.1%</b>
Excess before transfers & contributions	(6,985)	(66,084)	40,108	50,248	33,123	(15,836)	-309.2%
Contributions to permanent funds	1	4	-	-	1	4	0.0%
Transfers	22,722	28,229	(22,722)	(28,229)	-	-	-
Change in net position	15,738	(37,851)	17,386	22,019	33,124	(15,832)	-309.2%
Net position, beginning of year	1,677,049	1,714,900	845,145	823,126	2,522,194	2,538,026	-0.6%
<b>Net position, end of year</b>	<b>\$ 1,692,787</b>	<b>\$ 1,677,049</b>	<b>\$ 862,531</b>	<b>\$ 845,145</b>	<b>\$ 2,555,318</b>	<b>\$ 2,522,194</b>	<b>1.3%</b>

Note: Certain amounts in fiscal year 2011 have been reclassified to reflect fiscal year 2012 governmental functions.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Analysis of the changes in net position:**

Total government-wide revenues of the primary government increased \$40 million, a 5% increase from the prior year, and total expenses decreased \$9 million, a 1% decrease. These fluctuations are discussed in more detail below.

**Governmental activities:**

Total revenues for governmental activities increased \$41 million from the prior year, an 8% increase. Total expenses decreased \$18 million, a 3% decrease, and net transfers to governmental activities decreased \$6 million. Net transfers were lower than 2011 because of a one-time transfer from the Parking Fund to the General Fund in 2011 from proceeds of the sale of the Sheraton garage. The following provides more specific information for governmental activities.

**Revenue**

Capital grants and contributions revenue increased \$43 million due to increases in grant revenue for Transportation of \$45 million, largely related to the Track Relocation project. Additional capital grants and contribution increases of \$4 million for Police and \$4 million for Community Development were offset by reductions in Convention, Culture, and Leisure of \$5 million, Parks and Recreation of \$4 million, and Library of \$1 million.

Property tax revenue is down \$4 million compared to 2011 due to declining assessed property values resulting from the depressed Sacramento area housing market. Sales tax revenue is up \$3 million due to a slowly improving economy in the Sacramento area.

**Expenses**

Three governmental functions, Fire, Transportation, and General Services, experienced a combined \$6.7 million increase in expenses in 2012. Although General Fund expenditures for these departments fluctuated slightly, these departments experienced overall increases due to OPEB and depreciation expense.

The other governmental functions experienced a combined \$25 million reduction in expenses, in 2012, due to continued budgetary reductions. Parks and Recreation and Police were down \$11 million and \$6 million, respectively, compared to 2011.

**Business-type activities:**

Total revenues for business-type activities decreased \$1 million from the prior year, a 0.4% decrease. Total expenses increased \$9 million, a 4% increase, and net transfers out decreased \$5 million. The following provides more specific information for business-type activities.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Revenue**

Charges for services increased \$2.8 million, or 1.2%, with \$1.1 million attributable to Solid Waste and \$0.7 million to the Community Center.

Operating grants and contributions revenue increased \$1.3 million mostly due operating grant and other reimbursements in the Water Fund.

Capital grants and contribution revenue declined by \$5.1 million mostly due to a \$4.4 million decline in the Water Fund, most of which is due to the completion of the ARRA-funded water meter installation projects.

**Expenses**

Water expenses increased \$4 million due to increased spending in the water meter replacement program and higher depreciation expense.

Wastewater expenses increased \$1.5 million mostly due to two claim settlements, higher employee service expenses related to vacant positions filled during 2012, and higher depreciation expense.

Solid waste expenses increased \$5 million due to contributions to the Fleet Fund for purchases of new vehicles, partially offset by decreases in repair and maintenance costs.

The other enterprise funds experienced a combined decrease of \$1.5 million due to budgetary cost saving efforts in the Marina and 4<sup>th</sup> R Child Development funds.

**FINANCIAL ANALYSIS OF THE FUND STATEMENTS**

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of City government, reporting City's operations in more detail than the government-wide statements.

**Governmental Funds:**

The City's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. Total fund balance for governmental funds declined by \$22 million. For the fiscal year ended June 30, 2012, as compared with the fiscal year ended June 30, 2011, total revenues for governmental funds increased by \$32 million, or 6.3%, total expenditures for governmental funds declined by \$9 million, or 1.4%, and net other financing sources decreased by \$12 million. Reasons for these changes are discussed in more detail below.

**General Fund**

Total General Fund revenues declined a net \$3.9 million in the current year mostly due to declining intergovernmental revenue (\$3.5 million) charges for services (\$2.3 million),

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

contributions and donations (\$2.5 million) combined with an increase in taxes (\$2.0 million) and miscellaneous revenue (\$1 million). Intergovernmental revenue was down \$3.5 million attributable to reduced motor vehicle in-lieu tax. Charges for services were down \$2.3 million mainly due to reduced code enforcement fees. Contributions and donation revenue decreased due to the closure of the Railyards escrow in 2011.

Total General Fund expenditures declined by \$19 million this year primarily due to reductions in employee services costs as positions were eliminated or held vacant. Expenditure decreases occurred in Police (\$8.4 million), Parks and recreation (\$2.5 million), Economic development (\$1.0 million), General services (\$0.7 million), and Convention, Culture and Leisure (\$0.7 million). Capital outlay decreased by \$4 million due to the completion of the Pocket Library, Sutter's Landing Park Phase II, and the Greyhound relocation.

General Fund transfers in were lower than 2011 by \$3 million, because a \$6.0 million transfer from the Parking fund that occurred in 2011 was a one-time event, and other transfers in for program support and debt service were approximately \$3 million higher than 2011. Transfers out of the General Fund increased by \$1.1 million due to increases in transfers to debt service funds.

General Fund Budgetary Highlights - The City Council revised the City budget throughout the fiscal year with midyear revenue and appropriation adjustments, changes made to appropriations for the use of committed fund balance, and other revenue adjustments and appropriations approved after the original budget was adopted.

After taking into account these adjustments, actual expenditures were \$35 million lower than final budget amounts. Capital outlay expenditures were less than budgeted amounts by \$19 million because of the multi-year nature of most capital projects. Unspent multi-year project budgets, as well as other unspent Council-approved program budgets, are carried over to the subsequent fiscal year. All General Fund departments reported favorable operating expenditure budget variances as a result of holding positions vacant and other discretionary spending constraints.

General Fund revenues were \$3.8 million lower than final budgeted amounts. Property tax, business operations tax and charges for services revenue came in under budget by \$2.6 million, \$0.6 million and \$3 million respectively. Unfavorable tax revenue results were partially offset by revenue from escheating unclaimed property (\$1.6 million).

**Capital Grant Fund**

Capital Grant revenue increased \$29 million and expenditures increase \$39 million in fiscal year 2012 primarily related to the Track Relocation project.

**1997 Lease Revenue Bond Fund**

The lease receivable, and associated revenue, from the Sacramento Kings ownership group, for debt service decreased in accordance with the bond payments schedule.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Other Governmental Funds**

Total other governmental funds revenue increased \$7 million, with \$5 million of that increase attributable to the transportation and special districts special revenue funds and a \$2 million increase in other capital projects funds as pay-as-you-go funding was brought in from a special district agency fund to finance infrastructure improvements.

Total other governmental funds expenditures decreased \$29 million, most of which is due to a decrease in expenditures of bond proceeds as the bond-funded projects move closer to completion.

**Enterprise Funds:**

The City's enterprise funds provide the same type of information as the government-wide financial statements but in greater detail. Total operating revenues increased \$3 million, or 1.3%, and operating expenses increased \$10.2 million, a 5.3% increase. Net non-operating revenues increased \$3.8 million, capital contributions declined \$4.6 million, and transfers out decreased \$3.7 million for the fiscal year ended June 30, 2012. Reasons for these changes are discussed in more detail below.

**Water Fund**

Water Fund operating revenue was relatively flat compared to prior year because there were no rate increases. Operating expenses increased \$4.0 million in the current year due to increased spending in the water meter replacement program and higher depreciation expense.

**Wastewater Fund**

The Wastewater Fund operating revenue was relatively flat compared to prior year because there were no rate increases. Operating expenses increased \$1.5 million mostly due to two claim settlements, higher employee service expenses related to vacant positions filled during 2012, and higher depreciation expense.

**Storm Drainage Fund**

The Storm Drainage Fund operating revenue and expenses were relatively flat compared to prior year because there were no rate increases.

**Solid Waste Fund**

Solid Waste Fund operating revenue was relatively flat compared to prior year because there were no rate increases in fiscal year 2012. Total operating expenses increased \$5.0 million as a result of contributions to the Fleet Fund for purchases of new vehicles, partially offset by decreases in repair and maintenance costs.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Community Center Fund**

Operating revenue increased \$0.7 million in the current year mostly because of an increase in Community Center events, and total operating expenses are flat. Transient occupancy revenue increased \$0.4 million due to a continuing upward trend in Sacramento area hotel room occupancy and room rates.

**Other Enterprise Funds**

There were no significant changes in operating revenues or expenses for the City's other enterprise funds. There was however a \$4.2 million decrease in transfers out due to the prior year non-recurring Parking Fund transfer of resources related to the sale of a City garage.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2012, the City had invested \$2.9 billion in a broad range of capital assets, including police and fire equipment, buildings, parks and park improvements, roads, bridges, and water, sewer and storm drainage transmission and distribution systems. The current year capital asset additions of \$158 million were offset by current year depreciation expense of \$132 million and retirements of \$1 million for a net increase in capital assets of \$25 million.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

<b>City of Sacramento</b>							
<b>Capital Assets</b>							
As of June 30, 2012 and 2011							
(net of depreciation, in millions)							
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total Primary</b>		
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>		
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	
Capital assets not being depreciated							
Land and improvements	\$ 187	\$ 187	\$ 54	\$ 54	\$ 241	\$ 241	
Easements	1	1	-	-	1	1	
Construction in progress	130	113	25	11	155	124	
Depreciable capital assets:							
Buildings and improvements	497	499	157	164	654	663	
Equipment	33	32	29	30	62	62	
Software	2	3	1	1	3	4	
Vehicles	51	45	-	-	51	45	
Transmission and distribution systems	3	3	757	772	760	775	
Road network	690	690	-	-	690	690	
Street light network	128	117	-	-	128	117	
Park and park improvements	125	123	-	-	125	123	
<b>Total</b>	<b>\$ 1,847</b>	<b>\$ 1,813</b>	<b>\$ 1,023</b>	<b>\$ 1,032</b>	<b>\$ 2,870</b>	<b>\$ 2,845</b>	

This year's major capital asset additions included:

- The Track Relocation project at the Downtown Sacramento Railyards is phase 1 of the large intermodal transportation facilities project that will create a regional multimodal transportation hub. The total project costs upon completion, including design, are estimated at \$80 million. The project contributed \$46.3 million to construction in progress in governmental funds.
- Land and infrastructure in the North Natomas area were dedicated to the City by developers at an estimated fair market value of \$5.3 million.
- Other capital projects in progress included the Interstate 5/Richards to Railyards Access Improvements Project, FY2011 Federal Overlay Project, Intermodal Depot Retrofit, R Street Improvements 10<sup>th</sup>-13<sup>th</sup> Street, and I-5/Consumnes River Boulevard Project. Several projects were completed in the current fiscal year and transferred from construction in progress to the appropriate capital asset categories.

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Long-term Debt**

The following table summarizes the City's outstanding debt at June 30, 2012 and 2011:

<b>City of Sacramento</b>						
<b>Outstanding Debt</b>						
As of June 30, 2012 and 2011						
(in millions)						
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenue and other bonds, net	\$ 457	\$ 477	\$ 277	\$ 290	\$ 734	\$ 767
Notes payable	1	1	55	56	56	57
Capital lease obligations	8	10	12	7	20	17
<b>Total outstanding debt</b>	<b>\$ 466</b>	<b>\$ 488</b>	<b>\$ 344</b>	<b>\$ 353</b>	<b>\$ 810</b>	<b>\$ 841</b>

Total City debt outstanding as of June 30, 2012 and 2011 was \$810 and \$841 million, respectively, a decrease of \$31 million (not including \$14 million of outstanding long-term debt for the City's discretely presented component unit).

Total outstanding long-term debt for governmental activities decreased \$22 million due to the retirement of existing obligations. There were no new long term debt additions during the year for governmental activities.

Total outstanding long-term debt for business-type activities decreased \$9 million due to the retirement of \$17 million of existing obligations, offset in part by the addition of \$8 million in new debt. These new obligations include an increase of \$1 million in loans from the State Department of Boating and Waterways for the Marina South Basin Renovation, \$6 million in new capital leases for solid waste vehicles and sewer cleaning equipment, and \$1 million for water meters and the storm drainage detention basin.

More detailed information about the City's total long-term liabilities is presented in Note 7 to the financial statements.



**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Credit rating**

The following table summarizes the City's bonded debt ratings at June 30, 2012, as determined by Moody's Investors Service, Inc. (Moody's) and Standard & Poor's (S & P):

Insured bond issues:	<u>S &amp; P</u>	<u>Moody's</u>
• 1993 Refunded Lease Revenue Bonds, Series A	A	A1
• 1996 Lighting and Landscaping Bonds	BBB	Baa2
• 1997 Lease Revenue Bonds	BBB	Baa2
• 2003 Capital Improvement Revenue Bonds	A	Aa3
• 2005 Refunding Revenue Bonds	A	A1
• 2006 Capital Improvement Revenue Bonds, Series A and B	A	Aa3
• 2006 Capital Improvement Revenue Bonds, Series C, D and E	A	Aa3
Uninsured bond issues:		
• 1993 Refunded Lease Revenue Bonds, Series B	A	A1
• 2002 Refunding Revenue Bonds	AA-	A1

The City's issuer credit ratings of A+ with a stable outlook from S & P, and Aa2 with a stable outlook from Moody's, remain unchanged from 2011.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

**Economic Factors**

The City continues to face a number of serious challenges in the current fiscal year and in its financial outlook over the next couple of years. According to the latest economic forecasts, California's economy will slowly recover during 2013; however, unemployment is expected to remain above 10% through the end of 2013. Although the housing market remains sluggish as the economy recovers, 2012 appears to have been an adjustment year, one without further decline. The housing crisis and significant downturn of the real estate market and its associated industries continues to severely impact the City's property and sales tax revenues, two of the largest sources of discretionary income. Although these revenues are beginning to stabilize, albeit at reduced levels, prior commitments for labor contracts, increasing retirement contributions associated with prior years market losses, a legal settlement related to utility rates charged to General Fund departments by the City's utility enterprise funds, costs for utilities for the facilities and services provided by the Department of Parks and Recreation can no longer be absorbed, and necessary funding for public safety equipment, have added significant costs to the City's General Fund budget.

**City of Sacramento**  
**Management's Discussion and Analysis (Continued)**  
**(Required Supplementary Information - Unaudited)**  
For the Fiscal Year Ended June 30, 2012

---

**Next Year's Budget**

The General Fund budget appropriations for fiscal year 2013 are \$368 million, an increase of 2% compared to the fiscal year 2012 approved budget. General Fund budgeted revenue in the approved fiscal year 2013 budget is \$369 million, \$9 million more than the fiscal year 2012 approved budget. In fiscal year 2013, the General Fund gap between projected revenues and expenditures was primarily bridged through successful negotiations with labor groups who will begin to pay the employee share of retirement contributions. Those labor groups included the Sacramento City Exempt Employees Association, Sacramento Firefighters Local 522, and Stationary Engineers Local 39 bargaining units; paying their share helped to restore 143.8 Full-Time Equivalent (FTE) positions.

The three-year water and wastewater rate increases approved on March 27, 2012, provides a solid source for the needed investment in the City's utility infrastructure. The City will use the funding to leverage rehabilitation or upgrades to the Sacramento River and Fairbairn water treatment plants and make progress towards the 100-year replacement schedule for aging sewage pipes.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Sacramento Department of Finance, Accounting Division, 915 I Street, Fourth Floor, Sacramento, CA, 95814, or visit the City's web page at <http://www.cityofsacramento.org>.

**THIS PAGE INTENTIONALLY LEFT BLANK**

# Government-wide Financial Statements

**City of Sacramento**  
**Statement of Net Position**

June 30, 2012  
(in thousands)

	Primary Government			Sacramento Regional Arts Facilities Financing Authority
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and investments	\$ 308,146	\$ 142,101	\$ 450,247	\$ -
Securities lending assets	1,043	748	1,791	-
Receivables, net	242,914	74,856	317,770	12,814
Internal balances	6,797	(6,797)	-	-
Inventories	-	4,478	4,478	-
Prepaid items	52	15	67	-
Restricted cash and investments	33,124	43,540	76,664	1,094
Deferred charges	4,091	3,419	7,510	498
Land and other capital assets not being depreciated	317,973	79,050	397,023	-
Other capital assets, net of depreciation	1,529,214	944,247	2,473,461	-
<b>Total assets</b>	<b>2,443,354</b>	<b>1,285,657</b>	<b>3,729,011</b>	<b>14,406</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Accumulated decrease in fair value of hedging derivative instrument	13,653	-	13,653	-
<b>LIABILITIES</b>				
Securities lending obligations	3,295	1,555	4,850	-
Payables	55,058	22,356	77,414	162
Unearned revenue	3,228	6,893	10,121	-
Long-term liabilities:				
Due within one year	41,964	22,444	64,408	405
Due in more than one year	660,675	369,878	1,030,553	13,236
<b>Total liabilities</b>	<b>764,220</b>	<b>423,126</b>	<b>1,187,346</b>	<b>13,803</b>
<b>NET POSITION</b>				
Net investment in capital assets	1,500,603	705,527	2,206,130	-
Restricted for:				
Capital projects	149,830	33,209	183,039	-
Debt service	1,101	-	1,101	603
Transportation programs	18,103	-	18,103	-
Other programs	23,274	530	23,804	-
Trust and endowments:				
Expendable	6,870	-	6,870	-
Nonexpendable	878	-	878	-
Unrestricted	(7,872)	123,265	115,393	-
<b>Total net position</b>	<b>\$ 1,692,787</b>	<b>\$ 862,531</b>	<b>\$ 2,555,318</b>	<b>\$ 603</b>

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

## City of Sacramento

### Statement of Activities

For the Fiscal Year Ended June 30, 2012  
(in thousands)

Functions/Programs	Program Revenues					Net (Expense) Revenue
	Operating Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 48,788	\$ (7,942)	\$ 5,608	\$ 2,255	\$ -	\$ (32,983)
Police	153,392	-	9,714	13,056	4,025	(126,597)
Fire	116,418	-	21,643	3,289	-	(91,486)
General services	28,199	(2,051)	10,965	1,940	-	(13,243)
Transportation	98,384	-	28,309	18,838	100,522	49,285
Economic development	9,704	-	8,800	310	-	(594)
Convention, culture and leisure	19,857	-	7,985	587	968	(10,317)
Parks and recreation	45,448	-	11,579	9,188	1,104	(23,577)
Community development	24,286	-	15,459	96	5,628	(3,103)
Library	13,301	-	-	4,728	-	(8,573)
Interest on long-term debt	23,583	-	-	-	-	(23,583)
<b>Total governmental activities</b>	<b>581,360</b>	<b>(9,993)</b>	<b>120,062</b>	<b>54,287</b>	<b>112,247</b>	<b>(284,771)</b>
Business-type activities:						
Water	64,315	3,020	79,809	1,034	4,012	17,520
Wastewater	19,548	943	21,513	-	445	1,467
Storm drainage	35,618	2,074	34,545	685	832	(1,630)
Solid waste	50,872	2,333	64,055	785	-	11,635
Community center	17,245	880	7,521	-	-	(10,604)
Child development	5,885	-	5,232	678	-	25
Marina	1,900	108	1,359	-	-	(649)
Parking	15,097	635	18,769	562	-	3,599
<b>Total business-type activities</b>	<b>210,480</b>	<b>9,993</b>	<b>232,803</b>	<b>3,744</b>	<b>5,289</b>	<b>21,363</b>
<b>Total primary government</b>	<b>\$ 791,840</b>	<b>\$ -</b>	<b>\$ 352,865</b>	<b>\$ 58,031</b>	<b>\$ 117,536</b>	<b>\$ (263,408)</b>
<b>Component unit:</b>						
Sacramento Regional Arts						
Facilities Financing Authority	\$ 683	\$ -	\$ -	\$ -	\$ -	\$ (683)

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

**City of Sacramento**  
**Statement of Activities**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Primary Government			Sacramento Regional Arts Facilities Financing Authority
	Governmental Activities	Business-type Activities	Total	
Change in net position:				
Net (expense) revenue	\$ (284,771)	\$ 21,363	\$ (263,408)	\$ (683)
General revenues:				
Taxes:				
Property taxes	114,874	-	114,874	-
Utility user taxes	58,787	-	58,787	-
Other taxes	17,403	15,781	33,184	-
Unrestricted sales taxes shared state revenue	50,683	-	50,683	-
Unrestricted in lieu sales tax	14,081	-	14,081	-
Unrestricted investment earnings	10,953	2,957	13,910	654
Unrestricted miscellaneous	11,005	-	11,005	-
Contributions to permanent funds	1	-	1	-
Gain on disposition of capital assets	-	7	7	-
Transfers	22,722	(22,722)	-	-
Total general revenues and transfers	300,509	(3,977)	296,532	654
Change in net position	15,738	17,386	33,124	(29)
Net position, beginning of year	1,677,049	845,145	2,522,194	632
Net position, end of year	\$ 1,692,787	\$ 862,531	\$ 2,555,318	\$ 603

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

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Fund Financial Statements

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Governmental Funds**  
**Balance Sheet**

June 30, 2012  
(in thousands)

	<u>General Fund</u>	<u>Capital Grants Fund</u>	<u>1997 Lease Revenue Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and investments held by City	\$ 56,340	\$ -	\$ 2,171	\$ 192,547	\$ 251,058
Cash and investments held by fiscal agent	-	-	44	939	983
Securities lending assets	263	-	-	596	859
Receivables, net:					
Taxes	20,283	-	-	-	20,283
Accounts	8,972	280	-	4,625	13,877
Loans	137	-	65,780	17,920	83,837
Intergovernmental	-	55,383	-	65,538	120,921
Interest	324	-	740	980	2,044
Investments sold	585	-	-	624	1,209
Prepaid items	23	-	-	29	52
Restricted assets:					
Cash and investments held by City	-	28	-	13,962	13,990
Cash and investments held by fiscal agent	-	-	-	19,134	19,134
Total assets	<u>\$ 86,927</u>	<u>\$ 55,691</u>	<u>\$ 68,735</u>	<u>\$ 316,894</u>	<u>\$ 528,247</u>

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

**City of Sacramento**  
**Governmental Funds**  
**Balance Sheet**

June 30, 2012  
(in thousands)

	General Fund	Capital Grants Fund	1997 Lease Revenue Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Securities lending obligations	\$ 770	\$ -	\$ -	\$ 2,238	\$ 3,008
Accounts payable	8,707	13,497	-	8,416	30,620
Accrued payroll	12,898	-	-	114	13,012
Accrued claims and judgments	-	-	-	1,601	1,601
Due to other funds	-	38,447	-	4,912	43,359
Matured bonds and interest payable	-	-	-	3,323	3,323
Deposits	53	-	-	1,542	1,595
Deferred revenue	3,431	30,811	66,520	79,285	180,047
Advances from other funds	-	-	-	7,419	7,419
<b>Total liabilities</b>	<b>25,859</b>	<b>82,755</b>	<b>66,520</b>	<b>108,850</b>	<b>283,984</b>
Fund balances:					
Nonspendable:					
Prepaid items	23	-	-	29	52
Noncurrent assets	71	-	-	605	676
Permanent fund principal	-	-	-	878	878
Restricted:					
Capital projects	-	2,639	-	147,836	150,475
Debt service	-	-	-	18,230	18,230
Other programs	64	-	2,215	47,811	50,090
Committed:					
Economic uncertainty	20,263	-	-	-	20,263
Capital projects	21,542	-	-	469	22,011
Debt service	-	-	-	2,278	2,278
Other programs	9,349	-	-	2,096	11,445
Assigned:					
Debt service	-	-	-	2,068	2,068
Unrealized investment gains	402	-	-	42	444
Next year's budget	9,354	-	-	-	9,354
Other programs	-	-	-	4,093	4,093
Unassigned	-	(29,703)	-	(18,391)	(48,094)
<b>Total fund balances (deficit)</b>	<b>61,068</b>	<b>(27,064)</b>	<b>2,215</b>	<b>208,044</b>	<b>244,263</b>
<b>Total liabilities and fund balances</b>	<b>\$ 86,927</b>	<b>\$ 55,691</b>	<b>\$ 68,735</b>	<b>\$ 316,894</b>	<b>\$ 528,247</b>

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

**City of Sacramento**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
June 30, 2012  
(in thousands)

---

<b>Fund balances - total governmental funds</b>		<b>\$ 244,263</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Deferred revenue and other resources not available to liquidate liabilities of the current period are not recognized in the funds.		177,346
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds.		4,063
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	2,949,948	
Less: accumulated depreciation	<u>(1,156,761)</u>	1,793,187
Certain current liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:		
Interest payable		(2,426)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued compensated absences	(31,263)	
Accrued claims and judgements	(1,181)	
Financing plan fee credits	(41,365)	
Pollution remediation obligations	(680)	
Revenue and other bonds payable, net	(450,695)	
Capital lease obligations payable	(8,245)	
Notes payable	(605)	
OPEB liability	<u>(87,195)</u>	(621,229)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		<u>97,583</u>
<b>Net position of governmental activities</b>		<b><u>\$ 1,692,787</u></b>

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

**City of Sacramento**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	General Fund	Capital Grants Fund	1997 Lease Revenue Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 256,143	\$ -	\$ -	\$ 421	\$ 256,564
Intergovernmental	12,021	68,839	-	74,077	154,937
Charges for services	50,073	-	-	12,687	62,760
Fines, forfeits and penalties	11,020	-	-	871	11,891
Interest, rents, and concessions	1,702	72	3,738	9,982	15,494
Community service fees	-	-	-	3,058	3,058
Assessment levies	20	-	-	35,274	35,294
Contributions and donations	188	-	1,619	4,363	6,170
Miscellaneous	2,090	-	-	-	2,090
<b>Total revenues</b>	<b>333,257</b>	<b>68,911</b>	<b>5,357</b>	<b>140,733</b>	<b>548,258</b>
Expenditures:					
Current:					
General government	21,250	-	-	3,360	24,610
Police	114,472	-	-	27,732	142,204
Fire	95,652	-	-	3,097	98,749
General services	9,859	-	-	9,529	19,388
Transportation	6,126	-	-	27,057	33,183
Convention, culture and leisure	4,676	-	-	5,994	10,670
Economic development	2,818	-	-	6,578	9,396
Parks and recreation	12,263	-	-	18,130	30,393
Community development	19,447	-	-	2,372	21,819
Library	7,130	-	-	4,609	11,739
Utilities	97	-	-	-	97
Nondepartmental	31,957	-	-	312	32,269
Capital outlay	2,151	81,207	-	34,901	118,259
Debt service:					
Principal	1,378	-	1,575	18,642	21,595
Interest and fiscal charges	461	-	3,693	19,874	24,028
<b>Total expenditures</b>	<b>329,737</b>	<b>81,207</b>	<b>5,268</b>	<b>182,187</b>	<b>598,399</b>
Excess (deficiency) of revenues over (under) expenditures	3,520	(12,296)	89	(41,454)	(50,141)
Other financing sources (uses):					
Transfers in	28,679	-	-	26,756	55,435
Transfers out	(24,055)	(72)	-	(3,463)	(27,590)
Issuance of long-term debt	-	-	-	73	73
<b>Total other financing sources (uses)</b>	<b>4,624</b>	<b>(72)</b>	<b>-</b>	<b>23,366</b>	<b>27,918</b>
Net change in fund balances	8,144	(12,368)	89	(18,088)	(22,223)
Fund balances (deficit), beginning of year	52,924	(14,696)	2,126	226,132	266,486
Fund balances (deficit), end of year	\$ 61,068	\$ (27,064)	\$ 2,215	\$ 208,044	\$ 244,263

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

**City of Sacramento**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Statement of Activities**

For the Fiscal Year Ended June 30, 2012

(in thousands)

---

**Net change in fund balances - total governmental funds** **\$ (22,223)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	113,716	
Depreciation expense	<u>(84,945)</u>	
		28,771

Losses on retirement of capital assets in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (62)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds - infrastructure dedications. 5,320

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Issuance of long-term debt	(73)	
Principal repayments on long-term debt	<u>21,595</u>	
		21,522

Earned deferred revenue and other resources not available to liquidate liabilities of the current period are not recognized in governmental funds. Revenue in the statement of activities is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net increase in revenues - unavailable revenues at the end of the year were more than beginning unavailable revenues by this amount. 9,348

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

**City of Sacramento**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Statement of Activities**

For the Fiscal Year Ended June 30, 2012

(in thousands)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(2,106)	
Accrued claims and judgements	(685)	
Other post-employment benefits	(20,947)	
Pollution remediation	220	
Termination payments	75	
Accrued interest	68	
Amortization of issuance costs	(271)	
Amortization of bond discount	(8)	
Amortization of bond premium	1,044	
Amortization of gain/loss on refunding	<u>(545)</u>	
		(23,155)

Capital assets transferred from governmental activities to business-type activities are reported as transfers in the statement of activities. The transfers are not reported in the governmental funds as the amount did not involve the transfer of financial resources.

(4,748)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet, to individual funds. The net revenue of the internal service funds is reported with the governmental activities.

965

**Change in net position of governmental activities** \$ 15,738

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



**City of Sacramento**  
**General Fund**  
**Statement of Revenues and Expenditures -**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**with Budget to GAAP Reconciliation**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Budgeted Amounts		Actual	Variance with	Budget	Actual
	Original	Final	Amounts - Budgetary Basis	Final Budget - Positive (Negative)	to GAAP Reconciliation	Amounts - GAAP Basis
<b>Revenues:</b>						
Taxes	\$ 257,471	\$ 256,881	\$ 256,143	\$ (738)	\$ -	\$ 256,143
Intergovernmental	13,067	11,951	12,021	70	-	12,021
Charges for services	51,121	53,048	50,073	(2,975)	-	50,073
Fines, forfeits and penalties	12,395	12,397	11,020	(1,377)	-	11,020
Interest, rents, and concessions	1,567	2,424	1,702	(722)	-	1,702
Assessment levies	53	53	20	(33)	-	20
Contributions and donations	-	151	188	37	-	188
Miscellaneous	124	124	2,090	1,966	-	2,090
<b>Total revenues</b>	<b>335,798</b>	<b>337,029</b>	<b>333,257</b>	<b>(3,772)</b>	<b>-</b>	<b>333,257</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Mayor/Council	3,079	4,010	3,472	538	(2)	3,470
City Manager	2,534	2,973	2,319	654	(33)	2,286
City Attorney	3,312	3,337	2,625	712	-	2,625
City Clerk	1,102	1,177	1,129	48	-	1,129
City Treasurer	1,882	1,882	1,820	62	(95)	1,725
Finance	4,223	4,102	3,362	740	(163)	3,199
Information technology	4,851	4,856	4,424	432	(46)	4,378
Human resources	2,512	2,627	2,421	206	17	2,438
Subtotal - General government	23,495	24,964	21,572	3,392	(322)	21,250
Police	116,329	117,815	114,559	3,256	(87)	114,472
Fire	95,034	96,396	95,671	725	(19)	95,652
General services	9,638	10,152	9,817	335	42	9,859
Transportation	6,634	6,173	6,130	43	(4)	6,126
Convention, culture and leisure	4,783	4,742	4,694	48	(18)	4,676
Economic development	3,155	3,208	2,792	416	26	2,818
Parks and recreation	10,547	12,404	12,263	141	-	12,263
Community development	19,888	20,540	19,507	1,033	(60)	19,447
Library	7,130	7,130	7,130	-	-	7,130
Utilities	162	162	97	65	-	97
Nondepartmental	36,919	39,223	31,992	7,231	(35)	31,957
Capital outlay	22,318	22,521	3,714	18,807	(1,563)	2,151
<b>Debt service:</b>						
Principal	1,378	1,378	1,378	-	-	1,378
Interest and fiscal charges	380	380	461	(81)	-	461
<b>Total expenditures</b>	<b>357,790</b>	<b>367,188</b>	<b>331,777</b>	<b>35,411</b>	<b>(2,040)</b>	<b>329,737</b>
Excess (deficiency) of revenues over (under) expenditures	(21,992)	(30,159)	1,480	31,639	2,040	3,520
<b>Other financing sources (uses):</b>						
Transfers in	25,608	26,429	28,679	2,250	-	28,679
Transfers out	(24,968)	(23,958)	(24,055)	(97)	-	(24,055)
<b>Total other financing sources (uses)</b>	<b>640</b>	<b>2,471</b>	<b>4,624</b>	<b>2,153</b>	<b>-</b>	<b>4,624</b>
<b>Net change in fund balance</b>	<b>\$ (21,352)</b>	<b>\$ (27,688)</b>	<b>\$ 6,104</b>	<b>\$ 33,792</b>	<b>\$ 2,040</b>	<b>\$ 8,144</b>

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Net Position**  
June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Storm Drainage Fund</b>	<b>Solid Waste Fund</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments held by City	\$ 42,591	\$ 16,764	\$ 23,741	\$ 16,084
Cash and investments held by fiscal agent	-	-	50	-
Securities lending assets	290	94	129	93
Receivables, net:				
Taxes	-	-	-	-
Accounts	19,671	10,228	6,339	12,847
Loans	2,056	237	710	4
Intergovernmental	1,191	-	1,776	825
Interest	688	157	284	114
Investments sold	645	210	288	206
Due from other funds	-	-	-	-
Inventories	3,900	97	481	-
Prepaid items	-	-	-	-
Total current assets	<u>71,032</u>	<u>27,787</u>	<u>33,798</u>	<u>30,173</u>
Noncurrent assets:				
Restricted assets:				
Cash and investments held by City	18,435	3,361	3,540	4,315
Cash and investments held by fiscal agent	-	-	751	-
Advances to other funds	-	-	-	-
Loans receivable	7,075	1,056	3,168	-
Intergovernmental receivables	-	-	201	-
Deferred charges	1,739	-	35	251
Capital assets:				
Land	967	1,138	18,724	1,133
Buildings and improvements	37,468	14,906	8,223	31,191
Machinery and equipment	15,512	4,831	15,970	11,417
Vehicles	-	-	-	-
Transmission and distribution system	570,839	145,405	371,142	-
Construction in progress	18,187	1,970	2,929	-
Software	201	296	584	-
Easements	-	-	157	-
Less: accumulated depreciation/amortization	<u>(186,017)</u>	<u>(58,547)</u>	<u>(128,013)</u>	<u>(20,720)</u>
Total noncurrent assets	<u>484,406</u>	<u>114,416</u>	<u>297,411</u>	<u>27,587</u>
Total assets	<u>555,438</u>	<u>142,203</u>	<u>331,209</u>	<u>57,760</u>

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

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Net Position**  
June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental</b>
	<b>Community Center Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Activities - Internal Service Funds</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments held by City	\$ 10,311	\$ 31,408	\$ 140,899	\$ 55,895
Cash and investments held by fiscal agent	1,034	118	1,202	210
Securities lending assets	-	142	748	184
Receivables, net:				
Taxes	2,227	-	2,227	-
Accounts	253	906	50,244	106
Loans	21	60	3,088	-
Intergovernmental	-	26	3,818	-
Interest	22	180	1,445	226
Investments sold	-	317	1,666	410
Due from other funds	-	-	-	43,609
Inventories	-	-	4,478	-
Prepaid items	-	15	15	-
<b>Total current assets</b>	<b>13,868</b>	<b>33,172</b>	<b>209,830</b>	<b>100,640</b>
Noncurrent assets:				
Restricted assets:				
Cash and investments held by City	1,324	395	31,370	-
Cash and investments held by fiscal agent	9,660	1,759	12,170	-
Advances to other funds	-	-	-	13,966
Loans receivable	156	712	12,167	1
Intergovernmental receivables	-	-	201	-
Deferred charges	871	523	3,419	28
Capital assets:				
Land	21,740	10,616	54,318	-
Buildings and improvements	111,201	79,437	282,426	7,402
Machinery and equipment	3,900	7,110	58,740	457
Vehicles	-	-	-	118,751
Transmission and distribution system	-	-	1,087,386	-
Construction in progress	1,489	-	24,575	-
Software	-	-	1,081	177
Easements	-	-	157	-
Less: accumulated depreciation/amortization	(53,160)	(38,929)	(485,386)	(72,787)
<b>Total noncurrent assets</b>	<b>97,181</b>	<b>61,623</b>	<b>1,082,624</b>	<b>67,995</b>
<b>Total assets</b>	<b>111,049</b>	<b>94,795</b>	<b>1,292,454</b>	<b>168,635</b>

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Net Position**  
June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Storm Drainage Fund</b>	<b>Solid Waste Fund</b>
<b>LIABILITIES</b>				
Current liabilities:				
Securities lending obligations	599	193	240	93
Accounts payable	4,302	7,350	1,371	1,903
Accrued payroll	829	241	785	454
Accrued compensated absences	120	23	60	79
Due to other funds	-	-	-	-
Interest payable	766	74	317	214
Liability for landfill closure	-	-	-	895
Deposits	26	-	-	10
Unearned revenue	2,978	-	460	-
Accrued claims and judgements	90	57	48	71
Capital leases payable	-	133	-	2,006
Revenue and other bonds payable, net	4,916	-	513	794
Notes payable	-	703	2,179	-
<b>Total current liabilities</b>	<b>14,626</b>	<b>8,774</b>	<b>5,973</b>	<b>6,519</b>
Noncurrent liabilities:				
Accrued compensated absences	1,932	571	2,296	1,192
Advances from other funds	-	-	-	-
Water fee credits	1,702	-	-	-
OPEB liability	4,534	1,805	2,189	5,831
Accrued claims and judgments	-	-	-	-
Liability for landfill closure	-	-	-	21,909
Capital leases payable	-	575	-	7,816
Revenue and other bonds payable, net	152,660	-	5,215	21,807
Notes payable	10,000	6,034	20,774	-
<b>Total noncurrent liabilities</b>	<b>170,828</b>	<b>8,985</b>	<b>30,474</b>	<b>58,555</b>
<b>Total liabilities</b>	<b>185,454</b>	<b>17,759</b>	<b>36,447</b>	<b>65,074</b>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	289,581	102,554	265,326	818
Restricted for:				
Capital projects	29,333	2,564	-	-
Other programs	-	-	-	530
Unrestricted	51,070	19,326	29,436	(8,662)
<b>Total net position (deficit)</b>	<b>\$ 369,984</b>	<b>\$ 124,444</b>	<b>\$ 294,762</b>	<b>\$ (7,314)</b>

(continued)

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

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Net Position**  
June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental</b>
	<b>Community Center Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Activities - Internal Service Funds</b>
<b>LIABILITIES</b>				
Current liabilities:				
Securities lending obligations	79	351	1,555	287
Accounts payable	942	754	16,622	6,951
Accrued payroll	198	337	2,844	360
Accrued compensated absences	25	27	334	75
Due to other funds	250	-	250	-
Interest payable	565	833	2,769	10
Liability for landfill closure	-	-	895	-
Deposits	-	85	121	4
Unearned revenue	2,868	587	6,893	527
Accrued claims and judgements	26	12	304	13,823
Capital leases payable	-	90	2,229	22
Revenue and other bonds payable, net	7,293	1,868	15,384	322
Notes payable	-	416	3,298	-
<b>Total current liabilities</b>	<b>12,246</b>	<b>5,360</b>	<b>53,498</b>	<b>22,381</b>
Noncurrent liabilities:				
Accrued compensated absences	589	633	7,213	1,166
Advances from other funds	6,547	-	6,547	-
Water fee credits	-	-	1,702	-
OPEB liability	530	1,011	15,900	2,108
Accrued claims and judgments	-	-	-	42,161
Liability for landfill closure	-	-	21,909	-
Capital leases payable	-	1,073	9,464	172
Revenue and other bonds payable, net	51,383	30,792	261,857	3,064
Notes payable	-	15,025	51,833	-
<b>Total noncurrent liabilities</b>	<b>59,049</b>	<b>48,534</b>	<b>376,425</b>	<b>48,671</b>
<b>Total liabilities</b>	<b>71,295</b>	<b>53,894</b>	<b>429,923</b>	<b>71,052</b>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	36,154	11,094	705,527	50,420
Restricted for:				
Capital projects	1,312	-	33,209	-
Other programs	-	-	530	-
Unrestricted	2,288	29,807	123,265	47,163
<b>Total net position (deficit)</b>	<b>\$ 39,754</b>	<b>\$ 40,901</b>	<b>\$ 862,531</b>	<b>\$ 97,583</b>

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

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Storm Drainage Fund</b>	<b>Solid Waste Fund</b>
Operating revenues:				
Charges for services:				
User fees and charges	\$ 79,758	\$ 20,484	\$ 34,359	\$ 64,095
Rents and concessions	-	-	-	(43)
Charge to Regional Sanitation District for operating and maintaining treatment plant	-	913	-	-
Miscellaneous	99	99	186	3
Total operating revenues	<u>79,857</u>	<u>21,496</u>	<u>34,545</u>	<u>64,055</u>
Operating expenses:				
Employee services	23,409	7,034	20,611	16,285
Services and supplies	19,774	8,869	4,878	33,455
Depreciation/amortization	16,456	4,084	11,156	1,838
Insurance premiums	-	-	-	-
Claims and judgments	163	371	149	123
Total operating expenses	<u>59,802</u>	<u>20,358</u>	<u>36,794</u>	<u>51,701</u>
Operating income (loss)	<u>20,055</u>	<u>1,138</u>	<u>(2,249)</u>	<u>12,354</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	1,072	235	393	517
Transient occupancy taxes	-	-	-	-
Revenue from other agencies	980	17	685	785
Insurance and other claim recoveries	-	-	-	-
Interest expense	(7,421)	(133)	(894)	(1,489)
Amortization of deferred charges	(119)	-	(4)	(15)
Loan forgiveness	-	-	-	-
Gain or (loss) on disposition of capital assets	-	-	4	3
Loss on liquidation of inventory	-	-	-	-
Total nonoperating revenues (expenses)	<u>(5,488)</u>	<u>119</u>	<u>184</u>	<u>(199)</u>
Income (loss) before contributions and transfers	14,567	1,257	(2,065)	12,155
Capital contributions	4,590	1,637	3,810	-
Transfers in	54	19	45	115
Transfers out	(8,980)	(2,269)	(3,891)	(6,821)
Changes in net position	10,231	644	(2,101)	5,449
Total net position (deficit), beginning of year	<u>359,753</u>	<u>123,800</u>	<u>296,863</u>	<u>(12,763)</u>
Total net position (deficit), end of year	<u>\$ 369,984</u>	<u>\$ 124,444</u>	<u>\$ 294,762</u>	<u>\$ (7,314)</u>

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

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Business-type Activities - Enterprise Funds			Governmental
	Community Center Fund	Other Enterprise Funds	Total	Activities - Internal Service Funds
Operating revenues:				
Charges for services:				
User fees and charges	\$ 3,098	\$ 24,639	\$ 226,433	\$ 69,156
Rents and concessions	4,385	705	5,047	-
Charge to Regional Sanitation District for operating and maintaining treatment plant	-	-	913	-
Miscellaneous	38	16	441	-
Total operating revenues	7,521	25,360	232,834	69,156
Operating expenses:				
Employee services	5,830	9,232	82,401	11,255
Services and supplies	5,580	9,372	81,928	28,916
Depreciation/amortization	2,419	2,484	38,437	8,636
Insurance premiums	-	-	-	2,274
Claims and judgments	14	20	840	17,303
Total operating expenses	13,843	21,108	203,606	68,384
Operating income (loss)	(6,322)	4,252	29,228	772
Nonoperating revenues (expenses):				
Interest and investment revenue	375	378	2,970	1,187
Transient occupancy taxes	15,781	-	15,781	-
Revenue from other agencies	-	1,240	3,707	-
Insurance and other claim recoveries	-	-	-	270
Interest expense	(4,147)	(2,492)	(16,576)	(119)
Amortization of deferred charges	(132)	(25)	(295)	(3)
Loan forgiveness	(3)	-	(3)	-
Gain or (loss) on disposition of capital assets	-	-	7	(237)
Loss on liquidation of inventory	-	-	-	(530)
Total nonoperating revenues (expenses)	11,874	(899)	5,591	568
Income (loss) before contributions and transfers	5,552	3,353	34,819	1,340
Capital contributions	-	-	10,037	-
Transfers in	-	3	236	430
Transfers out	(1,678)	(4,067)	(27,706)	(805)
Changes in net position	3,874	(711)	17,386	965
Total net position (deficit), beginning of year	35,880	41,612	845,145	96,618
Total net position (deficit), end of year	\$ 39,754	\$ 40,901	\$ 862,531	\$ 97,583

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



**City of Sacramento**  
**Proprietary Funds**  
**Statement of Cash Flows**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Storm Drainage Fund</b>	<b>Solid Waste Fund</b>
Cash flows from operating activities:				
Receipts from customers and users	\$ 77,459	\$ 21,141	\$ 35,139	\$ 64,350
Receipts from interfund services provided	-	-	-	-
Payments to suppliers	(17,028)	(7,843)	(4,456)	(33,383)
Payments to employees	(22,374)	(6,562)	(19,958)	(14,924)
Claims and judgments paid	(114)	(339)	(122)	(83)
Net cash provided by (used for) operating activities	<u>37,943</u>	<u>6,397</u>	<u>10,603</u>	<u>15,960</u>
Cash flows from noncapital financing activities:				
Transient occupancy taxes	-	-	-	-
Transfers in from other funds	54	19	45	115
Transfers out to other funds	(8,941)	(2,218)	(3,808)	(6,700)
Proceeds from sale of inventory	-	-	-	-
Collections on interfund loans	-	-	-	-
Loans made to other funds	-	-	-	-
Interfund loan repayments	-	-	-	-
Loan payments	(76)	-	-	-
Intergovernmental revenue received	425	-	3,327	785
Payments for flood control agency	-	-	(1,624)	-
Claim and judgment recoveries	-	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>(8,538)</u>	<u>(2,199)</u>	<u>(2,060)</u>	<u>(5,800)</u>
Cash flows from capital and related financing activities:				
Interfund loan repayments	(329)	(108)	(221)	(246)
Interest payment on interfund loan repayments	(7)	(2)	(5)	(5)
Acquisition and construction of capital assets	(18,386)	(1,787)	(2,047)	-
Proceeds from sale of capital assets	-	-	4	3
Proceeds from issuance of debt	4,987	-	377	5,028
Principal payments on capital debt	(3,330)	(687)	(2,640)	(1,838)
Interest payments on capital debt	(7,978)	(172)	(944)	(1,376)
Intergovernmental revenue received	-	17	-	-
Transfers in from other funds	-	-	-	-
Transfers out to other funds	-	(51)	(83)	(121)
Capital contributions received	5,836	325	106	-
Loan repayments received	225	2	-	-
Net cash provided by (used for) capital and related financing activities	<u>(18,982)</u>	<u>(2,463)</u>	<u>(5,453)</u>	<u>1,445</u>
Cash flows from investing activities:				
Collection of interest and investment revenue	649	170	261	403
Investments received with settlement after year end	(645)	(210)	(288)	(206)
Payments for investment purchased in prior year	-	-	(240)	-
Investment sold with settlement after year end	-	-	-	-
Loans made	(512)	(181)	-	-
Loan repayments received	-	-	3	-
Net cash provided by (used for) investing activities	<u>(508)</u>	<u>(221)</u>	<u>(264)</u>	<u>197</u>
Net increase (decrease) in cash and cash equivalents	9,915	1,514	2,826	11,802
Cash and cash equivalents, beginning of year	<u>51,111</u>	<u>18,611</u>	<u>25,256</u>	<u>8,597</u>
Cash and cash equivalents, end of year	<u>\$ 61,026</u>	<u>\$ 20,125</u>	<u>\$ 28,082</u>	<u>\$ 20,399</u>

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

## City of Sacramento

### Proprietary Funds

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012

(in thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Community Center Fund	Other Enterprise Funds	Total	
Cash flows from operating activities:				
Receipts from customers and users	\$ 8,341	\$ 25,134	\$ 231,564	\$ -
Receipts from interfund services provided	-	-	-	126,809
Payments to suppliers	(6,101)	(9,865)	(78,676)	(91,151)
Payments to employees	(5,668)	(8,990)	(78,476)	(10,718)
Claims and judgments paid	-	(13)	(671)	(15,280)
Net cash provided by (used for) operating activities	(3,428)	6,266	73,741	9,660
Cash flows from noncapital financing activities:				
Transient occupancy taxes	15,339	-	15,339	-
Transfers in from other funds	-	3	236	7
Transfers out to other funds	(1,678)	(2,998)	(26,343)	(754)
Proceeds from sale of inventory	-	-	-	482
Collections on interfund loans	-	-	-	13,704
Loans made to other funds	-	-	-	(43,359)
Interfund loan repayments	(250)	-	(250)	-
Loan payments	-	-	(76)	-
Intergovernmental revenue received	-	1,054	5,591	-
Payments for flood control agency	-	-	(1,624)	-
Claim and judgment recoveries	-	-	-	239
Net cash provided by (used for) noncapital financing activities	13,411	(1,941)	(7,127)	(29,681)
Cash flows from capital and related financing activities:				
Interfund loan repayments	-	(89)	(993)	-
Interest payment on interfund loan repayments	-	(2)	(21)	-
Acquisition and construction of capital assets	(61)	(466)	(22,747)	(10,944)
Proceeds from sale of capital assets	-	-	7	751
Proceeds from issuance of debt	-	900	11,292	-
Principal payments on capital debt	(6,957)	(2,199)	(17,651)	(323)
Interest payments on capital debt	(3,345)	(2,019)	(15,834)	(131)
Intergovernmental revenue received	-	-	17	-
Transfers in from other funds	-	-	-	372
Transfers out to other funds	-	(1,069)	(1,324)	-
Capital contributions received	-	-	6,267	-
Loan repayments received	-	-	227	-
Net cash provided by (used for) capital and related financing activities	(10,363)	(4,944)	(40,760)	(10,275)
Cash flows from investing activities:				
Collection of interest and investment revenue	389	305	2,177	1,261
Investments received with settlement after year end	-	-	(1,349)	-
Payments for investment purchased in prior year	-	(311)	(551)	(712)
Investment sold with settlement after year end	-	(317)	(317)	(410)
Loans made	-	-	(693)	-
Loan repayments received	25	-	28	-
Net cash provided by (used for) investing activities	414	(323)	(705)	139
Net increase (decrease) in cash and cash equivalents	34	(942)	25,149	(30,157)
Cash and cash equivalents, beginning of year	22,295	34,622	160,492	86,262
Cash and cash equivalents, end of year	\$ 22,329	\$ 33,680	\$ 185,641	\$ 56,105

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

(continued)

**City of Sacramento**  
**Proprietary Funds**  
**Statement of Cash Flows**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Storm Drainage Fund</b>	<b>Solid Waste Fund</b>
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Cash and investments held by City	\$ 42,591	\$ 16,764	\$ 23,741	\$ 16,084
Cash and investments held by fiscal agent	-	-	50	-
Restricted cash and investments held by City	18,435	3,361	3,540	4,315
Restricted cash and investments held by fiscal agent	-	-	751	-
<b>Total cash and cash equivalents, end of year</b>	<b>\$ 61,026</b>	<b>\$ 20,125</b>	<b>\$ 28,082</b>	<b>\$ 20,399</b>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 20,055	\$ 1,138	\$ (2,249)	\$ 12,354
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation/amortization expense	16,456	4,084	11,156	1,838
Changes in assets and liabilities:				
Accounts receivable, net	(2,186)	(342)	596	335
Intergovernmental receivables	675	-	-	(15)
Inventories	564	(16)	14	-
Deferred charges	-	-	-	-
Accounts payable	2,128	334	508	724
Accrued payroll	81	40	49	31
Accrued compensated absences	(71)	45	69	56
OPEB liabilities	1,025	387	534	1,274
Accrued claims	49	32	27	40
Liability for landfill closure	-	-	-	(655)
Deposits	-	-	(100)	-
Unearned revenue	(833)	(13)	(1)	(22)
Capital leases payable	-	708	-	-
Non-cash contribution from Wastewater Fund	-	-	-	-
<b>Net cash provided by (used for) operating activities</b>	<b>\$ 37,943</b>	<b>\$ 6,397</b>	<b>\$ 10,603</b>	<b>\$ 15,960</b>
Noncash investing, capital and financing activities:				
Contributions of capital assets	\$ 486	\$ 119	\$ 726	\$ 3
Transfer of capital assets from governmental funds, net of depreciation	578	1,192	2,978	-
Capital assets purchased on capital lease	-	-	-	-
Capital lease obligation for purchase of Fleet Fund vehicles	-	(708)	-	-
Capitalized interest	472	33	36	-
Amortization of bond premium, discount, and loss on refunding	217	-	(10)	(64)
Amortization of deferred charges	(119)	-	(4)	(15)
Accrual of interest on interfund advance	-	-	-	-
Change in securities lending assets	166	50	71	93
Change in securities lending obligations	(116)	(33)	52	(93)
Write down of obsolete inventory	-	-	-	-
Loan forgiveness	-	-	-	-
Change in Intergovernmental receivable due for compensated absence liability	-	-	10	-
Change in accounts receivable related to claim and judgment recoveries	-	-	-	-
Purchase of capital assets on accounts payable	38	-	-	-
Interest accrual on loans receivable	-	-	-	-
Accrued interest added to Marina Phase V loan	-	-	-	-
Change in intergovernmental receivable for capital contributions	1,159	-	-	-

(continued)

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

## City of Sacramento

### Proprietary Funds

### Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012

(in thousands)

	Business-type Activities - Enterprise Funds			Governmental
	Community Center Fund	Other Enterprise Funds	Total	Activities - Internal Service Funds
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Cash and investments held by City	\$ 10,311	\$ 31,408	\$ 140,899	\$ 55,895
Cash and investments held by fiscal agent	1,034	118	1,202	210
Restricted cash and investments held by City	1,324	395	31,370	-
Restricted cash and investments held by fiscal agent	9,660	1,759	12,170	-
<b>Total cash and cash equivalents, end of year</b>	<b>\$ 22,329</b>	<b>\$ 33,680</b>	<b>\$ 185,641</b>	<b>\$ 56,105</b>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (6,322)	\$ 4,252	\$ 29,228	\$ 772
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation/amortization expense	2,419	2,484	38,437	8,636
Changes in assets and liabilities:				
Accounts receivable, net	(109)	(30)	(1,736)	31
Intergovernmental receivables	-	-	660	-
Inventories	-	-	562	201
Deferred charges	-	8	8	-
Accounts payable	(521)	(501)	2,672	(1,838)
Accrued payroll	21	4	226	6
Accrued compensated absences	8	16	123	53
OPEB liabilities	133	222	3,575	478
Accrued claims	14	7	169	2,023
Liability for landfill closure	-	-	(655)	-
Deposits	-	(2)	(102)	2
Unearned revenue	929	(194)	(134)	4
Capital leases payable	-	-	708	-
Non-cash contribution from Wastewater Fund	-	-	-	(708)
<b>Net cash provided by (used for) operating activities</b>	<b>\$ (3,428)</b>	<b>\$ 6,266</b>	<b>\$ 73,741</b>	<b>\$ 9,660</b>
Noncash investing, capital and financing activities:				
Contributions of capital assets	\$ -	\$ -	\$ 1,334	\$ -
Transfer of capital assets from governmental funds, net of depreciation	-	-	4,748	-
Capital assets purchased on capital lease	-	-	-	708
Capital lease obligation for purchase of Fleet Fund vehicles	-	-	(708)	-
Capitalized interest	64	30	635	-
Amortization of bond premium, discount, and loss on refunding	(813)	(68)	(738)	(10)
Amortization of deferred charges	(132)	(25)	(295)	3
Accrual of interest on interfund advance	(150)	-	(150)	-
Change in securities lending assets	-	67	447	11
Change in securities lending obligations	14	32	(144)	(6)
Write down of obsolete inventory	-	-	-	(530)
Loan forgiveness	(3)	-	(3)	-
Change in Intergovernmental receivable due for compensated absence liability	-	-	10	-
Change in accounts receivable related to claim and judgment recoveries	-	-	-	31
Purchase of capital assets on accounts payable	-	-	38	3,569
Interest accrual on loans receivable	-	(29)	(29)	-
Accrued interest added to Marina Phase V loan	-	34	34	-
Change in intergovernmental receivable for capital contributions	-	-	1,159	-

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

**City of Sacramento**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**

June 30, 2012  
(in thousands)

	Pension Trust Fund	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>				
Cash and cash equivalents held by City	\$ 21,051	\$ 145,032	\$ 102,947	\$ 28,747
Cash and investments held by fiscal agent	-	-	3,184	17,913
Securities lending assets	29,364	539	484	-
Receivables, net:				
Taxes	-	-	-	379
Accounts	-	-	-	26
Interest	2,026	739	613	43
Intergovernmental	-	-	3,789	-
Investments sold	220	416	-	-
Investments, at fair value:				
U.S. government obligations	4,309	-	-	-
Corporate bonds	62,694	-	-	-
Equity securities	109,132	-	-	-
Exchange traded funds	46,019	-	-	-
Municipal bonds	44,253	-	-	-
Mortgage loans	7,457	-	-	-
Loans receivable	-	-	45,504	-
Capital assets:				
Land	-	-	46,948	-
Buildings and improvements	-	-	17,519	-
Less: accumulated depreciation/amortization	-	-	(2,166)	-
 Total assets	 <u>326,525</u>	 <u>146,726</u>	 <u>218,822</u>	 <u>\$ 47,108</u>
<b>LIABILITIES</b>				
Securities lending obligations	30,024	935	1,196	\$ -
Accounts payable	31	830	28,976	-
Benefits payable	361	-	-	-
Due to bondholders	-	-	-	47,108
Interest payable	-	-	1,274	-
OPEB liability	-	-	2,351	-
Pollution remediation obligations	-	-	1,069	-
Bonds payable	-	-	18,070	-
Notes payable	-	-	279,680	-
 Total liabilities	 <u>30,416</u>	 <u>1,765</u>	 <u>332,616</u>	 <u>\$ 47,108</u>
<b>NET POSITION (DEFICIT)</b>				
Held in trust for pension benefits and other purposes	<u>\$ 296,109</u>	<u>\$ 144,961</u>	<u>\$ (113,794)</u>	

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

**City of Sacramento**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Pension Trust Fund	Investment Trust Funds	Private Purpose Trust Fund
Additions:			
Property taxes	\$ -	\$ -	\$ 15,494
Contributions:			
Employer	10,361	-	-
Employees	332	-	-
Total contributions	10,693	-	-
Investment income:			
From investment activities:			
Net appreciation in fair value of investments	3,277	(3,165)	-
Interest	7,985	7,530	2,512
Dividends	4,302	-	-
Other income	-	-	453
Total investment income	15,564	4,365	2,965
Investment expenses:			
Banking, interest, and fiscal agent expenses	63	142	-
Professional services	1,178	-	-
Total investment expenses	1,241	142	-
Net income from investment activities	14,323	4,223	2,965
From securities lending activities:			
Interest	-	4	-
Securities lending income	199	-	-
Total securities lending income	199	4	-
Securities lending expenses:			
Management fees	50	1	-
Total securities lending expenses	50	1	-
Net income from securities lending activities	149	3	-
Total net investment income	14,472	4,226	2,965
Deposits	-	142,462	-
Gain on disposition of capital assets	-	-	441
Total additions	25,165	146,688	18,900
Deductions:			
Benefits	32,769	-	-
Withdrawals	288	280,037	-
Project obligation payments	-	-	2,058
Interest expense	-	-	6,280
Depreciation expense	-	-	186
Total deductions	33,057	280,037	8,524
Extraordinary item from redevelopment agency dissolution	-	-	(124,170)
Change in net position	(7,892)	(133,349)	(113,794)
Net position, beginning of year	304,001	278,310	-
Net position (deficit), end of year	\$ 296,109	\$ 144,961	\$ (113,794)

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

# Notes to the Financial Statements



# City of Sacramento

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### DEFINITION OF REPORTING ENTITY

The City of Sacramento (City) was incorporated in 1849 under the laws of the State of California. Sacramento is a charter city and operates under a City Council – City Manager form of government. The City provides a full range of municipal services including police, fire, water, wastewater, storm drainage, solid waste, construction and maintenance of streets, planning and zoning, code enforcement, parks, recreation programs, and cultural activities.

These basic financial statements present the financial status of the City and its component units, which are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Component unit financial statements may be obtained from the City's Department of Finance.

#### Blended Component Unit

The Sacramento City Financing Authority (SCFA) is a joint exercise of powers entity created by the City and the former Redevelopment Agency of the City of Sacramento for the purpose of acting as a nominal lessor for City financing. The SCFA is administered by a governing board consisting of the members of the City Council.

#### Fiduciary-type Component Units

Sacramento City Employees' Retirement System (SCERS) is a single employer pension plan sponsored and administered by the City for City employees, except public safety employees, hired before January 29, 1977 and public safety employees who retired with SCERS benefits before December 30, 1989. Under provisions of the City Charter, SCERS is managed by the Administration, Investment and Fiscal Management Board (the Board), consisting of the City Manager, City Director of Finance, City Treasurer and two residents of the City appointed by the City Council. Duties of the Board include the adoption of investment standards for SCERS, the establishment of contribution rates, the administration and investment of funds, the selection of investment advisors, the crediting of interest and any action relating to the fiscal management of SCERS.

The Successor Agency to the Redevelopment Agency of the City of Sacramento (Successor Agency) was created to serve as a custodian for the assets and to wind down the affairs of the former Redevelopment Agency of the City of Sacramento. The Successor Agency is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven member representatives from local government bodies: two appointed by the Mayor; two County of Sacramento (County) representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and the largest special district taxing entity. Based upon the nature of the Successor Agency's custodial role, it is reported in a fiduciary fund (private-purpose trust fund).

#### Discretely Presented Component Unit

The Sacramento Regional Arts Facilities Financing Authority (SRAFFA) is reported in a separate column in the government-wide financial statements to emphasize its legal separation from the City. The SRAFFA is a joint powers agency between the City and County of Sacramento (County) created for the purpose of financing the expansion of the theater complex located on H Street. The authority is governed by a board of five directors whose members are three designees of the City Council and two designees of the County Board of Supervisors. The members of the board serve at the pleasure of their respective legislative bodies and may be removed at will. Upon future dissolution, any remaining assets revert to the City and County of Sacramento in such manner as determined by the board. The SRAFFA is presented as a business-type activity in the component units column of the government-wide statements.

#### ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America 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 accounting policies of the City are described below.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New Pronouncements**

Effective July 1, 2011, the City implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. GASB Statement No. 53 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The City is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of the following GASB Statements:

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The City has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. The City has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. The City has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City has not determined what impact, if any, this pronouncement will have on the financial statements. The provisions of this Statement are effective for the City's fiscal year ended June 30, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The City has not determined what impact, if any, this pronouncement will have on the financial statements. The provisions of this Statement are effective for the City's fiscal year ended June 30, 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local government for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The City will be required to recognize a liability equal to the net pension liability in its financial statements prepared using the economic resources measurement focus and accrual basis of accounting. The City has not determined what impact this pronouncement will have on the financial statements. The provisions of this Statement are effective for the City's fiscal year ended June 30, 2015.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are allocated to expenses and capital assets of governmental and business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule the effect of interfund activity has been removed from the government-wide financial statements. Internal service fund activity has been eliminated from the statement of activities. The effect of interfund services provided and used between functions, such as the sale of water from the Water Fund to the General Fund, has not been eliminated in the statement of activities. The City's payments in lieu of taxes from its enterprise funds to the General Fund are reported as interfund transfers.

The accounts of the City are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary trust fund financial statements. Agency funds, included in the fiduciary fund financial statements, are also reported using the accrual basis of accounting, however they are not reported using a measurement focus because only assets and liabilities are presented. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility users taxes, intergovernmental revenue, special assessments, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Grants Fund is used to account for capital improvement program projects that are funded by parties outside of the City including the State and Federal governments.

The 1997 Lease Revenue Bond Fund accounts for the loan receivable, debt service activities and related transactions concerning the acquisition and lease back of a sports and entertainment arena.

The City reports the following major enterprise funds:

The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

The Wastewater Fund (formerly the Sewer Fund) accounts for the operation and maintenance of the City's sewer system.

The Storm Drainage Fund accounts for the operation and maintenance of the City's surface drainage system.

The Solid Waste Fund accounts for the collection and disposal of refuse throughout the City and for landfill closure.

The Community Center Fund accounts for the operation and maintenance of the City's Community Center, including the theater and exhibit halls.

Additionally, the City reports the following fund types:

Internal service funds account for the financing of fleet and risk management services to other departments on a cost reimbursement basis.

The Pension Trust Fund accounts for the assets held on behalf of the Sacramento City Employees' Retirement System (SCERS) for pension benefit payments to qualified employees.

Investment trust funds account for the net assets held on behalf of investors, in the City's investment pool and individual accounts, who are not part of the City's financial reporting entity.

The Private Purpose Trust Fund accounts for the assets received from the City's former redevelopment agency in order to liquidate its enforceable obligations, pursuant to Assembly Bill X1 26 which dissolved redevelopment agencies in California.

Agency funds account for assets held by the City as an agent for bonded assessment and community facilities districts.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, including fees, fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Program revenues also include earnings on investments that are legally restricted for a specific program. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When expenditures are incurred with unrestricted resources, the City's policy is to first use committed fund balance, then assigned fund balance, and lastly unassigned fund balance amounts.

**Budgetary Data**

The City Manager submits a proposed budget to the City Council no later than 60 days prior to the commencement of the fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget in June. The budget adoption resolution specifies that budgets will be controlled at the department level (e.g., police, fire, transportation, etc.) by fund.

Annual budgets are adopted for the General Fund, certain activities within the Transportation and Development Fund, the Culture and Leisure Fund, the Parks and Recreation Fund, the Special Districts Fund, the City/County Office of Metropolitan Water Planning (CCOMWP) Fund, and the Cal EPA Fund. Annual budgets are also adopted for the enterprise and internal service funds, although they are not legally required. Multi-year project budgets are adopted for the General Fund, Capital projects funds, and the Operating Grants special revenue fund where appropriations remain authorized for each project until closed, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment.

Budgets are modified throughout the year when the tax base changes, fees are modified, new revenue sources are identified, or programs are changed. The City Manager is authorized to administratively amend the budget during the year for transactions up to \$100 without City Council approval. All other appropriation adjustments during the year require City Council approval. Significant appropriation adjustments were not required during the year ended June 30, 2012. Unencumbered annual budget appropriations lapse at fiscal year-end. The City honors contracts represented by year-end encumbrances and the appropriations carried over provide authority to complete these transactions in future years. Multi-year project budget appropriations are automatically carried over into the next fiscal year.

**Financial Statement Elements**

**Investments** - City investments are recorded at fair value, except real estate mortgages, which are recorded at cost. The estimated fair value of all investments is the quoted market price. Certain bond covenants require that interest earned on assessment district construction proceeds, which are reported in other governmental funds, be credited to reserve accounts, which are reported in Agency funds. Interest earned on all other cash and investments is credited to the fund which holds the investment.

# City of Sacramento

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial Statement Elements (Continued)

**Property Taxes** - Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the base and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

Property taxes are levied annually by the Sacramento County Assessor on July 1 and become a lien on property on the preceding January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively.

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan". The State Revenue and Taxation Code allow counties to distribute secured real property, assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Sacramento County. The Teeter Plan payment, which includes 95% of the outstanding accumulated delinquency, is included in property tax revenue. Under the Teeter Plan code, 5% of the delinquency must remain with the County as a reserve for Teeter Plan funding.

**Receivables and Payables** – Property taxes, sales taxes, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end.

Federal and State grants are considered receivable and accrued as revenue when all eligibility requirements have been met under the accrual basis of accounting in the government-wide statement of net position. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available.

Long-term loans receivable reported in the governmental fund statements are recorded with offsetting deferred revenue or nonspendable fund balance for noncurrent assets because the resources cannot be spent. Long-term loans receivable reported in the proprietary fund statements, as well as long-term loans reported in the government-wide statements, are not offset by deferred revenue. Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories and Prepaid Items** - Inventories in the proprietary funds are stated at the lower of average cost or market and consist of expendable materials and supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Statement Elements (Continued)**

**Restricted Assets** - Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position and balance sheets because their use is limited by applicable bond covenants. Unspent developer impact fee are classified as restricted assets on the statements of net position for the Water and Wastewater enterprise funds.

**Capital Assets** - Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded at the lower of actual historical cost or fair value (as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	Primarily 15 to 70 years
Transmission and distribution systems	Primarily 15 to 100 years
Machinery, vehicles and equipment	Primarily 5 to 30 years
Software	Primarily 5 to 20 years
Roadway network	Primarily 20 to 70 years
Street light network	Primarily 40 to 50 years
Parks and park improvements	Primarily 15 to 30 years

It is the policy of the City to capitalize all land, buildings and improvements, equipment, and infrastructure assets, except assets costing less than \$20, unless a federal funding source is utilized. The City also capitalizes all intangible capital assets, primarily easements and software, except assets costing less than \$100, unless a federal funding source is utilized. All capital assets in excess of \$5 financed by a federal funding source are capitalized. Costs of capital assets sold or retired (and related amounts of accumulated depreciation/amortization) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related proprietary fund, governmental activities, and business-type activities. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. When the asset constructed is financed by a specific bond issue, the interest included is net of interest earned on the invested bond proceeds over the same period.

The Crocker Art Museum's collection of works of art, held in trust by the City, has not been reported in these financial statements. The City has elected not to report the collection because it meets the three criteria for waiving capitalization: the collection is held for reasons other than financial gain; the collection is protected, kept unencumbered, cared for, and preserved; and the collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for the collection.

**Compensated Absences** - Benefit qualified employees accrue vacation, sick, and holiday benefits. A full time employee may accumulate up to sixty days of vacation. Sick leave vests and may be accumulated until retirement. An employee with sixty or more days of accumulated sick leave at the end of a calendar year may elect to receive a 25% payment of any unused sick leave earned in the previous calendar year. The amount of sick leave paid is deducted from the employee's total accumulation. Upon retirement, employees with a minimum of 20 years of City service, excluding SCERS employees, have the option of converting their sick leave accumulation into CalPERS service credit hours, or receiving a cash payment of one-third of the accumulated sick leave. Employees who leave the City and are not retiring forfeit any remaining sick leave.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Statement Elements (Continued)**

Employees receive 14 holidays per calendar year. Employees accrue all or a portion of these 14 days during the year depending on their job classification. Classifications that accrue all 14 days get paid in cash throughout the year whenever their holiday leave balances exceed the 14 day total. All other employees accrue two days of “floating” holiday time throughout the year in conjunction with their remaining twelve holidays. Employees who accrue “floating” holiday time get paid annually in January for any calendar year-end balance greater than eight hours.

All hourly employees have the option of being compensated for their overtime pay with compensatory time off (CTO). Depending on the employee’s CTO plan, the employee may accrue a maximum of 80, 120 or 160 hours of CTO. The employee’s applicable labor agreement or the City Council’s resolution for unrepresented employees determines the maximum accruable number of CTO hours.

All compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Deferred Revenue / Unearned Revenue** - Deferred revenue in governmental funds arise when potential revenue does not meet the “available” criteria for recognition in the current period. Deferred revenue (unearned revenue in accrual based statements) also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

**Long-term Obligations** - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Gains and losses on debt refunding are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method. Bonds payable are reported net of bond premium or discount and net of gains and losses on debt refunding. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Balance** - In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Amounts that are restricted to specific purposes, either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation, are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through a resolution are classified as committed fund balances. Amounts that are constrained by the City Council’s intent to be used for specific purposes through a resolution, but are neither restricted nor committed, are classified as assigned fund balances. Negative fund balance in governmental funds, after determining the fund balance classifications described above, is reported as unassigned fund balance.



**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Statement Elements (Continued)**

The City’s Economic Uncertainty Reserve (Reserve) is a stabilization arrangement in the General Fund reported as committed fund balance. The City Council reaffirmed its policy goal for the Reserve in its resolution number 2012-362 adopted with the fiscal year 2012/13 annual budget. The adopted Reserve goal is to achieve a reserve equal to 10% of annual General Fund revenue. The City Manager may recommend a release from the Reserve when the gap between projected revenue and expenditures is greater than \$1,000 in the proposed budget. Additions and releases from the Reserve must be approved by City Council by resolution.

**Statement of Cash Flows** - For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**NOTE 2 – CASH AND INVESTMENTS**

The following is a summary of cash and investments at June 30, 2012:

	Government-wide Statement of Net Position		Fiduciary Funds	Total
	Primary Government	Component Units	Statement of Net Position	
Cash and investments	\$ 450,247	\$ -	\$ 592,738	\$ 1,042,985
Securities lending assets	1,791	-	30,387	32,178
Restricted cash and investments	76,664	1,094	-	77,758
<b>Total</b>	<b>\$ 528,702</b>	<b>\$ 1,094</b>	<b>\$ 623,125</b>	<b>\$ 1,152,921</b>

Under the authority of the Sacramento City Charter, the Sacramento City Council, by Resolution 2011-467, has delegated its investment authority to the City Treasurer. The City Treasurer manages the City’s investments in accordance with the City’s Investment Policy, which was last reaffirmed by the City Council on August 16, 2011. The City’s investment policy requires compliance with the California Government Code for investments of public funds. The City’s investment policy also provides limits on rate anticipation, arbitrage, and other swap investments.

During the fiscal year the City purchased two bonds which were not in compliance with the City’s Investment Policy. The City’s Investment Policy incorporates permitted investments set forth in the California Government Code and prohibits investments in U.S. Agency obligations and Medium term notes with maturities longer than five years and thirty days without prior approval of the City Council. Prior approval for the extended terms to maturity was not obtained. These purchases were disclosed to the City Council on July 31, 2012, as part of the Treasurer’s Office report on investment transactions. Both bonds were held by the City as of June 30, 2012, as follows: one bond issued by the Federal Home Loan Mortgage Corporation maturing on August 22, 2017, with a fair value at June 30, 2012, of \$1,152; and one medium term note issued by General Electric Capital Corporation maturing on December 6, 2017, with a fair value at June 30, 2012, of \$1,752.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

SCERS pension trust fund investments are managed pursuant to investment standards adopted by the SCERS Administration, Investment, and Fiscal Management Board. Investment standards adopted by the SCERS Board authorize the City Treasurer to invest in debt securities, equity securities, promissory notes, real estate mortgages or other securities and investments deemed to be prudent by the Board. Other securities and investments cannot exceed 25% of the total assets (cost basis). In addition, promissory notes (cost basis) cannot exceed 25% of the investment portfolio, while real estate mortgages (cost basis) cannot exceed 10% of total assets of SCERS. Investments of other trust funds are managed pursuant to City Council ordinances and authority granted by various boards and commissions.

The table below identifies the investment types that are authorized for public funds of the City by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Local agency bonds	5 years*	None	None	None
U.S. Treasury obligations	5 years*	None	None	None
U.S. agency securities	5 years*	None	None	None
Bankers acceptance	180 days	40%	30%	None
Commerical paper	270 days	25%	10%	A1/P1
Negotiable certificates of deposit	5 years	30%	None	None
Repurchase agreements	1 year	None	None	None
Reverse repurchase and securities lending agreements	92 days	20% of base value	None	None
Medium term notes (bank notes and corporate bonds)	5 years*	30%	None	A
Mutual funds	N/A	20%	10%	None
Money market mutual funds	N/A	20%	10%	None
Collateralized bank deposits	5 years	None	None	None
Mortgage pass-through securities	5 years	20%	None	AA
Time deposits	5 years	None	None	None
Joint Powers Authority pool	N/A	None	None	None
County pooled investment	N/A	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None

\*The City investment policy allows these investments to have maximum maturities of 5 years, plus not more than 30 days. Such approved maturity extensions are authorized by California Government Code section 53601.

The table above does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, or investments held by the SCERS pension trust fund or other trust funds.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City’s investment policy limits interest rate risk by requiring compliance with the California Government Code for investments of public funds, as described in detail above. One of the ways that the City of Sacramento manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly overtime as necessary to provide the cash flow and liquidity needed for operations.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Interest Rate Risk (Continued)**

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. The remaining maturity of the City's investments included in the table below is based on the stated maturity dates of the individual investments. Investments in equities, or in debt securities with remaining maturities longer than five years, are held by the SCERS pension trust fund, pension and other trust funds, or by bond trustees pursuant to debt agreements.

The City's cash and investments by maturities as of June 30, 2012 are as follows:

Investment Type	No Maturity	Remaining Maturity in Years			Fair Value
		Under 1	1-5	Over 5	
Certificates of deposit	\$ -	\$ 8,750	\$ -	\$ -	\$ 8,750
Commercial paper	-	143,000	-	-	143,000
Corporate bonds	-	28,277	210,688	48,359	287,324
Deposits	3,779	-	-	-	3,779
Equities	113,034	-	-	-	113,034
Exchange traded funds	47,236	-	-	-	47,236
Investment Trust of California (CalTRUST)	-	31,976	67,650	-	99,626
Local Agency Investment Fund (LAIF)	-	50,000	-	-	50,000
Mortgage loans	-	4,877	-	2,580	7,457
Municipal bonds	-	15,045	69,425	43,520	127,990
Mutual funds	-	26,951	-	-	26,951
Repurchase agreements	-	32,178	-	-	32,178
U.S. agencies	-	35,009	133,114	5,418	173,541
U.S. Treasury bills	-	7,000	-	-	7,000
U.S. Treasury bonds	-	-	-	326	326
U.S. Treasury notes	-	23,635	-	-	23,635
	<u>\$ 164,049</u>	<u>\$ 406,698</u>	<u>\$ 480,877</u>	<u>\$ 100,203</u>	<u>1,151,827</u>
Component Unit - SRAFFA					
Mutual funds	\$ -	\$ 85	\$ -	\$ -	85
U.S. Treasury notes	-	1,009	-	-	1,009
Total component unit	<u>\$ -</u>	<u>\$ 1,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,094</u>
Total Cash and Investments					<u>\$ 1,152,921</u>

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

Investments in variable rate securities are investments with terms that provide for the adjustment of interest rates on specified dates (such as the last day of a month or calendar quarter) based on predefined mathematical formulas using benchmark indices (such as CPI or LIBOR). The fair value of such investments can reasonably be expected to be affected at each interest rate reset date.

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yield than the original bonds. As a result, the fair value of the callable bonds is highly sensitive to changes in interest rates.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations (Continued)**

The City's investments, including those held by bond trustees, that are highly sensitive to interest rate fluctuations are as follows:

	<u>Fair Value</u>
Farmer Mac securities that have a maturity of 11/21/2016 and are callable semi-annually from 11/21/2012 to 5/21/2016.	\$ 2,710
Federal Farm Credit Bank securities that have a maturity of 5/09/2016 and are callable continuously after 5/09/2012.	8,000
Federal Home Loan Bank securities that have a maturity of 1/23/2017 and are callable quarterly from 7/23/2012 to 10/23/2016.	6,004
Federal Home Loan Mortgage Corporation securities that have a maturity of 8/22/2014 and callable monthly from 8/22/2012 to 7/22/2014.	5,005
Federal Home Loan Mortgage Corporation securities that have a maturity of 8/22/2017 and callable monthly from 8/22/2012 to 7/22/2014.	1,152
Federal National Mortgage Association securities that have a maturity of 9/19/2013 and are callable on 9/19/2012.	5,002
Federal National Mortgage Association securities that have a maturity of 10/17/2014 and are callable quarterly from 7/17/2012 to 7/17/2014.	5,001
Federal National Mortgage Association securities that have a maturity of 10/30/2014 and are callable on 4/30/2013.	3,992
Federal National Mortgage Association securities that have a maturity of 6/26/2015 and are callable quarterly from 12/26/2012 to 3/26/2015.	8,010
Federal National Mortgage Association securities that have a maturity of 10/21/2015 and are callable on 10/21/2013.	1,760
Federal National Mortgage Association securities that have a maturity of 9/26/2016 and are callable on 9/26/2012.	3,008
Federal National Mortgage Association securities that have a maturity of 1/30/2017 and are callable quarterly from 1/30/2013 to 10/30/2016.	5,022

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations (Continued)**

	<u>Fair Value</u>
Federal National Mortgage Association securities that have a maturity of 2/28/2017 and are callable on 2/28/2014.	\$ 5,000
Harvard President and Fellow securities that have a maturity of 10/01/2037 and are callable continuously beginning 4/01/2016.	2,327
Riverside County Redevelopment Agency Tax Allocation securities that have a maturity date of 10/01/2037 and are callable annually from 10/01/2020 to 10/01/2036.	3,274
Sacramento City Financing Authority securities that have a maturity of 12/01/2016 and are callable on 12/01/2015.	734
Sacramento City Financing Authority securities that have a maturity of 12/01/2020 and are callable annually from 12/01/2015 to 12/01/2019.	4,095
Sacramento City Financing Authority securities that have a maturity of 12/01/2025 and are callable annually from 12/01/2015 to 12/01/2024.	1,859

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy limits credit risk by requiring compliance with the California Government Code for investments of public funds, as described in detail above. At June 30, 2012, the City's deposits and investments, and corresponding credit ratings, are as follows:

Investment Type	S & P	Moody's	Fair Value	
Certificates of deposit	A	P1	\$ 8,000	
	not rated	not rated	750	
Commercial paper	A	P1	143,000	
Corporate bonds	A	A	141,934	
	A	Aa	3,108	
	A	Baa	40,170	
	AA	A	47,728	
	AA	Aa	29,050	
	AAA	Aaa	2,327	
	B	Baa	5,165	
	BBB	Baa	7,131	
	not rated	A	5,000	
	not rated	Aaa	5,142	
	not rated	WR	569	
	Deposits	not rated	not rated	3,779
	Equities (exempt from disclosure)	NA	NA	113,034
Exchange traded funds (exempt from disclosure)	NA	NA	47,236	
Investment Trust of California (CalTRUST)	not rated	not rated	99,626	
Local Agency Investment Fund (LAIF)	not rated	not rated	50,000	
Mortgage loans	not rated	not rated	7,457	
Municipal bonds	A	A	72,106	
	A	Ba	9,186	
	A	Baa	2,593	
	A	WR	4,095	
	AA	Aa	13,538	
	AA	AA	2,879	
	AA	Aaa	2,838	
	AA	not rated	5,153	
	BBB	A	746	
	BBB	Baa	1,554	
	SP1	not rated	7,427	
	not rated	not rated	5,875	
	Mutual funds	AAA	Aaa	26,697
Repurchase agreements	not rated	not rated	254	
	A	A	8,125	
	A	Baa	15,639	
	AA	Aa	6,951	
	BBB	Baa	1,463	

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Credit Risk (Continued)**

Investment Type	S & P	Moody's	Fair Value
U.S. agencies	AA	Aaa	137,522
	not rated	not rated	31,710
	N/A	N/A	4,309
U.S. Treasury bills (exempt from disclosure)	N/A	N/A	7,000
U.S. Treasury bonds (exempt from disclosure)	N/A	N/A	326
U.S. Treasury notes (exempt from disclosure)	N/A	N/A	23,635
Total primary government			1,151,827
Component Unit - SRAFFA			
Mutual funds	AAA	Aaa	85
U.S. Treasury notes (exempt from disclosure)	N/A	N/A	1,009
			1,094
Total Cash and Investments			\$ 1,152,921

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) which represent 5% or more of total investments at June 30, 2012:

U.S. agency securities	\$ 93,991
General Electric Corporation	\$ 91,778
Toyota Motor Credit Corporation	\$ 58,644

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code has provisions for financial institutions that limit custodial credit risk for deposits. Financial institutions are required to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC). The City's investment policy has no additional provisions for limiting custodial credit risk for deposits.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Custodial Credit Risk (Continued)**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer’s custodial agent in the City’s name.

As of June 30, 2012, investments were held by the same broker-dealer (counterparty) that was used by the City to purchase the securities:

\$32,178                  Investments purchased with cash collateral from securities lending transactions

**Securities Lending**

The City engages in securities lending transactions, whereby the City has authorized its custodial bank to loan its securities to approved counterparties for collateral (cash or securities) with a simultaneous agreement to return the collateral for the same securities in the future. Such loans are short-term and the City retains the right to sell, without penalty, the original securities in which it has invested. The City’s arrangement with the bank requires the bank to indemnify the City for failure of any counterparty to return the securities loaned. The City’s investment policy permits securities loans up to 20% of the fair value of the City’s portfolio.

Cash collateral received as of June 30, 2012, was equal to 100.4% of the market value of the loaned securities. The custodial bank uses the cash collateral to purchase investments. As of June 30, 2012, the weighted average maturity of the securities on loan was 141 days and the weighted average maturity of the investments purchased with cash collateral was 2 days. At year end, the City has no credit risk exposure to borrowers because the amounts the City owes the borrowers exceed the amounts the borrowers owe the City.

The City received cash collateral of \$37,005. The City does not have the ability to pledge or sell collateral securities delivered absent a borrower default. The following table provides information concerning the fair value of securities lent and investments purchased with the cash collateral as of June 30, 2012:

**Type of Investment Lent**

Equities	\$ 6,138
Exchange traded funds	24,435
Corporate bonds	3,469
U.S. Treasury bills	2,799
Total securities lent	<u>\$ 36,841</u>

**Type of Investment Purchased with Cash Collateral**

Repurchase agreements	\$ 32,178
-----------------------	-----------

**City Sponsored Investment Pool**

As part of the City’s total cash and investments portfolio, the City Treasurer manages an investment pool, which includes both internal and external investors. The pool is not registered with the Securities and Exchange Commission as an investment company. The City Treasurer is granted authority for managing the pool by City Charter Section 73 and City Council ordinances and resolutions. Monthly, the City Treasurer reports investment activity to the Council for review.



**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**City Sponsored Investment Pool (Continued)**

The fair value of investments is determined monthly. Participants' shares sold and redeemed are determined by the daily cash balance deposited in the pool (the value of its pool shares). The value of the pool shares is based upon amortized cost in day to day operations but is adjusted to the fair value at year-end. The investments are reported at fair value. The value of the shares is supported by the value of the underlying investments. External participants, including various joint powers agencies, comprise 8.36% of pool participation.

The following represents a condensed statement of net position and changes in net position for the City Sponsored Investment Pool as of June 30, 2012:

**Statement of Net Position:**

Investments at fair value	\$ 700,501
Interest receivables	2,760
Receivable from individual investment account	830
Trade settlement receivables	5,000
Securities lending obligations	(6,120)
Net Position	<u>\$ 702,971</u>
Equity of internal pool participants	\$ 644,185
Equity of external pool participants	58,786
Total equity	<u>\$ 702,971</u>

**Statement of Changes in Net Position:**

Net position at July 1, 2011	\$ 609,535
Net change in investments by pool participants	93,436
Net position at June 30, 2012	<u>\$ 702,971</u>

A summary of the investment classifications as of June 30, 2012 is as follows:

	Fair Value	Adjusted Cost	Interest Rates	Maturity Dates
Certificates of deposit	\$ 8,750	\$ 8,755	0.85-2.23%	10/12-02/13
Commercial paper	138,000	137,838	0.10-0.72%	07/12-01/13
Corporate bonds	199,437	197,661	0.50-6.50%	10/12-12/17
Deposits	2,956	2,956	N/A	N/A
Investment Trust of California (CalTRUST)	84,495	84,495	0.13-1.01%	N/A
Municipal bonds	62,958	61,625	0.75-5.65%	07/12-04/39*
Mutual funds	209	209	0.01%	N/A
Repurchase agreements	2,245	2,245	0.18-0.25%	07/12
State of California Treasurer's Local Agency Investment Fund	50,000	50,000	N/A	N/A
U.S. government and agency securities	<u>151,451</u>	<u>151,271</u>	0.11-3.37%	08/12-08/17
Total cash and investments in City sponsored investment pool	<u>\$ 700,501</u>	<u>\$ 697,055</u>		

\*The municipal bond with a maturity date of April 1, 2039, has a mandatory put date of April 1, 2013.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Participation in External Investment Pools**

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The balance available for withdrawal is based on the accounting records maintained by the LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the City's position in the LAIF pool. As of June 30, 2012, the City's investment in LAIF is \$50,000. The total amount invested by all public agencies in LAIF at that date is \$21,887,750. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2012 had a balance of \$60,588,264. Of that amount, 96.53% is invested in non-derivative financial products, and 3.47% is invested in derivative financial products.

The City is also a voluntary participant in the Investment Trust of California (CalTRUST) which is a Joint Powers Authority governed by a Board of Trustees made up of local treasurers and investment officers. The Board of Trustees sets overall policy for CalTRUST, and selects and supervises the activities of the Investment Manager and other agents. As of June 30, 2012, the City's investment in CalTRUST is \$99,626, of which \$31,976 was invested in the Money Market Fund, \$27,339 in the Short-term pool and \$40,311 in the Medium-term pool. Amounts that may be withdrawn from the Money Market Fund are based upon the fund's assets valued using the amortized cost method. Amounts that may be withdrawn from the Short-term and Medium-term pools are based on the net asset value per share and the number of shares held by participants in each pool.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 3 – RECEIVABLES**

Receivables as of June 30, 2012, were as follows:

	Taxes	Accounts	Loans	Inter- govern- mental	Interest	Investments sold	Total
<b>Governmental activities</b>							
General Fund	\$ 20,283	\$ 8,972	\$ 137	\$ -	\$ 324	\$ 585	\$ 30,301
Capital Grants Fund	-	280	-	55,383	-	-	55,663
1997 Lease Revenue Bond Fund	-	-	65,780	-	740	-	66,520
Other governmental funds	-	4,625	17,920	65,538	980	624	89,687
Internal service funds	-	106	1	-	226	410	743
	<u>\$ 20,283</u>	<u>\$ 13,983</u>	<u>\$ 83,838</u>	<u>\$ 120,921</u>	<u>\$ 2,270</u>	<u>\$ 1,619</u>	<u>\$ 242,914</u>
<b>Amounts not scheduled for collection during the subsequent year</b>							
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,706</u>	<u>\$ 45,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,364</u>
<b>Business-type activities</b>							
Water Fund	\$ -	\$ 19,671	\$ 9,131	\$ 1,191	\$ 688	\$ 645	\$ 31,326
Wastewater Fund	-	10,228	1,293	-	157	210	11,888
Storm Drainage Fund	-	6,339	3,878	1,977	284	288	12,766
Solid Waste Fund	-	12,847	4	825	114	206	13,996
Community Center Fund	2,227	253	177	-	22	-	2,679
Other enterprise funds	-	906	772	26	180	317	2,201
	<u>\$ 2,227</u>	<u>\$ 50,244</u>	<u>\$ 15,255</u>	<u>\$ 4,019</u>	<u>\$ 1,445</u>	<u>\$ 1,666</u>	<u>\$ 74,856</u>
<b>Component unit</b>							
Sacramento Regional Arts Facilities Financing Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,814</u>

Included in the Accounts Receivable amounts above are allowances for doubtful accounts of \$10,406.

Under the terms of a SRAFFA facility lease agreement, California Music Theater is obligated to make base rental payments in an amount equal to the debt service requirements of the certificates of participation.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 4 – CAPITAL ASSETS**

**Summary**

The following is a summary of capital assets as of June 30, 2012:

	Governmental Activities	Business- Type Activities	Total
<b>Capital assets not being depreciated/amortized</b>			
Land and improvements	\$ 187,079	\$ 54,318	\$ 241,397
Easements	416	157	573
Construction in progress	130,478	24,575	155,053
	<u>317,973</u>	<u>79,050</u>	<u>397,023</u>
<b>Depreciable/amortizable capital assets</b>			
Buildings and improvements	700,488	282,426	982,914
Equipment	72,626	58,740	131,366
Software	2,847	1,081	3,928
Vehicles	118,751	-	118,751
Transmission and distribution system	3,622	1,087,386	1,091,008
Roadway network	1,521,851	-	1,521,851
Streetlight network	188,023	-	188,023
Park improvements	150,554	-	150,554
	<u>2,758,762</u>	<u>1,429,633</u>	<u>4,188,395</u>
<b>Less accumulated depreciation/amortization for:</b>			
Buildings and improvements	(203,965)	(125,225)	(329,190)
Equipment	(39,301)	(30,109)	(69,410)
Software	(459)	(222)	(681)
Vehicles	(68,129)	-	(68,129)
Transmission and distribution system	(574)	(329,830)	(330,404)
Roadway network	(832,114)	-	(832,114)
Street light network	(59,773)	-	(59,773)
Park improvements	(25,233)	-	(25,233)
	<u>(1,229,548)</u>	<u>(485,386)</u>	<u>(1,714,934)</u>
Depreciable/amortizable capital assets, net	<u>1,529,214</u>	<u>944,247</u>	<u>2,473,461</u>
Total capital assets, net	<u>\$ 1,847,187</u>	<u>\$ 1,023,297</u>	<u>\$ 2,870,484</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 4 – CAPITAL ASSETS (Continued)**

**Governmental Activities**

Governmental capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers In/Out	Ending Balance
<b>Capital assets not being depreciated/amortized</b>					
Land and improvements	\$ 187,003	\$ -	\$ -	\$ 76	\$ 187,079
Easements	416	-	-	-	416
Construction in progress	113,254	105,189	-	(87,965)	130,478
	<u>300,673</u>	<u>105,189</u>	<u>-</u>	<u>(87,889)</u>	<u>317,973</u>
<b>Depreciable/amortizable capital assets</b>					
Buildings and improvements	686,205	-	-	14,283	700,488
Equipment	68,624	5,256	(1,452)	198	72,626
Software	2,847	-	-	-	2,847
Vehicles	116,113	15,125	(12,487)	-	118,751
Transmission and distribution system	3,622	-	-	-	3,622
Roadway network	1,485,463	7,389	(17,954)	46,953	1,521,851
Streetlight network	173,021	1,298	-	13,704	188,023
Park improvements	142,551	-	-	8,003	150,554
	<u>2,678,446</u>	<u>29,068</u>	<u>(31,893)</u>	<u>83,141</u>	<u>2,758,762</u>
<b>Less accumulated depreciation/amortization for:</b>					
Buildings and improvements	(187,491)	(16,474)	-	-	(203,965)
Equipment	(36,736)	(3,896)	1,331	-	(39,301)
Software	(269)	(190)	-	-	(459)
Vehicles	(71,187)	(8,388)	11,446	-	(68,129)
Transmission and distribution system	(526)	(48)	-	-	(574)
Roadway network	(794,922)	(55,146)	17,954	-	(832,114)
Streetlight network	(55,777)	(3,996)	-	-	(59,773)
Park improvements	(19,790)	(5,443)	-	-	(25,233)
	<u>(1,166,698)</u>	<u>(93,581)</u>	<u>30,731</u>	<u>-</u>	<u>(1,229,548)</u>
Depreciable/amortizable capital assets, net	<u>1,511,748</u>	<u>(64,513)</u>	<u>(1,162)</u>	<u>83,141</u>	<u>1,529,214</u>
Governmental activities capital assets, net	<u>\$ 1,812,421</u>	<u>\$ 40,676</u>	<u>\$ (1,162)</u>	<u>\$ (4,748)</u>	<u>\$ 1,847,187</u>
<b>Depreciation/amortization expense was charged to functions as follows:</b>					
General government	\$ 5,062				
Police	2,125				
Fire	1,100				
General services	3,504				
Transportation	58,544				
Economic development	104				
Convention, culture and leisure	4,536				
Parks and recreation	8,553				
Community development	162				
Library	1,255				
Capital assets held by the City's internal service funds are charged to the functions based on their usage of assets	8,636				
Total governmental activities depreciation/amortization expense	<u>\$ 93,581</u>				

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 4 – CAPITAL ASSETS (Continued)**

**Business-type Activities**

Business-type capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers In/Out	Ending Balance
Capital assets not being depreciated/amortized					
Land and improvements	\$ 53,995	\$ -	\$ -	\$ 323	\$ 54,318
Easements	157	-	-	-	157
Construction in progress	11,214	23,422	-	(10,061)	24,575
	<u>65,366</u>	<u>23,422</u>	<u>-</u>	<u>(9,738)</u>	<u>79,050</u>
Depreciable/amortizable capital assets					
Buildings and improvements	282,426	-	-	-	282,426
Equipment	56,688	-	-	2,052	58,740
Software	1,081	-	-	-	1,081
Transmission and distribution system	1,073,622	1,330	-	12,434	1,087,386
	<u>1,413,817</u>	<u>1,330</u>	<u>-</u>	<u>14,486</u>	<u>1,429,633</u>
Less accumulated depreciation/amortization for:					
Buildings and improvements	(118,394)	(6,831)	-	-	(125,225)
Equipment	(26,424)	(3,685)	-	-	(30,109)
Software	(133)	(89)	-	-	(222)
Transmission and distribution system	(301,998)	(27,832)	-	-	(329,830)
	<u>(446,949)</u>	<u>(38,437)</u>	<u>-</u>	<u>-</u>	<u>(485,386)</u>
Depreciable/amortizable capital assets, net	<u>966,868</u>	<u>(37,107)</u>	<u>-</u>	<u>14,486</u>	<u>944,247</u>
Business-type activities capital assets, net	<u>\$ 1,032,234</u>	<u>\$ (13,685)</u>	<u>\$ -</u>	<u>\$ 4,748</u>	<u>\$ 1,023,297</u>
Depreciation/amortization expense was charged to functions as follows:					
Water		\$ 16,456			
Wastewater		4,084			
Storm drainage		11,156			
Solid waste		1,838			
Community center		2,419			
Child development		77			
Marina		276			
Parking		2,131			
Total business-type activities depreciation/amortization expense		<u>\$ 38,437</u>			

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 5 – PAYABLES**

Payables as of June 30, 2012, were as follows:

	<u>Vendors</u>	<u>Employees</u>	<u>Interest</u>	<u>Deposits</u>	<u>Total</u>
Governmental activities					
General Fund	\$ 8,707	\$ 12,898	\$ -	\$ 53	\$ 21,658
Capital Grants Fund	13,497	-	-	-	13,497
Other governmental funds	8,416	114	2,507	1,542	12,579
Internal service funds	<u>6,951</u>	<u>360</u>	<u>10</u>	<u>4</u>	<u>7,325</u>
Total governmental activities	<u>\$ 37,571</u>	<u>\$ 13,372</u>	<u>\$ 2,517</u>	<u>\$ 1,599</u>	<u>\$ 55,059</u>
Business-type activities					
Water Fund	\$ 4,302	\$ 829	\$ 766	\$ 26	\$ 5,923
Wastewater Fund	7,350	241	74	-	7,665
Storm Drainage Fund	1,371	785	317	-	2,473
Solid Waste Fund	1,903	454	214	10	2,581
Community Center Fund	942	198	565	-	1,705
Other enterprise funds	<u>754</u>	<u>337</u>	<u>833</u>	<u>85</u>	<u>2,009</u>
Total business-type activities	<u>\$ 16,622</u>	<u>\$ 2,844</u>	<u>\$ 2,769</u>	<u>\$ 121</u>	<u>\$ 22,356</u>
Component unit					
Sacramento Regional Arts Facilities Financing Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 162</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 6 – OPERATING LEASES**

**City as Lessor**

The City leases an office building in downtown Sacramento under a cancellable operating lease agreement. The building’s original cost is \$153,226. The carrying value and accumulated depreciation for the building at June 30, 2012 is \$118,287 and \$34,939, respectively.

Under the terms of the lease, base rental payments for the lease have been assigned to the Treasurer of the State of California, as trustee for the bonds which financed the office building. Base rental payments are used to provide funds to service the bonds. Base rental income for the year ended June 30, 2012 was \$14,261.

**City as Lessee**

The City is obligated under various operating leases for the use of land, buildings, office space, and equipment. Lease expenditures, primarily for governmental funds, for the fiscal year ended June 30, 2012, were \$981.

Sublease rental income for the fiscal year ended June 30, 2012 was \$32. The total amount of minimum rentals to be received in the future under non-cancelable subleases is \$964.

Future minimum lease payments required by non-cancellable lease agreements that have initial lease terms in excess of one year are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2013	\$ 1,223
2014	452
2015	319
2016	313
2017	227
2018-2022	503
2023-2027	239
2028-2032	239
2033-2037	162
2038-2042	124
	<hr/>
Total future minimum lease payments	<u>\$ 3,801</u>



**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES**

**Activity**

The following is a summary of changes in long-term liabilities. Certain long-term liabilities provide financing to both governmental and business-type activities.

<b>GOVERNMENTAL ACTIVITIES:</b>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue and other bonds:					
1993 Refunded Revenue Bonds, Series A	\$ 13,817	\$ -	\$ (1,079)	\$ 12,738	\$ 1,137
1993 Refunded Revenue Bonds, Series B	23,234	-	(1,835)	21,399	1,926
1996 Lighting and Landscaping Bonds	2,980	-	(435)	2,545	455
1997 Lease Revenue Bonds	67,355	-	(1,575)	65,780	1,775
1999 CFD No. 2 Revenue Bonds, Series A	2,225	-	(105)	2,120	115
1999 Capital Improvement Revenue Bonds	490	-	(490)	-	-
2002 Capital Improvement Revenue Bonds	17,740	-	(4,910)	12,830	5,110
2002 Refunding Revenue Bonds	6,332	-	(3,089)	3,243	3,243
2003 Capital Improvement Revenue Bonds	25,315	-	(1,225)	24,090	1,270
2005 Refunding Revenue Bonds	60,399	-	(626)	59,773	1,239
2006 Capital Improvement Revenue Bonds, Ser. A	85,475	-	(2,870)	82,605	2,975
2006 Capital Improvement Revenue Bonds, Ser. B	52,090	-	(900)	51,190	960
2006 Capital Improvement Revenue Bonds, Ser. C	26,765	-	(570)	26,195	590
2006 Capital Improvement Revenue Bonds, Ser. D	2,430	-	-	2,430	-
2006 Capital Improvement Revenue Bonds, Ser. E	80,855	-	(52)	80,803	-
Subtotal, revenue and other bonds	<u>467,502</u>	<u>-</u>	<u>(19,761)</u>	<u>447,741</u>	<u>20,795</u>
Notes Payable:					
1997 State Department of Boating & Waterways	<u>677</u>	<u>-</u>	<u>(72)</u>	<u>605</u>	<u>75</u>
Subtotal, notes payable	<u>\$ 677</u>	<u>\$ -</u>	<u>\$ (72)</u>	<u>\$ 605</u>	<u>\$ 75</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Activity (Continued)**

<b>GOVERNMENTAL ACTIVITIES (Continued):</b>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Capital Lease Obligations:</b>					
Golf equipment- Lease #2	\$ 73	\$ -	\$ (73)	\$ -	\$ -
Fire trucks and equipment #1	3,833	-	(579)	3,254	602
Fire trucks and equipment #2	337	-	(46)	291	48
Fire trucks and equipment #3	4,180	-	(387)	3,793	405
Liquid nitrate gas (LNG) - refueling trailer	217	-	(21)	196	22
Parking pay and display meters #1	382	-	(123)	259	127
Parking pay and display meters #2	888	-	(242)	646	251
<b>Subtotal, capital lease obligations</b>	<b>9,910</b>	<b>-</b>	<b>(1,471)</b>	<b>8,439</b>	<b>1,455</b>
<b>Plus deferred amounts:</b>					
For issuance discounts	(159)	-	8	(151)	(8)
For issuance premiums	18,289	-	(1,064)	17,225	957
Net loss on refundings	(8,044)	-	553	(7,491)	(383)
<b>Subtotal deferred amounts</b>	<b>10,086</b>	<b>-</b>	<b>(503)</b>	<b>9,583</b>	<b>566</b>
<b>Subtotal, debt governmental activities</b>	<b>488,175</b>	<b>-</b>	<b>(21,807)</b>	<b>466,368</b>	<b>22,891</b>
<b>Other Long-term Liabilities:</b>					
Accrued claims and judgements	56,058	17,962	(15,254)	58,766	16,605
Compensated absences	31,219	30,452	(29,167)	32,504	1,897
OPEB liability	67,878	31,873	(10,448)	89,303	-
Pollution remediation obligations	900	-	(220)	680	225
Derivative instrument - interest rate swap	11,389	2,264	-	13,653	-
<b>Financing plan fee credits:</b>					
North Natomas	36,882	-	(420)	36,462	295
Jacinto Creek	842	37	-	879	-
Park Development	4,085	36	(97)	4,024	51
<b>Subtotal, other long-term liabilities</b>	<b>209,253</b>	<b>82,624</b>	<b>(55,606)</b>	<b>236,271</b>	<b>19,073</b>
<b>Total, governmental activities</b>	<b>\$ 697,428</b>	<b>\$ 82,624</b>	<b>\$ (77,413)</b>	<b>\$ 702,639</b>	<b>\$ 41,964</b>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Activity (Continued)**

<b>BUSINESS-TYPE ACTIVITIES:</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue and other bonds:					
1993 Refunded Revenue Bonds, Series A	\$ 57,050	\$ -	\$ (4,456)	\$ 52,594	\$ 4,693
1993 Refunded Revenue Bonds, Series B	25,376	-	(2,005)	23,371	2,104
1999 Capital Improvement Revenue Bonds	695	-	(695)	-	-
2002 Refunding Revenue Bonds	4,418	-	(2,155)	2,263	2,262
2005 Refunding Revenue Bonds	104,735	-	(1,054)	103,681	6,271
2006 Capital Improvement Revenue Bonds, Ser. E	95,360	-	(3,083)	92,277	-
Subtotal, revenue and other bonds	<u>287,634</u>	<u>-</u>	<u>(13,448)</u>	<u>274,186</u>	<u>15,330</u>
Notes Payable:					
1985 Marina Phase I	1,593	-	(36)	1,557	37
1985 Marina Phase II	2,420	-	(48)	2,372	50
1985 Marina Phase III	825	-	(88)	737	92
1985 Marina Phase IV	558	-	(51)	507	54
2008 Sacramento Marina South Basin	9,274	934	-	10,208	163
State Water Resources Control Board	1,047	-	(138)	909	142
State Water Resources Control Board	21,040	-	(1,906)	19,134	1,946
State Water Resources Control Board	2,714	-	(271)	2,443	279
State Water Resources Control Board	3,459	-	(307)	3,152	315
State Water Resources Control Board	1,439	-	(128)	1,311	131
California Department of Education	100	-	(40)	60	20
California Department of Public Health	9,474	526	-	10,000	-
California Infrastructure and Economic Development Bank (I-Bank)	2,445	377	(81)	2,741	69
Subtotal, notes payable	<u>56,388</u>	<u>1,837</u>	<u>(3,094)</u>	<u>55,131</u>	<u>3,298</u>
Capital Lease Obligations:					
Recycle Containers #5	2,204	-	(602)	1,602	623
Refuse Trucks - Schedule 12	3,613	-	(421)	3,192	439
Refuse Trucks - Schedule 16	-	5,028	-	5,028	945
Sewer Cleaning Trucks - Schedule 17	-	708	-	708	133
Bank of America - Marina South Basin	1,249	-	(86)	1,163	90
Subtotal, capital lease obligations	<u>7,066</u>	<u>5,736</u>	<u>(1,109)</u>	<u>11,693</u>	<u>2,230</u>
Less deferred amounts:					
For issuance discounts	(548)	-	63	(485)	(60)
For issuance premiums	19,369	-	(1,125)	18,244	1,051
Net loss on refunding	(16,505)	-	1,801	(14,704)	(939)
Subtotal, deferred amounts	<u>2,316</u>	<u>-</u>	<u>739</u>	<u>3,055</u>	<u>52</u>
Subtotal, debt, business type activities	<u>\$ 353,404</u>	<u>\$ 7,573</u>	<u>\$ (16,912)</u>	<u>\$ 344,065</u>	<u>\$ 20,910</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Activity (Continued)**

<b>BUSINESS-TYPE ACTIVITIES (Continued):</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Other Long-term Liabilities:					
Compensated absences	\$ 7,414	\$ 6,425	\$ (6,292)	\$ 7,547	\$ 335
OPEB liability	12,325	5,318	(1,743)	15,900	-
Accrued claims and judgments	135	169	-	304	304
Utility district payable	76	-	(76)	-	-
Water fee credits	1,702	-	-	1,702	-
Liability for landfill closure	23,459	-	(655)	22,804	895
	<u>45,111</u>	<u>11,912</u>	<u>(8,766)</u>	<u>48,257</u>	<u>1,534</u>
Subtotal, other long-term liabilities					
	<u>45,111</u>	<u>11,912</u>	<u>(8,766)</u>	<u>48,257</u>	<u>1,534</u>
Total business-type activities	<u>398,515</u>	<u>19,485</u>	<u>(25,678)</u>	<u>392,322</u>	<u>22,444</u>
<b>COMPONENT UNIT</b>					
Certificates of Participation					
Sacramento Regional Arts Facilities, 2002 Series COPS	14,140	-	(395)	13,745	410
Less deferred amounts:					
For issuance discounts	(109)	-	5	(104)	(5)
	<u>14,031</u>	<u>-</u>	<u>(390)</u>	<u>13,641</u>	<u>405</u>
Total component unit					
	<u>14,031</u>	<u>-</u>	<u>(390)</u>	<u>13,641</u>	<u>405</u>
Total, long-term liabilities	<u>\$ 1,109,974</u>	<u>\$ 102,109</u>	<u>\$ (103,481)</u>	<u>\$ 1,108,602</u>	<u>\$ 64,813</u>

A component of the June 30, 2011 beginning balances of the governmental compensated absences, representing the first year of workers' compensation salary continuation and totaling \$496, was reclassified to accrued claims and judgments for presentation in the City's fiscal year 2012 financial statements. In addition, the June 30, 2011 beginning balances of governmental claims and judgments totaling \$1,601 and \$23 were reclassified to other long-term liabilities from their presentation as unearned revenue and accounts payable, respectively, in the City's fiscal year 2011 financial statements. The June 30, 2011 beginning balances of business-type claims and judgments, representing the first year of workers' compensation salary continuation and totaling \$135, was reclassified to other long-term liabilities from its presentation as accounts payable in the City's fiscal year 2011 financial statements.

The following is a list of long-term debt issues outstanding at June 30, 2012, including the amount of original debt issuance, a description of the debt issue, and disclosure of pledged revenue.

**Revenue and Other Bonds**

\$130,425 1993 Refunded Revenue Bonds, Series A  
Authorized and issued September 1993, due in annual installments of \$2,186 to \$8,875 through November 2020, bearing interest rates of 4.5% to 5.13%, for the purpose of refunding the 1986 Public Facilities Certificates of Participation and a portion of the 1991 Marks-Roos Revenue Bonds.

\$95,480 1993 Refunded Revenue Bonds, Series B  
Authorized and issued September 1993, due in annual installments of \$1,634 to \$6,070 through November 2020, bearing interest rates of 4.5% to 5.13%, for the purpose of refunding the 1989 Public Facilities Certificates of Participation.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Revenue and Other Bonds (Continued)**

- \$7,290 1996 Lighting and Landscaping Bonds  
Authorized and issued October 1996, due in annual installments of \$235 to \$565 through fiscal year 2017, bearing interest rates of 4.5% to 5.5%, for the purpose of financing park and lighting maintenance and capital improvements. The debt service on the bonds is payable from special assessments to be levied and collected from property owners. The City pledged future Citywide lighting and landscaping special assessment revenues to repay the bonds. The bonds are payable solely from special assessment revenue through September 2016. Total principal and interest remaining to be paid on the bonds is \$2,910. Current year principal and interest paid was \$587 and special assessment revenue in the Citywide Lighting and Landscaping District was \$14,438.
- \$73,725 1997 Lease Revenue Bonds  
Authorized and issued July 1997, due in annual installments of \$1,060 to \$2,665 through July 2017, at which time there will be a mandatory remarketing. The bonds were issued to finance the acquisition and lease back of a sports and entertainment arena. The bonds were issued as variable rate bonds for which a ten-year interest rate hedge was purchased to mitigate risk of interest rate fluctuations to a fixed rate of 5.607%. The debt service on the bonds is paid from lease revenue from the arena owner. The City pledged future lease revenues to repay the bonds. The bonds are payable solely from lease revenue through July 2027. Total remaining principal and interest of \$101,377 will be paid using 100% of future lease revenue. Current year principal and interest paid was \$5,268 and lease revenue was \$5,309.
- \$2,910 1999 Community Facilities District No. 2 Revenue Bonds, Series A  
Authorized and issued January 1999, due in annual installments of \$35 to \$255 through September 2023, bearing interest rates of 4.8% to 6.25%, for the purpose of financing capital improvements of the North Natomas CFD of benefit to City property.
- \$71,180 1999 Capital Improvement Revenue Bonds  
Authorized and issued December 1999, for the purpose of financing the construction of a south area corporation yard and to make a loan to the Redevelopment Agency of Sacramento for certain projects within the Del Paso Heights, Oak Park, North Sacramento, and Richard's Boulevard redevelopment areas. In July 2005, \$41,645 of the bonds were defeased through the issuance of the 2005 Refunding Revenue bonds, and the balance is due in annual installments of \$155 to \$1,185 through December 2011, bearing interest rates of 4.4% to 5.1%.
- \$160,475 2002 Capital Improvement Revenue Bonds  
Authorized and issued July 2, 2002, for the purpose of financing certain capital projects within the City of Sacramento and to make a loan to the Redevelopment Agency of Sacramento for certain redevelopment projects within the City of Sacramento. In July 2005, \$32,935 of the bonds were defeased through the issuance of the 2005 Refunding Revenue bonds, and in December 2006, \$51,285 of the bonds were defeased through the issuance of the 2006 Series E Refunding Revenue bonds. The balance is due in annual installments of \$250 to \$5,310 through December 2017, bearing interest rates of 4% to 5.38%.
- \$46,265 2002 Refunding Revenue Bonds  
Authorized and issued October 31, 2002, with principal and interest due in annual installments of \$5,780 to \$5,800 through July 1, 2012, bearing interest at rates of 2.75% to 5%. Net proceeds of \$47,988 were utilized for the purpose of establishing an irrevocable escrow to refund \$27,950 principal amount of the City's 1991 Refunding Certificates of Participation (1987 Public Facilities Projects) and \$20,430 principal amount of the City's 1991 Refunding Certificates of Participation (Light Rail Transit Project).

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Revenue and Other Bonds (Continued)**

- \$68,470 2003 Capital Improvement Revenue Bonds  
Authorized and issued September 30, 2003, with the net proceeds of \$67,841 utilized for financing construction of the 911 Call Center and certain other capital projects within the City of Sacramento. In December 2006, \$35,805 of the bonds were defeased through the issuance of the 2006 Series E Refunding Revenue bonds. The balance was due in annual installments of \$150 to \$3,360 through December 2033, bearing interest rates of 2.25% to 5%.
- \$167,860 2005 Refunding Revenue Bonds  
Authorized and issued July 12, 2005, due in annual installments of \$360 to \$15,315 through December 1, 2029, bearing interest rates of 4% to 5%. Net proceeds of \$187,563 were utilized for the purpose of establishing an irrevocable escrow to refund \$173,440 principal amount of the outstanding 2000 Capital Improvement Revenue Bonds and a portion of the outstanding 1999, 2001 and 2002 Capital Improvement Revenue Bonds. As a result, the refunded bonds are considered defeased and the liabilities have been removed from the governmental and business-type activities columns of the statement of net assets.
- \$95,900 2006 Capital Improvement Revenue Bonds Series A (Tax Exempt)  
Authorized and issued June 15, 2006, due in annual installments of \$2,060 to \$5,070 through December 1, 2036, bearing interest rates of 3.75% to 5%. Net proceeds of \$89,808 are being utilized for the purpose of financing certain public capital improvements and redevelopment projects including the expansion of the Crocker Art Museum, the new Valley Hi–North Laguna Library and other capital projects within the City of Sacramento.
- \$55,235 2006 Capital Improvement Revenue Bonds Series B (Taxable)  
Authorized and issued June 15, 2006, due in annual installments of \$720 to \$3,760 through December 1, 2036, bearing interest rates of 5.4% to 5.8%. Net proceeds of \$50,692 are being utilized for the purpose of financing certain public capital improvements and redevelopment projects including an arts rehearsal building, Pocket Area Library and other capital projects within the City of Sacramento.
- \$28,825 2006 Capital Improvement Revenue Bonds Series C (Tax Exempt)  
Authorized and issued December 12, 2006, due in annual installments of \$245 to \$1,955 through December 1, 2036, bearing interest rates of 4% to 5%. Net proceeds of \$30,500 were utilized for the purpose of financing the acquisition and improvements of the 300 Richards Boulevard land and building in the City of Sacramento.
- \$2,430 2006 Capital Improvement Revenue Bonds Series D (Taxable)  
Authorized and issued December 12, 2006, due in annual installments of \$475 to \$685 through December 1, 2016, bearing an interest rate of 5.16%. Net proceeds of \$2,400 were utilized for the purpose of financing the acquisition and improvements of the 300 Richards Boulevard land and building in the City of Sacramento.
- \$186,950 2006 Capital Improvement Revenue Bonds Series E (Refunding)  
Authorized and issued December 12, 2006, due in annual installments of \$402 to \$8,570 through December 1, 2033, bearing interest rates of 4% to 5.25%. Net proceeds of \$216,661 plus cash of \$13,441 have been utilized for the purpose of establishing an irrevocable escrow to defease \$218,000 principal amount of the outstanding 2001 Capital Improvement Revenue Bonds and a portion of the outstanding 2002 and 2003 Capital Improvement Revenue Bonds, and the associated liabilities have been removed from the governmental and business-type activities columns of the statement of net assets.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Certificates of Participation**

- \$16,580 Sacramento Regional Arts Facilities 2002 Series Certificates of Participation (COPs) Authorized and issued in August 2002, due in annual principal and interest installments of \$754 to \$1,063 through September 2032, bearing interest rates of 2% to 5%. Net proceeds of \$16,428 were utilized for the purpose of financing and refinancing the acquisition, renovation and construction of the H Street Theatre facilities. The City pledged future lease revenues to repay the COPs. The COPs are payable solely from lease revenue through September 2032. Total remaining principal and interest of \$21,939 will be paid using 100% of future lease revenue. Current year principal and interest paid was \$1,052 and lease payments received were \$1,048.

**Notes Payable**

- \$2,220 1985 Sacramento Marina Note Payable, Phase I Authorized July 1985, issued November 1985, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$20 to \$82 through August 2030, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$3,229 1985 Sacramento Marina Note Payable, Phase II Authorized July 1985, issued September 1987, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$27 to \$150 through August 2037, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$1,829 1985 Sacramento Marina Note Payable, Phase III Authorized July 1985, issued March 1988, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$50 to \$120 through August 2018, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$1,117 1985 Sacramento Marina Note Payable, Phase IV Authorized July 1985, issued February 1989, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$29 to \$73 through August 2019, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$10,208 2008 Sacramento Marina Note Payable, South Basin Authorized February 2005, the City has made loan draws of \$9,000 plus accrued interest of \$1,208 through June 30, 2012, from the California Department of Boating and Waterways, for the purpose of constructing the South Basin Improvements at the Sacramento Marina. Repayment of principal and interest will begin on the August 1 immediately following the final draw in thirty annual payments including interest at 4.5%.
- \$1,380 1997 State Department of Boating and Waterways Note Payable Authorized January 1997, issued May 1999, due in annual installments of \$89 to \$98 through 2018, for the purpose of financing a visitor dock at Old Sacramento.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Notes Payable (Continued)**

- \$2,619 State Water Resources Control Board Note Payable  
Authorized July 1998, issued September 1998, due in annual installments of \$166 through March 2018, bearing an interest rate of 2.6% for the purpose of financing the City's reservoir rehabilitation project. The City pledged future wastewater and storm drainage fee revenue to repay the note. The note is payable solely from the wastewater and storm drainage fee revenue through March 2018. Total principal and interest remaining to be paid on the note is \$994. Current year principal and interest paid was \$166 and wastewater and storm drain fee revenue was \$54,680.
- \$37,016 State Water Resources Control Board Note Payable  
Authorized March 1999, issued beginning July 1999, due in annual installments of \$2,373 through November 2020, bearing an interest rate of 2.2%, for the purpose of financing various wastewater projects. The City pledged future wastewater and storm drainage fee revenue to repay the note. The note is payable solely from the wastewater and storm drainage fee revenue through November 2020. Total principal and interest remaining to be paid on the note is \$21,304. Current year principal and interest paid was \$2,367 and wastewater and storm drain fee revenue was \$54,860.
- \$5,177 State Water Resources Control Board Note Payable  
Authorized March 2001, issued July 2001, due in annual installments of \$342 through September 2019, bearing an interest rate of 2.6%, for the purpose of financing the construction of underground storage and pumping facilities. The City pledged future wastewater and storm drainage fee revenue to repay the note. The note is payable solely from the wastewater and storm drainage fee revenue through September 2019. Total principal and interest remaining to be paid on the note is \$2,736. Current year principal and interest paid was \$342 and wastewater and storm drain fee revenue was \$54,860.
- \$2,603 State Water Resources Control Board Note Payable  
Authorized June 2001, issued beginning May 2002, due in annual installments of \$149 through May 2021, bearing an interest rate of 2.6%, for the purpose of financing the replacement of sewer lines. In fiscal year 2003 there was an additional draw of \$250. The City pledged future wastewater and storm drainage fee revenue to repay the note. The note is payable solely from the wastewater and storm drainage fee revenue through May 2021. Total principal and interest remaining to be paid on the note is \$1,485. Current year principal and interest paid was \$165 and wastewater and storm drain fee revenue was \$54,860.
- \$5,672 State Water Resources Control Board Note Payable  
Authorized February 2002, issued beginning February 2002, due in annual installments of \$397 through February 2021, bearing an interest rate of 2.6%, for the purpose of financing the replacement of sewer lines. The City pledged future wastewater and storm drainage fee revenue to repay the note. The note is payable solely from the wastewater and storm drainage fee revenue through February 2021. Total principal and interest remaining to be paid on the note is \$3,574. Current year principal and interest paid was \$397 and wastewater and storm drain fee revenue was \$54,860.
- \$400 California Department of Education Note Payable  
To finance the construction of temporary classrooms at Two Rivers School and Sequoia School with maturities of \$40 per year through 2014. The note bears no interest.



**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Notes Payable (Continued)**

- \$10,000 California Department of Public Health  
Authorized September 2009, the City has made loan draws of \$10,000 through June 30, 2012, from the California Department of Public Health, for the installation of approximately 13,000 water meters. The note, with a 2.5% interest rate, will be repaid over 20 years with annual principal and interest payments of approximately \$639 beginning after project completion. The City pledged future water enterprise fund revenue to repay the note. The note is payable solely from water enterprise fund revenue through 2033.
  
- \$2,975 California Infrastructure and Economic Development Bank (I-Bank)  
Authorized in December 2007, due in annual principal and interest installments from \$187 to \$196 through August 2032, bearing an interest rate of 3.17%, for the purpose of financing the purchase and construction of the Basin 31 Detention Basin. The City pledged future storm drainage fee revenue to repay the note. The note is payable solely from the storm drainage fee revenue through August 2032. Total principal and interest remaining to be paid on the note is \$4,147. Current year principal and interest paid was \$188 and storm drainage fee revenue was \$34,359.

**Capital Lease Obligations**

The City has entered into several long-term leases to finance the acquisition of building improvements and equipment. The leases qualify as capital leases for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*, and have been recorded at the present value of the future minimum lease payments. As of June 30, 2012, future minimum lease payments to be made by the City's General, Solid Waste, Wastewater and Marina Funds are as follows:

Fiscal Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2013	\$ 1,788	\$ 2,626	\$ 4,414
2014	1,788	2,626	4,414
2015	1,517	2,288	3,805
2016	1,381	1,950	3,331
2017	1,380	1,950	3,330
2018-2022	1,814	1,538	3,352
2023-2027	-	69	69
Total minimum lease payments	9,668	13,047	22,715
Less amounts representing interest	(1,229)	(1,354)	(2,583)
Net present value of minimum lease payments	<u>\$ 8,439</u>	<u>\$ 11,693</u>	<u>\$ 20,132</u>

The following is a schedule of property under capital leases by major classes at June 30, 2012:

	Governmental Activities	Business-Type Activities	Total
Buildings and improvements	\$ -	\$ 1,523	\$ 1,523
Equipment	13,690	13,386	27,076
Less: accumulated depreciation	(3,200)	(3,386)	(6,586)
Total	<u>\$ 10,490</u>	<u>\$ 11,523</u>	<u>\$ 22,013</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Other Long-term Liabilities**

Accrued claims and judgments – Estimated liabilities of the City’s workers’ compensation, auto, and general liability self-insurance programs administered through the Risk Management Internal Service Fund. The first year of salary continuation in the City’s workers compensation program is accrued and paid by the City’s General Fund, internal service funds and enterprise funds.

Compensated absences – Estimated amounts due to employees for earned, but unused, compensated absence accounts, including leave balances for vacation, sick, holiday and compensated time off. Compensated absences are generally liquidated by the City’s General Fund, internal service funds and enterprise funds.

OPEB liability (other post employment benefits) – Actuarially determined obligation for retiree medical benefits. The City established its OPEB liability at zero as of June 30, 2007. This liability reflects five years of contributing less than the annual required contribution. See note 9 for more information.

Pollution remediation obligations – Estimated liabilities to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities.

Derivative instrument - interest rate swap – Amount represents the fair value of the interest rate swap associated with the 1997 Lease Revenue bonds. See additional disclosures regarding interest rate swap below.

Financing plan fee credits – Issued to developers as consideration for infrastructure and other capital improvements constructed on behalf of the City within the scope of the North Natomas, Jacinto Creek and other development impact fee programs. Credits are redeemable from or against future impact fees assessed within the geographic boundaries of the finance plan.

Utility district payable – An amount due to the Sacramento Municipal Utility District for charges due to malfunctioning meters at one of the City’s water treatment plants. This liability was liquidated as of June 30, 2012.

Water fee credits – Issued to developers as consideration for infrastructure constructed on behalf of the City. Credits are redeemable from or against future water development impact fees.

Liability for landfill closure – Estimated post-closure maintenance and monitoring costs for the City’s 28<sup>th</sup> Street landfill site.

**Future Debt Service Requirements**

The following tables disclose the annual debt service requirements for the City and the Sacramento Regional Arts Facilities Financing Authority component unit long-term debt outstanding as of June 30, 2012.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Future Debt Service Requirements (Continued)**

Annual debt service requirements of governmental activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 20,795	\$ 22,562	\$ 75	\$ 27
2014	18,448	21,648	79	24
2015	20,536	20,715	82	20
2016	21,831	19,719	86	17
2017	23,024	18,541	90	13
2018 - 2022	97,725	76,827	193	13
2023 - 2027	95,270	52,552	-	-
2028 - 2032	88,548	27,334	-	-
2033 - 2037	61,564	7,310	-	-
Subtotals	447,741	267,208	605	114
Less: Issuance discounts	(151)	-	-	-
Plus: Issuance premiums	17,225	-	-	-
Less: Net loss on refundings	(7,491)	-	-	-
Totals	\$ 457,324	\$ 267,208	\$ 605	\$ 114

Annual debt service requirements of business-type activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 15,330	\$ 13,671	\$ 3,298	\$ 1,422
2014	13,837	12,924	3,776	1,583
2015	14,549	12,195	3,874	1,485
2016	15,299	11,423	3,955	1,384
2017	16,096	10,606	4,057	1,281
2018 - 2022	82,740	39,816	17,090	4,796
2023 - 2027	49,615	23,834	5,231	3,255
2028 - 2032	56,032	9,856	6,196	2,281
2033 - 2037	10,688	281	4,578	1,226
2038 - 2042	-	-	3,076	405
Subtotals	274,186	134,606	55,131	19,118
Less: Issuance discounts	(485)	-	-	-
Plus: Issuance premiums	18,244	-	-	-
Less: Net loss on refundings	(14,704)	-	-	-
Totals	\$ 277,241	\$ 134,606	\$ 55,131	\$ 19,118

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Future Debt Service Requirements (Continued)**

Annual debt service requirements of component unit activities to maturity are as follows:

Fiscal Year Ending June 30,	Certificates of Participation	
	Principal	Interest
2013	\$ 410	\$ 643
2014	425	627
2015	440	610
2016	460	591
2017	480	572
2018 - 2022	2,725	2,518
2023 - 2027	3,430	1,789
2028 - 2032	4,365	819
2033 - 2037	1,010	25
Subtotals	13,745	8,194
Less: Issuance Discounts	(104)	-
Totals	\$ 13,641	\$ 8,194

**Derivative Instrument - Interest Rate Swap**

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in July 2007, the Sacramento City Financing Authority (the "Authority") entered into an interest rate swap in connection with its \$73,725 1997 Lease Revenue Bonds (Power Balance Pavilion Acquisition) variable interest rate bonds (the "Bonds"). The intention of the swap was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 5.607% through the end of the swap agreement's term. As of June 30, 2012 the amount of outstanding Bonds was \$65,780. The interest and principal payments on the Bonds are insured by a third party bond insurer.

*Terms.* The Bonds mature on July 15, 2027 and are subject to remarketing on July 19, 2017. The Bonds carry an interest rate equal to 3-month London Interbank Offered Rate ("LIBOR") plus 0.25% (total rate not to exceed 14%), payable quarterly, until July 19, 2017. The swap agreement terminates on July 19, 2017, and has a notional amount as of June 30, 2012 of \$65,780. The notional amount of the swap and the par amount of the Bonds each decline according to the same schedule through 2017. The swap was entered at the same time the Bonds were remarketed (July 2007). Under the swap, the Authority pays the counterparty a fixed payment of 5.607% and receives a variable payment computed as LIBOR plus 0.25% (total rate not to exceed 14%). The Authority's payments to the counterparty under the swap agreement are insured by the third party bond insurer.

*Fair value.* Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$13,653 as of June 30, 2012, as provided by the swap counterparty. Because the coupons on the Bonds adjust as LIBOR adjusts, the Bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The swap meets the requirements of a hedging derivative instrument and as such, hedge accounting is applied. Under hedge accounting, the fair value of the swap is reported in governmental activities on the statement of net position as deferred outflow for interest rate swap, an asset, and a corresponding long term liability. See other long term governmental liabilities in this footnote for changes in the swap liability.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Derivative Instrument - Interest Rate Swap (Continued)**

*Credit risk.* As of June 30, 2012, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated "A" by Fitch Ratings, "A3" by Moody's Investors Service, and "A-" by Standard & Poor's as of June 30, 2012.

To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard & Poor's, the swap agreement provides the counterparty, the Authority, the bond insurer for the Bonds, and a third-party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement within 30 days of such a downgrade.

*Basis risk.* The swap agreement provides that the payment received by the Authority shall be at LIBOR plus 0.25% (total rate not to exceed 14%), the equivalent of the interest rate on the Bonds. This arrangement mitigates the Authority's exposure to basis risk.

*Termination risk.* The Authority may terminate the swap if the counterparty fails to perform under the terms of the contract. The Authority also may terminate the swap if the counterparty fails to execute a collateral agreement satisfactory to the Authority and the bond insurer within 30 days of the counterparty's ratings falling below "A3" by Moody's Investors Service or "A-" by Standard & Poor's. The counterparty may terminate the swap if the Authority fails to perform under the terms of the contract, and the bond insurer fails to perform under the terms of the contract. The counterparty also may terminate the swap upon the occurrence of the following events: 1) the bond insurer falls below "A3" by Moody's Investors Service or "A-" by Standard & Poor's, and; 2) the Authority falls below "Baa3" by Moody's Investors Service or "BBB-" by Standard & Poor's. If the swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

*Rollover Risk.* The Authority is exposed to rollover risk on the interest rate swap because the maturity date of the derivative instrument is July 2017, and the hedged debt matures in July 2027.

*Swap payments and associated debt.* Using rates in effect as of June 30, 2012, debt service requirements of the variable rate Bonds and net swap payments, assuming current interest rates remain the same through the July 2017 termination date of the swap and tender date on the Bonds, are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
2013	\$ 1,775	\$ 467	\$ 3,137	\$ 5,379
2014	1,990	452	3,043	5,485
2015	2,225	437	2,937	5,599
2016	2,475	427	2,866	5,768
2017	2,665	400	2,693	5,758
2018	54,650	99	667	55,416
<b>TOTAL</b>	<b>\$ 65,780</b>	<b>\$ 2,282</b>	<b>\$ 15,343</b>	<b>\$ 83,405</b>

Beyond the termination date of the swap and remarketing date on the bonds in July 2017, the interest rates on the bonds will vary.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 7 – LONG-TERM LIABILITIES (Continued)**

**Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the U.S. Department of Treasury at least every five years. During the current year, the City performed calculations of excess investment earnings on various bonds and determined the liability to be zero at June 30, 2012.

**Special Assessment Debt**

Total matured and unmatured bonds outstanding related to special assessment and special tax districts are \$174,100 at June 30, 2012. The City acts as an agent for the property owners in collecting special assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, when appropriate. The City is not liable for repayment of the special district bonds, and accordingly, they are not reflected in the accompanying basic financial statements. Cash held on deposit and corresponding amounts payable for the districts are reported in the Assessment Districts and Community Facilities Districts Agency Funds.

**Conduit Debt**

Outstanding obligations related to special facility and redevelopment agency revenue bonds total \$309,616 at June 30, 2012. Special facility revenue bonds were issued to provide administrative and service facilities for four non-profit organizations and for offices leased to the State of California Department of General Services (State). The bonds issued are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received from loan or lease agreements between the City and the non-profit organizations or the State. The redevelopment agency bonds were issued by the Sacramento City Financing Authority to finance redevelopment activities and to refund certain other obligations of the redevelopment agency. The City is not liable for repayment of these bonds, and accordingly, they are not reflected in the accompanying basic financial statements.

**Prior year Defeasance of Debt**

In prior years, the City defeased certain revenue and other bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2012, \$119,475 of such bonds outstanding are considered defeased.

**NOTE 8 – EMPLOYEE RETIREMENT PLANS**

**Defined Benefit Plan Descriptions**

The City of Sacramento provides defined benefit retirement benefits through the California Public Employees' Retirement System (CalPERS) and the Sacramento City Employees' Retirement System (SCERS). CalPERS is an agent multiple-employer public employee defined benefit pension plan. SCERS is a single-employer defined benefit pension plan.

**CalPERS**

All full-time and certain part-time City employees hired after January 28, 1977 and City safety employees, regardless of date of hire, are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, CA 95814. A separate report for the City's plan within CalPERS is not available.

**City of Sacramento**  
**Notes to the Financial Statements**  
 For the Fiscal Year Ended June 30, 2012  
 (amounts expressed in thousands)

---

**NOTE 8 – EMPLOYEE RETIREMENT PLANS (Continued)**

**SCERS**

All full-time, non-safety employees hired before January 29, 1977, are eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

The City reports SCERS as a pension trust fund. SCERS issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing the City of Sacramento Department of Finance, 915 I Street, 4<sup>th</sup> Floor, Sacramento, CA 95814. The following is a summary of significant accounting policies:

**Basis of Accounting** – SCERS’ financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Method Used to Value Investments** – Investments are reported at fair value, except mortgage loans which are recorded at amortized cost. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

**Funding Policy**

Participants are required to contribute a percentage of their annual covered salary, as follows:

CalPERS - Miscellaneous	7%
CalPERS - Safety	9
SCERS - (varies with entry age)	3 – 10

The City makes the following participant contributions on their behalf and for their account (percent of annual covered payroll):

CalPERS - Certain miscellaneous employees	3 - 5%
CalPERS - Safety	9

The City is required to contribute at actuarially determined rates. Rates for the fiscal year ended June 30, 2012 were as follows (percent of annual covered payroll):

CalPERS - Miscellaneous	12.659%
CalPERS - Safety	27.530
SCERS	233.000

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 8 – EMPLOYEE RETIREMENT PLANS (Continued)**

**Annual Pension Cost**

CalPERS

For the fiscal year ended June 30, 2012, the City’s annual CalPERS pension cost of \$48,531 was equal to the City’s required and actual contributions. The required contribution was determined as part of the June 30, 2009, 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 annual salary increases that vary by duration of service ranging from 3.55% to 14.45%. Both (a) and (b) included an inflation component of 3% and an annual production growth of .25%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period. Unfunded actuarial accrued liabilities and excess assets as of June 30, 2009 are being amortized, using the level percentage of payroll method, over a closed period that depends on the plan’s date of entry into CalPERS. The remaining amortization period at June 30, 2009 was 29 years for the safety employees’ plan and 26 years for the miscellaneous employees’ plan. Subsequent plan amendments are amortized as a level percentage of projected payrolls over a closed 20-year period. Annual gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year.

SCERS

For the fiscal year ended June 30, 2012, the City’s annual SCERS pension cost of \$10,361 was equal to the City’s required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 6.50% investment rate of return (net of administrative expenses), (b) 3% projected annual salary increases, (c) an inflation component of 3%, and (d) 3.25% per year social security wage base adjustments. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Unfunded liabilities are being amortized over an open 15 year period, as a level dollar amount of projected payrolls.

**Three-Year Trend Information**

CalPERS – Miscellaneous

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC) (in millions)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2010	\$20.6	100%	\$ -
June 30, 2011	18.7	100	-
June 30, 2012	18.8	100	-

CalPERS – Safety

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC) (in millions)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2010	\$24.0	100%	\$ -
June 30, 2011	25.6	100	-
June 30, 2012	29.7	100	-



**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 8 – EMPLOYEE RETIREMENT PLANS (Continued)**

**Three-Year Trend Information (Continued)**

SCERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC) (in millions)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 3.4	100%	\$ -
June 30, 2011	10.5	100	-
June 30, 2012	10.4	100	-

**Funded Status**

The funded status of the plans as of the most recent actuarial valuation dates is as follows (dollars in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>(Overfunded) Unfunded AAL (b) - (a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>(Overfunded) Unfunded AAL as a % of Covered Payroll {(b) - (a)}/(c)</u>
<u>CalPERS - Miscellaneous</u>						
6/30/10	\$ 660	\$ 819	\$ 159	81%	\$ 165	96%
<u>CalPERS - Safety</u>						
6/30/11	1,035	1,249	214	83%	109	196%
<u>SCERS</u>						
6/30/12	294	389	95	76%	3	3,211%

The actuarial assumptions used by CalPERS to determine the annual required contributions for the fiscal year ended June 30, 2012 changed from the prior year. The investment rate and the price inflation rate decreased by .25%. The assumptions for the SCERS plan are the same as those used to determine the annual required contributions for the fiscal year ended June 30, 2012.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the assets are increasing or decreasing over time relative to AALs for benefits.

**Defined Contribution Plan**

The City also provides defined contribution retirement benefits through the City of Sacramento 401(a) Money Purchase Plan (the Plan). The Plan is administered by the International City Management Association Retirement Corporation. Plan provisions and contribution requirements are established and may be amended by City Council. Unrepresented exempt and certain represented employees may elect to participate. Participating employees of the aforementioned groups are required to contribute 5% and 2%, and the City contributes 4% and 2%, respectively, of covered salary. For the year ended June 30, 2012, employees contributed \$2,304 and the City contributed \$1,865 to the Plan.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 9 – POST-EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS**

**Plan Description**

The City provides contributions for post-employment medical, dental and vision benefits to employees who retire directly from the City and their dependents through a single-employer defined benefit OPEB plan (the plan). Participants have the choice of enrolling in one of several health plans, one of two dental plans and one vision plan. To be eligible for the City paid benefits, the employee must retire with a minimum of ten full years of active service and be 55 or 50 years of age for miscellaneous and safety employees, respectively. Participants with a minimum of twenty years of service are eligible for 100% of the maximum benefit. Participants with more than fifteen years but less than twenty years of service are eligible for 75% of the maximum benefit. Participants with more than ten years but less than fifteen years of service are eligible for 50% of the maximum benefit. The post-retirement health care and dental care employer contributions range from \$300 and \$694 per month per participant, which covers between 16% and 100% of the benefit cost, depending on the choice of plan and number of dependents. The post employment health, dental and vision care contributions are defined by labor agreements and resolutions approved by the City Council. The City does not issue a separate stand-alone financial report for its OPEB plan.

**Funding Policy**

The City is currently funding the OPEB plan on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The current ARC rate is 15.7 percent of annual covered payroll. The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and the changes in the City's net OPEB obligation.

Annual required contribution (ARC)	\$ 39,740
Interest on beginning OPEB liability	3,409
Adjustment to the ARC	<u>(5,958)</u>
Annual OPEB cost	37,191
Contributions made	<u>(12,191)</u>
Increase in net OPEB obligation	25,000
Net OPEB obligation - Beginning of year	80,203
Net OPEB obligation - End of year	<u>\$ 105,203</u>
Covered payroll (active plan members)	\$ 253,528
UAAL as a percentage of covered payroll	173.4%

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current fiscal year and the two preceding years were as follows:

Fiscal year ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 29,508	\$ 11,064	38%	\$ 60,700
6/30/2011	31,394	11,891	38	80,203
6/30/2012	37,191	12,191	33	105,203

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 9 – POST-EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS (Continued)**

**Funding Status and Progress**

As of June 30, 2011, the most recent actuarial valuation date of the plan was 0% funded. The actuarial accrued liability was \$439,592 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$439,592. The annual covered payroll was \$253,528 and the ratio of the unfunded actuarial accrued liability to the annual covered payroll was 173.4%. The Schedule of Funding Progress is presented as RSI following the notes to the financial statements.

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

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the June 30, 2011, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions utilized a 3% inflation rate, a 4.25% discount rate and a medical trend rate of 9.2% for fiscal year 2013, reduced by decrements of 0.5% each year to an ultimate rate of 5%. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 was 26 years.

**NOTE 10 – FUND EQUITY AND EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The beginning fund balance of the Winchester G. and Mary Alice Felt Fund, previously reported as a permanent fund, has been reclassified into the Culture and Leisure Fund because the restriction on spending the trust corpus has expired.

At June 30, 2012, the government-wide statement of net position reported restricted net position of \$200,056 in governmental activities. Of this amount, \$16,547 is restricted by enabling legislation.

The Culture and Leisure Fund, a special revenue fund, had a deficit fund balance of \$3,856 as of June 30, 2012. The Golf program within this fund has a deficit balance of \$6,237. It is anticipated that this deficit will be funded by future operating surpluses and subsidies.

The Operating Grants Fund, a special revenue fund, had a deficit fund balance of \$5,154 as of June 30, 2012. The deficit represents grant expenditures unreimbursed by granting agencies within the 60 day period of availability for which corresponding revenues have not been recorded. The deficit will be recovered upon receipt of grantor reimbursements.

The Marina Fund, an enterprise fund, had a deficit net position of \$1,724 as of June 30, 2012. The deficit is the result of declining revenues due to the economic conditions. It is anticipated that this deficit will be funded by future operating surpluses.

For the fiscal year ended June 30, 2012, expenditures exceeded appropriations in the Parks and Recreation and Cal EPA special revenue funds by \$198 and \$245 respectively. This overspending was funded by revenue collected in excess of budgeted amounts.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 11 – INTERFUND TRANSACTIONS**

**Interfund Transfers**

Interfund transfers report the nonreciprocal contribution of resources from one fund to another. The following is a summary of transfers for the fiscal year ended June 30, 2012:

	<u>Description</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
<b>Governmental Activities:</b>				
General Fund	Debt service	\$ 2,007	\$ (23,038)	\$ (21,031)
General Fund	In-lieu tax transfers	25,002	-	25,002
General Fund	Program support	1,670	(1,017)	653
Capital Grants Fund	Program support	-	(72)	(72)
Other Governmental Funds	Debt service	25,183	(3,161)	22,022
Other Governmental Funds	Program support	1,573	(302)	1,271
Internal Service Funds	Debt service	423	(51)	372
Internal Service Funds	Program support	7	(754)	(747)
Adjustment for transfer of capital assets from governmental funds to enterprise funds	Transfer of capital assets	-	(4,748)	(4,748)
Total governmental activities		<u>55,865</u>	<u>(33,143)</u>	<u>22,722</u>
<b>Business-type Activities:</b>				
Water Fund	Debt service	-	(38)	(38)
Water Fund	In-lieu tax transfers	-	(8,493)	(8,493)
Water Fund	Program support	54	(449)	(395)
Wastewater Fund	Debt service	-	(51)	(51)
Wastewater Fund	In-lieu tax transfers	-	(2,218)	(2,218)
Wastewater Fund	Program support	19	-	19
Storm Drainage Fund	Debt service	-	(83)	(83)
Storm Drainage Fund	In-lieu tax transfers	-	(3,808)	(3,808)
Storm Drainage Fund	Program support	45	-	45
Solid Waste Fund	Debt service	-	(121)	(121)
Solid Waste Fund	In-lieu tax transfers	-	(6,700)	(6,700)
Solid Waste Fund	Program support	115	-	115
Community Center Fund	In-lieu tax transfers	-	(1,578)	(1,578)
Community Center Fund	Program support	-	(100)	(100)
Other Enterprise Funds	Debt service	-	(1,069)	(1,069)
Other Enterprise Funds	In-lieu tax transfers	-	(2,205)	(2,205)
Other Enterprise Funds	Program support	3	(793)	(790)
Adjustment for transfer of capital assets from governmental funds to enterprise funds	Transfer of capital assets	4,748	-	4,748
Total business-type activities		<u>4,984</u>	<u>(27,706)</u>	<u>(22,722)</u>
<b>Total government-wide statements</b>		<u>\$ 60,849</u>	<u>\$ (60,849)</u>	<u>\$ -</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 11 – INTERFUND TRANSACTIONS (Continued)**

**Interfund Balances**

Interfund balances report lending transactions between funds. The following is a summary of interfund balances as of June 30, 2012:

	<u>Receivables</u>	<u>Payables</u>	<u>Interfund Balances</u>
Capital Grants Fund	\$ -	\$ (38,447)	\$ (38,447)
Other Governmental Funds	-	(12,331)	(12,331)
Internal Service Funds	<u>57,575</u>	<u>-</u>	<u>57,575</u>
Total governmental activities	<u>57,575</u>	<u>(50,778)</u>	<u>6,797</u>
Community Center Fund	-	(6,797)	(6,797)
Total business-type activities	<u>-</u>	<u>(6,797)</u>	<u>(6,797)</u>
Total	<u>\$ 57,575</u>	<u>\$ (57,575)</u>	<u>\$ -</u>

\$57,575 was loaned by the City's internal service funds to cover short-term operating deficits (approximately \$43,359) and to assist in development of community resources (approximately \$14,216).

\$38,447 was borrowed by the Capital Grants Fund for short term loans.

\$12,331 was borrowed by various other governmental funds for short term loans (approximately \$4,912), and development of community resources (approximately \$7,419).

\$6,797 was borrowed by the Community Center Fund for development of community resources.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 12 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to following: worker’s compensation; torts including errors and omissions; employment practices; theft of, damage to and destruction of assets; and natural disasters for which the City self-insures and/or carries commercial insurance. Earthquake damage is not included in the property insurance coverage carried by the City.

The Risk Management Internal Service Fund self-insures the first \$2,000 of each workers’ compensation and general and auto liability claim plus claim costs that exceed commercial insurance coverage. Commercial insurance for general and automobile liability claims provides \$30,000 in coverage for claims over the City’s \$2,000 self-insured retention. Excess worker’s compensation insurance is purchased through the California State Association of Counties’ Excess Insurance Authority and it provides statutory coverage over the City’s \$2,000 self-insured retention to the program members. Liabilities are estimated based on recommendations from an independent actuarial evaluation. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other social and economic factors. Estimated liability is then discounted by the City’s expected rate of return and anticipated timing of cash outlays to determine the present value of the liability. For the fiscal year ended June 30, 2012, the expected rate of return was 3 percent. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There were no changes in insurance coverage during the fiscal year ended June 30, 2012.

All funds of the City participate in the program and make payments to the Risk Management Internal Service Fund based on estimates of the amounts needed to pay operating costs, insurance premiums, and prior and current year claims. At June 30, 2012, the Risk Management Internal Service Fund had a net position of \$45,143.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, economic and social factors, and trends in damage awards. Accordingly, claims are reevaluated periodically to consider the effects of these factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the Risk Management Internal Service Fund’s claims liability for the past two fiscal years are summarized as follows:

	<u>2012</u>	<u>2011</u>
Accrued claims and judgements, July 1	\$ 53,938	\$ 47,062
Incurred claims and adjustment expenses	17,249	19,142
Claim payments	<u>(15,254)</u>	<u>(12,266)</u>
Accrued claims and judgements, June 30	<u>\$ 55,933</u>	<u>\$ 53,938</u>

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

**Commitment of Enterprise Fund Revenues**

Revenues of the Wastewater and Storm Drainage Enterprise Funds are pledged to the payment of principal and interest on the State Water Resources Control Board Notes Payable. Revenue of the Water Enterprise Fund is pledged to the payment of principal and interest on the California Department of Public Health Notes Payable. See note 7 for more information.

**Construction and Other Commitments**

The City has commitments of \$63,363 for contracts awarded but not completed as of June 30, 2012. The following table shows the distribution of those commitments among major and nonmajor funds.

<b>Governmental Activities:</b>		<b>Business-type Activities:</b>	
General Fund	\$ 3,954	Water Fund	\$ 12,355
Capital Grants Fund	22,622	Wastewater Fund	2,488
Other governmental funds	13,376	Storm Drainage Fund	2,510
Internal service funds	2,877	Solid Waste Fund	741
		Community Center Fund	1,502
		Other enterprise funds	938
	<hr/>		<hr/>
Total governmental activities	<u>\$ 42,829</u>	Total business-type activities	<u>\$ 20,534</u>

The major contracts outstanding are \$16,335 to relocate train tracks and retrofit the intermodal depot in the Railyards development, \$8,177 for various Water Fund projects, including planning and design of upgrades to the City's water treatment plants; \$8,000 for large road and bridge projects, and \$3,755 for development of the Natomas Regional Park.

**Contingent Liabilities**

The City participates in a number of federal, state and local grant programs, the principal of which is the Highway Planning and Construction program. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City does not expect such amounts, if any, to materially affect the financial statements of the City. Receipt of these grant revenues is not assured in the future.

**Litigation**

Various claims and lawsuits are pending against the City. Although the outcome of these claims and lawsuits is not presently determinable, management, after consultation with legal counsel, is of the opinion that these matters will not have a material adverse effect on the financial condition of the City.

**Closure and Postclosure Care Cost**

The City has several landfill sites which have stopped accepting waste, have been covered, and are closed. State and federal laws and regulations require that the City perform certain maintenance and monitoring functions at these sites after closure. \$22,804 has been reported as the City's estimate of postclosure costs at June 30, 2012. The estimate is based on current cost and may change due to inflation or deflation, technology, or applicable laws and regulations. The City received approval from state regulators to fund the postclosure costs, along with cost increases due to inflation, with user charges for solid waste disposal.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Pollution Remediation Obligations**

A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. The City is responsible for pollution remediation activities at several sites that have soil contaminated with petroleum, hydrocarbons, and/or metals. Regulatory agencies providing oversight of the City's pollution remediation obligations and activities include the State of California Regional Water Quality Control Board, the State of California Department of Toxic Substance Control, and the Sacramento County Department of Environmental Management. The estimated obligation was \$900 at June 30, 2011 and \$680 at June 30, 2012. Pollution remediation outlays totaled approximately \$215 for the fiscal year ended June 30, 2012. Pollution remediation obligations are measured based on outlays expected to be incurred to settle all estimable remediation efforts. Pollution remediation obligations are measured at the current value of reasonable and supportable assumptions about future events that may affect the eventual settlement of the obligations. Pollution remediation obligations are measured using the expected cash flow technique, which measures the obligation as the sum of probability-weighted amounts in a range of possible cash flows. Estimates are based on all currently available information, as well as the facts and circumstances of each situation, but may change due to price changes, changes in laws or regulations, changes in remediation technologies, or as additional information become available. Estimated recoveries from other parties that are included in the calculation of the City's pollution remediation obligations total \$105.

**NOTE 14 – JOINTLY GOVERNED AND RELATED ORGANIZATIONS**

**Sacramento Housing and Redevelopment Agency**

The City is a participant with the County of Sacramento in the Sacramento Housing and Redevelopment Agency (SHRA). From July 1, 2011 to January 31, 2012, SHRA consisted of the housing authorities of the City and County and the redevelopment agencies of the City and County. Effective February 1, 2012, all redevelopment agencies in California were officially dissolved by an act of the Legislature. Starting February 1, 2012, SHRA consisted of only the housing authorities of the City and County.

SHRA is a stand-alone agency, governed by the County Board of Supervisors over County housing and, through January 31, 2012, redevelopment activities, and the City Council over City housing and, through January 31, 2012, redevelopment activities. Although the City does not have an equity interest in SHRA, it does have an ongoing financial interest. Based upon the approval process for Sacramento Housing Authority and, through January 31, 2012, Sacramento Redevelopment Agency activities, the City has the ability to directly influence SHRA to undertake projects for the citizenry of the City. Because the City's primary government does not have an equity interest in SHRA, SHRA's financial information is not included in these financial statements. Separately issued financial statement may be obtained from the Sacramento Housing and Redevelopment Agency, 801 12<sup>th</sup> Street, Sacramento, California, 95814.

Upon the dissolution of redevelopment agencies in California, the City elected to become the successor agency for the Sacramento Redevelopment Agency activities. More information about the Successor Agency Trust Fund in the City's financial statements can be found in Note 15 – Successor Agency Trust Fund.



**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

**NOTE 14 – JOINTLY GOVERNED AND RELATED ORGANIZATIONS (Continued)**

**Sacramento Public Library Authority**

The City is a participant with the County of Sacramento and the cities of Citrus Heights, Elk Grove, Galt, Isleton and Rancho Cordova in the Sacramento Public Library Authority (Library), a joint powers agency created to provide library services to the residents of the participating municipalities. The Library is governed by a board made up of five County appointees and various numbers of appointees from each city, depending upon population. As of June 30, 2012, five of fifteen members of the Library board were appointed by the City. The current joint powers agreement was effective beginning July 1, 2007. After June 30, 2010, any party may withdraw from the Authority upon no less than one year's written notice. Upon withdrawal a party shall retain ownership of those capital facilities to which it holds title. The City is committed to fund annual contributions to operate library branches in the City. The City's General Fund contributions for the fiscal year ended June 30, 2012, were \$7,106. The City also contributed the use of its library facilities to the Library. In order to provide funding for additional services and hours in City libraries, the City also levies and passes through to the Library a parcel tax which totaled \$4,609 for the fiscal year ended June 30, 2012. Financial statements may be obtained from the Sacramento Public Library Authority, 828 I Street, Sacramento, California, 95814.

**Related Organizations**

The City's officials are responsible for appointing members to the boards of other organizations, but the City's accountability for these organizations do not extend beyond making the appointments. The City Council confirms board appointments made by the Mayor to: the Local Agency Formation Commission, Regional Transit, the Sacramento Area Council of Governments, the Sacramento Area Commerce & Trade Organization, the Sacramento Area Flood Control Agency, the Sacramento Employment and Training Agency, the Sacramento Metropolitan Air Quality Management District, the Sacramento Metropolitan Cable Television Commission, the Sacramento Regional County Sanitation District, the Sacramento Regional County Solid Waste Authority, the Sacramento Transportation Authority and the Water Advisory Commission. The City is also a participant in the Sacramento Regional Fire/EMS Communication Center and the Regional Fire and Rescue Training Authority. Board members for those organizations are appointed by the Fire Chief and Police Chief, respectively.

The City's financial support to these organizations during the year ended June 30, 2012, included \$2,626 for operations and facility support to the Sacramento Regional Fire/EMS Communication Center.

The City also received financial support from these related organizations during the year ended June 30, 2012, including \$17,403 in the Transportation and Development Fund from the Sacramento Transportation Authority, \$3,585 of cable television revenues in the General Fund from the Sacramento Metropolitan Cable Television Commission, and \$1,321 of revenue in the General Fund from the Sacramento Regional County Solid Waste Authority. In addition, the City received \$1,624 from SAFCA to reimburse for the SAFCA's payroll which is processed by the City.

The City administers customer billing and collections on behalf of the Sacramento Regional County Sanitation District. As of June 30, 2012 the City had a liability due to Sacramento Regional County Sanitation District of \$6,978 for customer accounts recorded in the Wastewater Fund. During the year ended June 30, 2012, the Wastewater Fund received financial support of \$582 from the Sacramento Regional County Sanitation District to pay for operating and maintaining the treatment plant and \$830 for the replacement of a sump pump.

# City of Sacramento

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

---

### NOTE 15 – SUCCESSOR AGENCY TRUST FUND

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”), enacted on June 28, 2011, that provides for the dissolution for all redevelopment agencies in the State of California. The effective date of the dissolution was reset by the Court to February 1, 2012. The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government may elect to serve as the “successor agency” to hold the assets of the agency until they are distributed to pay obligations or remitted to the county tax assessors.

On January 31, 2012, the City Council elected to become the successor agency for the former Redevelopment Agency of the City of Sacramento (Agency) for the Agency’s non-housing assets and functions in accordance with the Bill as part of the City resolution number 2012-018. Also on January 31, 2012, under the same resolution, the City Council designated the Housing Authority of the City of Sacramento (Authority) to retain the Agency’s housing assets and functions. On the same date, the City Council serving as the governing board of the Authority adopted resolution number 2012-001 electing to serve as the housing successor agency.

After enactment of the Bill, redevelopment agencies in the State of California were prevented from entering into new projects, obligation or commitments until they were dissolved. Successor agencies were also so restricted; however, they were also charged with the authority to implement Agency agreements and maintain assets subject to the control of a newly established oversight board. The remaining Agency encumbered funds can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated property tax increment revenue from the county tax assessor in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full.

The Bill, along with AB 1484 enacted on June 27, 2012, directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditures or encumbrances of those assets as of June 28, 2011, the State Controller is required to order the available assets to be transferred from the public body to the successor agency, and such assets would then be subject to distribution as set forth in the Bill and in AB 1484.

Management believes, in consultation with legal counsel, that the asset transfers and the obligations of the former redevelopment agency due to the City after enactment of the Bill were proper and are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill and AB 1484. However, there is considerable legal uncertainty regarding this issue because the provisions of AB 1484 are currently in litigation and further clarifying legislation may be enacted in 2013.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the activity of the redevelopment agency was reported in the financial statements of the Sacramento Housing and Redevelopment Agency (SHRA), a joint powers authority that provided staff services for the agency. After the date of dissolution, the assets and activities of the dissolved redevelopment agency, except for the housing assets transferred to the housing successor agency, are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City. The City’s receipt of the assets and liabilities as of February 1, 2012, from SHRA, was reported in the private-purpose trust fund as an extraordinary item.

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 15 – SUCCESSOR AGENCY TRUST FUND (Continued)**

The extraordinary item recognized in the fiduciary fund financial statements for the transfer of assets and liabilities from the former redevelopment agency, as of February 1, 2012, was calculated as follows:

<b>Assets</b>	
Cash and investments	\$ 96,898
Receivables	45,632
Capital assets	62,773
	<u>205,303</u>
<b>Liabilities</b>	
Current liabilities	(22,674)
Long-term liabilities	(306,799)
	<u>(329,473)</u>
Extraordinary item	<u>\$ (124,170)</u>

The OPEB liability reported in the private-purpose trust fund is an allocation of the SHRA OPEB liability for the former redevelopment agency employees.

**Long-term Debt**

The following is a summary of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Bonds Payable:</b>					
1998 Merged Down town TABS, Series A	\$ 8,850	\$ -	\$ -	\$ 8,850	\$ 4,320
1998 Merged Down town TX TABS, Series B	2,860	-	-	2,860	1,385
1998 Merged Down town TX TABS, Series C	4,905	-	-	4,905	2,395
2000 Merged Down town, Series A	1,455	-	-	1,455	710
	<u>\$ 18,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,070</u>	<u>\$ 8,810</u>
Subtotal, revenue and other bonds					

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 15 – SUCCESSOR AGENCY TRUST FUND (Continued)**

**Long-term Debt (Continued)**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable:					
1993 Merged Downtown TABS	\$ 12,668	\$ -	\$ -	\$ 12,668	\$ 395
1999 Oak Park Refunding	2,135	-	-	2,135	145
2002 Merged Downtown TABS	10,920	-	-	10,920	1,890
2002 Merged Downtown Master Lease	3,825	-	-	3,825	1,875
2002 Stockton Blvd Master Lease	505	-	-	505	75
2003 Alkali Flat TE TABS, Series C	5,155	-	-	5,155	370
2003 Del Paso TE TABS, Series A	6,066	-	-	6,066	-
2003 North Sacramento TE TABS, Series C	4,610	-	-	4,610	80
2005 Del Paso Master Lease	1,455	-	-	1,455	155
2005 Del Paso Refunding	5,965	-	-	5,965	630
2005 Merged Downtown Master Lease Refunding	8,885	-	-	8,885	20
2005 Merged Downtown TE, Series A	83,528	-	-	83,528	-
2005 Merged Downtown TX, Series B	32,720	-	-	32,720	415
2005 North Sacramento Master Lease Refund	4,345	-	-	4,345	155
2005 Oak Park Master Lease Refunding	1,210	-	-	1,210	90
2005 Oak Park TE, Series A	8,844	-	-	8,844	-
2005 Oak Park TX, Series B	7,855	-	-	7,855	785
2005 Richards Master Lease Refunding	4,995	-	-	4,995	175
2006 65th Street TE Master Lease, Series A	1,605	-	-	1,605	35
2006 65th Street TX Master Lease, Series B	3,890	-	-	3,890	75
2006 Del Paso TE, Series A	5,260	-	-	5,260	60
2006 Del Paso TX, Series B	2,450	-	-	2,450	125
2006 North Sacramento TE Master Lease, Series A	485	-	-	485	10
2006 North Sacramento TX Master Lease, Series B	4,545	-	-	4,545	85
2006 Oak Park Refunding TE, Series A	8,460	-	-	8,460	630
2006 Stockton Blvd Master Lease	1,990	-	-	1,990	-
2008 BOA Public Capital Corporation	2,756	-	(45)	2,711	112
2009 Army Depot TX Swap	3,133	-	-	3,133	59
2009 Army Depot TE Swap	6,700	-	-	6,700	145
2009 River District TX Swap	2,932	-	-	2,932	56
2009-10 SERAF Borrowing	4,000	-	-	4,000	1,333
Boating and Waterways Loan	605	-	-	605	75
Globe Mills	4,675	-	-	4,675	197
City of Sacramento CIEDB - Utilities/Detention Basin	1,371	-	-	1,371	35
Franklin Blvd Redevelopment Area	196	-	-	196	44
North Sacramento BOA Line of Credit	5,400	-	-	5,400	5,400
North Sacramento CIEDB Loan	3,726	-	-	3,726	108
Railyards Parking Loan	340	-	-	340	-
Stockton Blvd CIEDB Loan	3,120	-	-	3,120	92
Stockton Blvd Line of Credit	6,400	-	-	6,400	6,400
Subtotal, notes payable	279,725	-	(45)	279,680	22,331
Total, long-term debt	\$ 297,795	\$ -	\$ (45)	\$ 297,750	\$ 31,141

**City of Sacramento**  
**Notes to the Financial Statements**  
For the Fiscal Year Ended June 30, 2012  
(amounts expressed in thousands)

**NOTE 15 – SUCCESSOR AGENCY TRUST FUND (Continued)**

**Future Debt Service Requirements**

The following tables disclose the annual debt service requirements outstanding as of June 30, 2012:

Fiscal Year Ending June 30,	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 8,810	\$ 677	\$ 22,331	\$ 9,530
2014	9,260	282	10,886	9,100
2015	-	-	13,810	15,963
2016	-	-	12,729	15,714
2017	-	-	12,961	15,396
2018 - 2022	-	-	82,946	47,351
2023 - 2027	-	-	57,256	65,864
2028 - 2032	-	-	41,791	64,714
2033 - 2037	-	-	24,893	16,547
2038 - 2042	-	-	77	1
<b>Totals</b>	<b>\$ 18,070</b>	<b>\$ 959</b>	<b>\$ 279,680</b>	<b>\$ 260,180</b>

**NOTE 16 – SHORT-TERM DEBT**

The City issued \$32,675 of Tax and Revenue Anticipation Notes (TRANS) on July 20, 2011, and redeemed them on June 29, 2012. The notes were issued to supplement City General Fund cash flows until taxes and other revenues were collected. Short-term activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Tax and Revenue Anticipation Notes	\$ -	\$ 32,675	\$ (32,675)	\$ -

**NOTE 17 – SUBSEQUENT EVENT**

On July 19, 2012, the City issued \$36,585 of Tax and Revenue Anticipation Notes (TRANS), bearing interest at a rate of 2% per annum, maturing on June 28, 2013. The notes were issued to supplement City General Fund cash flows until taxes and other revenues are collected.

**THIS PAGE INTENTIONALLY LEFT BLANK**

# Required Supplementary Information

**City of Sacramento**  
**Required Supplementary Information**  
**Schedule of Funding Progress (Unaudited)**  
**Pension Plans**  
**(in millions)**

---

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	(Overfunded) Unfunded AAL (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	(Overfunded) Unfunded AAL as a % of Covered Payroll {(b)-(a)}/(c)
<u>CalPERS - Miscellaneous</u>						
6/30/09	\$ 556	\$696	\$ 140	80%	175	80%
6/30/10	607	751	144	81	171	84
6/30/11	660	819	159	81	165	96
<u>CalPERS - Safety</u>						
6/30/09	946	1,135	189	83	110	172
6/30/10	987	1,183	196	83	111	178
6/30/11	1,035	1,249	214	83	109	196
<u>SCERS</u>						
6/30/10	297	395	98	75	5	1,848
6/30/11	297	397	100	75	4	2,420
6/30/12	294	389	95	76	3	3,211



**City of Sacramento**  
**Required Supplementary Information**  
**Schedule of Funding Progress (Unaudited)**  
**Other Post Employment Benefits**  
**(in millions)**

---

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Valued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2007	\$ -	\$ 380	\$ 380	0.00%	\$ 266	142.9%
6/30/2009	-	376	376	0.00	275	136.7
6/30/2011	-	440	440	0.00	254	173.4

Notes to the Required Supplementary Information

1. This information is intended to help users assess the OPEB funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits and make comparisons with other public employers.

## OTHER GOVERNMENTAL FUNDS

Other governmental funds are nonmajor funds reported in the other governmental funds column of the governmental funds financial statements and include:

**SPECIAL REVENUE FUNDS** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds are generally required by statute, charter or ordinance to finance specific governmental functions. The individual funds are listed in the special revenue funds section of the CAFR.

**OTHER DEBT SERVICE FUNDS** are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, or that are being accumulated for principal and interest maturing in future years. The individual funds are listed in the other debt service funds section of the CAFR.

**OTHER CAPITAL PROJECTS FUNDS** are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for governmental capital assets. The individual funds are listed in the other capital projects funds section of the CAFR.

**PERMANENT FUNDS** are used to account for and report resources that are held by the City which are legally restricted to the extent that only earnings may be used for purposes that support City programs. The individual funds are listed in the permanent funds section of the CAFR.

**City of Sacramento**  
**Other Governmental Funds**  
**Combining Balance Sheet**  
June 30, 2012  
(in thousands)

	Special Revenue Funds	Other Debt Service Funds	Other Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
<b>ASSETS</b>					
Cash and investments held by City	\$ 109,985	\$ 4,435	\$ 73,747	\$ 4,380	\$ 192,547
Cash and investments held by fiscal agent	48	891	-	-	939
Securities lending assets	180	-	280	136	596
Receivables, net:					
Accounts	3,530	-	1,095	-	4,625
Loans	1,310	6,749	9,861	-	17,920
Intergovernmental	16,870	48,668	-	-	65,538
Interest	15	26	928	11	980
Investments sold	-	-	624	-	624
Prepaid items	29	-	-	-	29
Restricted assets:					
Cash and investments held by City	600	809	12,553	-	13,962
Cash and investments held by fiscal agent	719	18,415	-	-	19,134
<b>Total assets</b>	<b>\$ 133,286</b>	<b>\$ 79,993</b>	<b>\$ 99,088</b>	<b>\$ 4,527</b>	<b>\$ 316,894</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Securities lending obligations	\$ 567	\$ -	\$ 1,509	\$ 162	\$ 2,238
Accounts payable	6,875	-	1,541	-	8,416
Accrued payroll	114	-	-	-	114
Accrued claims and judgements	1,601	-	-	-	1,601
Due to other funds	4,912	-	-	-	4,912
Matured bonds and interest payable	-	3,323	-	-	3,323
Deposits	739	803	-	-	1,542
Deferred revenue	12,374	54,838	12,073	-	79,285
Advances from other funds	7,419	-	-	-	7,419
<b>Total liabilities</b>	<b>34,601</b>	<b>58,964</b>	<b>15,123</b>	<b>162</b>	<b>108,850</b>
<b>Fund balances:</b>					
<b>Nonspendable:</b>					
Prepaid items	29	-	-	-	29
Noncurrent assets	-	605	-	-	605
Permanent fund principal	-	-	-	878	878
<b>Restricted:</b>					
Capital projects	64,957	-	82,879	-	147,836
Debt service	1,906	15,810	514	-	18,230
Other programs	43,752	-	572	3,487	47,811
<b>Committed:</b>					
Capital projects	469	-	-	-	469
Debt service	-	2,278	-	-	2,278
Other programs	2,096	-	-	-	2,096
<b>Assigned:</b>					
Debt service	-	2,068	-	-	2,068
Unrealized investment gains	-	42	-	-	42
Other programs	3,867	226	-	-	4,093
Unassigned	(18,391)	-	-	-	(18,391)
<b>Total fund balances</b>	<b>98,685</b>	<b>21,029</b>	<b>83,965</b>	<b>4,365</b>	<b>208,044</b>
<b>Total liabilities and fund balances</b>	<b>\$ 133,286</b>	<b>\$ 79,993</b>	<b>\$ 99,088</b>	<b>\$ 4,527</b>	<b>\$ 316,894</b>

**City of Sacramento**  
**Other Governmental Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Special Revenue Funds	Other Debt Service Funds	Other Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
Revenues:					
Taxes	\$ 421	\$ -	\$ -	\$ -	\$ 421
Intergovernmental	71,182	2,895	-	-	74,077
Charges for services	12,687	-	-	-	12,687
Fines, forfeits and penalties	871	-	-	-	871
Interest, rents, and concessions	4,632	3,364	1,663	323	9,982
Community service fees	2,579	-	479	-	3,058
Assessment levies	32,994	-	2,280	-	35,274
Contributions and donations	1,107	1,255	2,000	1	4,363
<b>Total revenues</b>	<b>126,473</b>	<b>7,514</b>	<b>6,422</b>	<b>324</b>	<b>140,733</b>
Expenditures:					
Current:					
General government	3,010	-	188	162	3,360
Police	27,732	-	-	-	27,732
Fire	3,097	-	-	-	3,097
General services	9,529	-	-	-	9,529
Transportation	27,057	-	-	-	27,057
Convention, culture and leisure	5,777	-	217	-	5,994
Economic development	6,578	-	-	-	6,578
Parks and recreation	18,130	-	-	-	18,130
Community development	2,372	-	-	-	2,372
Library	4,609	-	-	-	4,609
Nondepartmental	245	-	67	-	312
Capital outlay	23,669	-	11,232	-	34,901
Debt service:					
Principal	946	17,179	517	-	18,642
Interest and fiscal charges	744	19,057	73	-	19,874
<b>Total expenditures</b>	<b>133,495</b>	<b>36,236</b>	<b>12,294</b>	<b>162</b>	<b>182,187</b>
Excess (deficiency) of revenues over (under) expenditures	(7,022)	(28,722)	(5,872)	162	(41,454)
Other financing sources (uses):					
Transfers in	1,574	25,182	-	-	26,756
Transfers out	(301)	-	(3,162)	-	(3,463)
Issuance of long term debt	-	-	73	-	73
<b>Total other financing sources (uses)</b>	<b>1,273</b>	<b>25,182</b>	<b>(3,089)</b>	<b>-</b>	<b>23,366</b>
Net change in fund balances	(5,749)	(3,540)	(8,961)	162	(18,088)
Fund balances, beginning of year	104,434	24,569	92,926	4,203	226,132
Fund balances, end of year	<u>\$ 98,685</u>	<u>\$ 21,029</u>	<u>\$ 83,965</u>	<u>\$ 4,365</u>	<u>\$ 208,044</u>

## SPECIAL REVENUE FUNDS

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds are generally required by statute, charter or ordinance to finance specific government functions. The following special revenue funds have been classified as nonmajor funds:

**THE TRANSPORTATION AND DEVELOPMENT FUND** accounts for the receipts and disbursements of taxes, fees and fines which are used to construct and maintain streets, bridges and bikeways as well as for traffic safety and community development activities. Programs in the Transportation and Development Fund include the State Gasoline Tax Program, the Traffic Congestion Relief Program, the Sacramento Transportation Sales Tax Program, the Major Street Construction Tax Program, the Transportation Development Act Program and the Private Development Program.

**THE CULTURE AND LEISURE FUND** is used to account for a variety of cultural arts and leisure activities. Programs in the Culture and Leisure Fund include the Sacramento Zoo, Fairytale Town, Art in Public Places, Old Sacramento Market, H Street Theatre, Golf, the Sacramento Sports Commission, the Crocker Master Trust, and the Winchester G. and Mary Alice Felt Endowment.

**THE PARKS AND RECREATION FUND** is used to account for a variety of parks programs and recreation activities. Programs in the Parks and Recreation Fund include START, Quimby, Special Recreation, Land Park, Sutter Park Sites, Special Program Donations and the Ethel MacLeod Hart Trust.

**THE OPERATING GRANTS FUND** is used to account for federal, state and other agency grants received for various specific purposes.

**THE CCOMWP FUND** is used to account for the revenue and expenditures associated with the City/County Office of Metropolitan Water Planning. The CCOMWP was formed to develop the Water Forum Agreement with objectives to provide a reliable water supply for planned development to the year 2030, and to preserve the region's Lower American River.

**THE SPECIAL DISTRICTS FUND** is used to account for a variety of programs that provide infrastructure maintenance and other services for specific areas of the City. The Special Districts Fund includes the Business Improvement Districts Program, the Landscaping and Lighting Districts Program, the Maintenance Benefit Area Program and the Assessment District Maintenance Program.

**THE CAL EPA FUND** is used to account for the expenditures associated with the maintenance of the Joe Serna, Jr. California EPA Headquarters Building.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Special Revenue Funds**  
**Combining Balance Sheet**

June 30, 2012

(in thousands)

	Transportation and Development Fund	Culture and Leisure Fund	Parks and Recreation Fund	Operating Grants Fund
<b>ASSETS</b>				
Cash and investments held by City	\$ 65,788	\$ 2,659	\$ 16,660	\$ -
Cash and investments held by fiscal agent	-	48	-	-
Securities lending assets	-	-	180	-
Receivables, net:				
Accounts	595	372	1,465	-
Loans	1,310	-	-	-
Intergovernmental	2,353	-	107	14,369
Interest	9	2	4	-
Prepaid items	-	-	2	24
Restricted assets:				
Cash and investments held by City	-	-	-	-
Cash and investments held by fiscal agent	-	719	-	-
<b>Total assets</b>	<b>\$ 70,055</b>	<b>\$ 3,800</b>	<b>\$ 18,418</b>	<b>\$ 14,393</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Securities lending obligations	\$ 275	\$ -	\$ 292	\$ -
Accounts payable	1,284	119	120	3,707
Accrued payroll	-	-	101	-
Accrued claims and judgments	1,601	-	-	-
Due to other funds	-	-	-	4,912
Deposits	470	5	143	121
Deferred revenue	1,200	113	251	10,807
Advances from other funds	-	7,419	-	-
<b>Total liabilities</b>	<b>4,830</b>	<b>7,656</b>	<b>907</b>	<b>19,547</b>
Fund balances:				
Nonspendable:				
Prepaid items	-	-	2	24
Restricted:				
Capital projects	47,722	65	12,974	-
Debt service	-	719	-	-
Other programs	16,537	1,671	3,980	5,183
Committed:				
Capital projects	247	152	70	-
Other programs	1,611	-	485	-
Assigned:				
Other programs	-	672	-	-
Unassigned	(892)	(7,135)	-	(10,361)
<b>Total fund balances (deficit)</b>	<b>65,225</b>	<b>(3,856)</b>	<b>17,511</b>	<b>(5,154)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 70,055</b>	<b>\$ 3,800</b>	<b>\$ 18,418</b>	<b>\$ 14,393</b>

**City of Sacramento**  
**Special Revenue Funds**  
**Combining Balance Sheet**  
 June 30, 2012  
 (in thousands)

	CCOMWP Fund	Special Districts Special Revenue Fund	Cal EPA Fund	Total Special Revenue Funds
<b>ASSETS</b>				
Cash and investments held by City	\$ 2,095	\$ 19,629	\$ 3,154	\$ 109,985
Cash and investments held by fiscal agent	-	-	-	48
Securities lending assets	-	-	-	180
Receivables, net:				
Accounts	18	1,080	-	3,530
Loans	-	-	-	1,310
Intergovernmental	-	-	41	16,870
Interest	-	-	-	15
Prepaid items	3	-	-	29
Restricted assets:				
Cash and investments held by City	-	600	-	600
Cash and investments held by fiscal agent	-	-	-	719
<b>Total assets</b>	<b>\$ 2,116</b>	<b>\$ 21,309</b>	<b>\$ 3,195</b>	<b>\$ 133,286</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Securities lending obligations	\$ -	\$ -	\$ -	\$ 567
Accounts payable	249	1,396	-	6,875
Accrued payroll	13	-	-	114
Accrued claims and judgments	-	-	-	1,601
Due to other funds	-	-	-	4,912
Deposits	-	-	-	739
Deferred revenue	3	-	-	12,374
Advances from other funds	-	-	-	7,419
<b>Total liabilities</b>	<b>265</b>	<b>1,396</b>	<b>-</b>	<b>34,601</b>
Fund balances:				
Nonspendable:				
Prepaid items	3	-	-	29
Restricted:				
Capital projects	-	4,196	-	64,957
Debt service	-	1,187	-	1,906
Other programs	1,851	14,530	-	43,752
Committed:				
Capital projects	-	-	-	469
Other programs	-	-	-	2,096
Assigned:				
Other programs	-	-	3,195	3,867
Unassigned	(3)	-	-	(18,391)
<b>Total fund balances (deficit)</b>	<b>1,851</b>	<b>19,913</b>	<b>3,195</b>	<b>98,685</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,116</b>	<b>\$ 21,309</b>	<b>\$ 3,195</b>	<b>\$ 133,286</b>



**City of Sacramento**  
**Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	<b>Transportation and Development Fund</b>	<b>Culture and Leisure Fund</b>	<b>Parks and Recreation Fund</b>	<b>Operating Grants Fund</b>
<b>Revenues:</b>				
Taxes	\$ 421	\$ -	\$ -	\$ -
Intergovernmental	31,639	100	6,589	23,166
Charges for services	2,488	2,474	65	7,660
Fines, forfeits and penalties	871	-	-	-
Interest, rents, and concessions	1,272	1,835	1,010	71
Community service fees	108	-	2,471	-
Assessment levies	35	-	-	-
Contributions and donations	-	31	1,076	-
<b>Total revenues</b>	<b>36,834</b>	<b>4,440</b>	<b>11,211</b>	<b>30,897</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	-	-	-	83
Police	-	-	-	27,732
Fire	-	-	-	3,097
General services	-	-	-	675
Transportation	16,288	221	-	-
Convention, culture and leisure	-	3,263	-	203
Economic development	-	-	-	264
Parks and recreation	-	-	11,371	1,883
Community development	2,104	-	-	-
Library	-	-	-	-
Nondepartment	-	245	-	-
Capital outlay	18,221	309	2,716	1,671
<b>Debt service:</b>				
Principal	-	511	-	-
Interest and fiscal charges	-	592	-	-
<b>Total expenditures</b>	<b>36,613</b>	<b>5,141</b>	<b>14,087</b>	<b>35,608</b>
Excess (deficiency) of revenues over (under) expenditures	221	(701)	(2,876)	(4,711)
<b>Other financing sources (uses):</b>				
Transfers in	423	148	554	-
Transfers out	(268)	-	(33)	-
<b>Total other financing sources (uses)</b>	<b>155</b>	<b>148</b>	<b>521</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>376</b>	<b>(553)</b>	<b>(2,355)</b>	<b>(4,711)</b>
<b>Fund balances (deficit), beginning of year</b>	<b>64,849</b>	<b>(3,303)</b>	<b>19,866</b>	<b>(443)</b>
<b>Fund balances (deficit), end of year</b>	<b>\$ 65,225</b>	<b>\$ (3,856)</b>	<b>\$ 17,511</b>	<b>\$ (5,154)</b>

**City of Sacramento**  
**Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	CCOMWP Fund	Special Districts Special Revenue Fund	Cal EPA Fund	Total Special Revenue Funds
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ -	\$ 421
Intergovernmental	1,562	-	8,126	71,182
Charges for services	-	-	-	12,687
Fines, forfeits and penalties	-	-	-	871
Interest, rents, and concessions	36	342	66	4,632
Community service fees	-	-	-	2,579
Assessment levies	-	32,959	-	32,994
Contributions and donations	-	-	-	1,107
<b>Total revenues</b>	<b>1,598</b>	<b>33,301</b>	<b>8,192</b>	<b>126,473</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	1,918	1,009	-	3,010
Police	-	-	-	27,732
Fire	-	-	-	3,097
General services	-	907	7,947	9,529
Transportation	-	10,548	-	27,057
Convention, culture and leisure	-	2,311	-	5,777
Economic development	-	6,314	-	6,578
Parks and recreation	-	4,876	-	18,130
Community development	-	268	-	2,372
Library	-	4,609	-	4,609
Nondepartment	-	-	-	245
Capital outlay	-	752	-	23,669
<b>Debt service:</b>				
Principal	-	435	-	946
Interest and fiscal charges	-	152	-	744
<b>Total expenditures</b>	<b>1,918</b>	<b>32,181</b>	<b>7,947</b>	<b>133,495</b>
Excess (deficiency) of revenues over (under) expenditures	(320)	1,120	245	(7,022)
<b>Other financing sources (uses):</b>				
Transfers in	449	-	-	1,574
Transfers out	-	-	-	(301)
<b>Total other financing sources (uses)</b>	<b>449</b>	<b>-</b>	<b>-</b>	<b>1,273</b>
<b>Net change in fund balances</b>	<b>129</b>	<b>1,120</b>	<b>245</b>	<b>(5,749)</b>
Fund balances (deficit), beginning of year	1,722	18,793	2,950	104,434
Fund balances (deficit), end of year	<u>\$ 1,851</u>	<u>\$ 19,913</u>	<u>\$ 3,195</u>	<u>\$ 98,685</u>

**City of Sacramento**  
**Transportation and Development Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**- Budget and Actual**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 19,288	\$ 19,208	\$ 22,781	\$ 3,573
Fines, forfeits and penalties	700	700	871	171
Interest, rents, and concessions	123	123	504	381
Total revenues	<u>20,111</u>	<u>20,031</u>	<u>24,156</u>	<u>4,125</u>
Expenditures:				
Current:				
Transportation	15,883	15,931	15,937	(6)
Capital Outlay	9,149	10,734	4,138	6,596
Total expenditures	<u>25,032</u>	<u>26,665</u>	<u>20,075</u>	<u>6,590</u>
Net change in fund balance for budgeted activities	<u>\$ (4,921)</u>	<u>\$ (6,634)</u>	4,081	<u>\$ 10,715</u>
Net change in fund balance for Transportation and Development Special Revenue Fund activities for which annual budgets are not adopted.			<u>(3,705)</u>	
Net change in fund balance			<u>\$ 376</u>	

**City of Sacramento**  
**Culture and Leisure Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**- Budget and Actual**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 130	\$ 100	\$ 100	\$ -
Charges for services	5,946	5,868	2,253	(3,615)
Interest, rents and concessions	1,292	1,292	1,822	530
Contributions and donations	45	45	31	(14)
<b>Total revenues</b>	<b>7,413</b>	<b>7,305</b>	<b>4,206</b>	<b>(3,099)</b>
Expenditures:				
Current:				
Convention, culture and leisure	6,130	6,064	3,263	2,801
Nondepartmental	282	242	245	(3)
Capital Outlay	558	484	294	190
Debt Service:	-	-	-	-
Principal	578	578	511	67
Interest and fiscal charges	589	589	592	(3)
<b>Total expenditures</b>	<b>8,137</b>	<b>7,957</b>	<b>4,905</b>	<b>3,052</b>
Excess (deficiency) of revenues over (under) expenditures	(724)	(652)	(699)	(47)
Other financing sources (uses):				
Transfers in	142	142	148	6
<b>Net change in fund balance for budgeted activities</b>	<b>\$ (582)</b>	<b>\$ (510)</b>	<b>\$ (551)</b>	<b>\$ (41)</b>
Net change in fund balance for Culture and Leisure Special Revenue Fund activities for which annual budgets are not adopted.			(2)	
<b>Net change in fund balance</b>			<b>\$ (553)</b>	

**City of Sacramento**  
**Parks and Recreation Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**

**- Budget and Actual**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 5,208	\$ 6,442	\$ 6,589	\$ 147
Charges for services	10	10	65	55
Interest, rents and concessions	712	833	994	161
Community service fees	1,600	1,840	2,425	585
Contributions and donations	12	976	1,076	100
Total revenues	<u>7,542</u>	<u>10,101</u>	<u>11,149</u>	<u>1,048</u>
Expenditures:				
Current:				
Parks and recreation	9,180	11,173	11,371	(198)
Capital outlay	52	88	46	42
Total expenditures	<u>9,232</u>	<u>11,261</u>	<u>11,417</u>	<u>(156)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,690)	(1,160)	(268)	892
Other financing sources (uses):				
Transfers in	553	553	554	1
Transfers out	-	-	(33)	(33)
Total other financing sources (uses)	<u>553</u>	<u>553</u>	<u>521</u>	<u>(32)</u>
Net change in fund balance for budgeted activities	<u>\$ (1,137)</u>	<u>\$ (607)</u>	253	<u>\$ 860</u>
Net change in fund balance for Parks and Recreation Special Revenue Fund activities for which annual budgets are not adopted.			<u>(2,608)</u>	
Net change in fund balance			<u>\$ (2,355)</u>	

**City of Sacramento**  
**CCOMWP Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**- Budget and Actual**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget-Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 1,034	\$ 1,387	\$ 1,562	\$ 175
Interest, rents and concessions	-	-	36	36
Total revenues	<u>1,034</u>	<u>1,387</u>	<u>1,598</u>	<u>211</u>
Expenditures:				
Current:				
General government	<u>2,190</u>	<u>3,459</u>	<u>1,918</u>	<u>1,541</u>
Excess (deficiency) of revenues over (under) expenditures	(1,156)	(2,072)	(320)	1,752
Other financing sources				
Operating transfers in	<u>449</u>	<u>449</u>	<u>449</u>	<u>-</u>
Net change in fund balance	<u>\$ (707)</u>	<u>\$ (1,623)</u>	<u>\$ 129</u>	<u>\$ 1,752</u>

**City of Sacramento**  
**Special Districts Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**- Budget and Actual**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest, rents, and concessions	\$ -	\$ -	\$ 342	\$ 342
Assessment levies	30,048	32,224	32,959	735
<b>Total revenues</b>	<b>30,048</b>	<b>32,224</b>	<b>33,301</b>	<b>1,077</b>
Expenditures:				
Current:				
General government	1,119	1,000	1,009	(9)
General services	1,007	1,144	907	237
Transportation	11,668	10,556	10,548	8
Convention, culture and leisure	2,155	2,160	2,311	(151)
Economic development	6,130	7,306	6,314	992
Parks and recreation	4,195	4,875	4,876	(1)
Community development	268	268	268	-
Library	4,400	4,400	4,609	(209)
Utilities	5	5	-	5
Capital outlay	5,126	5,126	752	4,374
Debt Service:				
Principal	410	410	435	(25)
Interest and fiscal charges	175	175	152	23
<b>Total expenditures</b>	<b>36,658</b>	<b>37,425</b>	<b>32,181</b>	<b>5,244</b>
<b>Net change in fund balance</b>	<b>\$ (6,610)</b>	<b>\$ (5,201)</b>	<b>\$ 1,120</b>	<b>\$ 6,321</b>

**City of Sacramento**  
**Cal EPA Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**- Budget and Actual**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 7,874	\$ 7,874	\$ 8,126	\$ 252
Interest, rents, and concessions	-	-	66	66
Total revenues	7,874	7,874	8,192	318
Expenditures:				
Current:				
General services	7,702	7,702	7,947	(245)
Net change in fund balance	<u>\$ 172</u>	<u>\$ 172</u>	<u>\$ 245</u>	<u>\$ 73</u>



**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER DEBT SERVICE FUNDS

Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest, or that are being accumulated for principal and interest maturing in future years. The following debt service funds have been classified as nonmajor funds:

**THE 1993 SERIES A REVENUE BOND FUND** is used to account for refunded debt service activities related to the City of Sacramento's 1986 COP issue, for the debt service activity related to the partial refunding of the City of Sacramento's 1991 Marks-Roos Revenue Bond issuance, and to pay costs of issuance of the bonds.

**THE 1993 SERIES B REVENUE BOND FUND** is used to account for refunded debt service activities related to the City of Sacramento's 1989 COP issuance and to pay costs of issuance of the bonds.

**THE 2002 CAPITAL IMPROVEMENT REVENUE BOND FUND** is used to account for debt service activities related to financing various capital improvements and redevelopment projects including the new Civic Center, I-5 Arena Interchange and certain fire trucks and fire stations. These bonds were partially refunded with the 2005 Refunding Revenue Bonds, and with the 2006 Series E Refunding Revenue Bonds.

**THE 2002 REFUNDING REVENUE BOND LIGHT RAIL PROJECTS FUND** is used to account for refunded debt service activities related to the City of Sacramento's 1991 Refunded Certificates of Participation (Light Rail Transit Projects).

**THE 2002 REFUNDING REVENUE BOND PUBLIC FACILITIES PROJECTS FUND** is used to account for refunded debt service activities related to the City of Sacramento's 1991 Refunded Certificates of Participation (1987 Public Facilities Projects).

**THE 2003 CAPITAL IMPROVEMENT REVENUE BOND FUND** is used to account for debt service activities related to financing the acquisition and construction of the 911 Dispatch and Training Facility, a regional park, a corporation yard, a library, fire stations and other municipal projects. These bonds were partially refunded by the 2006 Series E Refunding Revenue Bonds.

**THE 2005 REFUNDING REVENUE BOND FUND** is used to account for refunded debt service related to refinancing all of the 2000 Capital Improvement Revenue Bonds and a portion of the 1999, 2001 and 2002 Capital Improvement Revenue Bonds, and to pay the costs of issuance.

**THE 2006 SERIES A REVENUE BOND FUND** is used to account for debt service activities related to financing the expansion of the Crocker Art Museum and other public capital improvements and redevelopment projects.

## **OTHER DEBT SERVICE FUNDS (continued)**

**THE 2006 SERIES B REVENUE BOND FUND** is used to account for debt service activities related to financing an arts rehearsal facility and other public capital improvements and redevelopment projects.

**THE 2006 SERIES C REVENUE BOND FUND** is used to account for debt service activities related to financing the City's new Richards Boulevard building and improvements.

**THE 2006 SERIES D REVENUE BOND FUND** is used to account for debt service activities related to financing the City's new Richards Boulevard building and improvements.

**THE 2006 SERIES E REVENUE BOND FUND** is used to account for refunding debt service related to refinancing all of the 2001 Capital Improvement Revenue Bonds and a portion of the 2002 and 2003 Capital Improvement Revenue Bonds, and to pay the costs of issuance.

**THE OTHER CITY DEBT FUND** is used to account for debt service activities related to financing equipment for street lighting and other programs of the City.

**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Balance Sheet**

June 30, 2012

(in thousands)

	<b>1993 Series A Revenue Bond Fund</b>	<b>1993 Series B Revenue Bond Fund</b>	<b>2002 Capital Improvement Revenue Bond Fund</b>	<b>2002 Refunding Revenue Bond Light Rail Projects Fund</b>
<b><u>ASSETS</u></b>				
Cash and investments held by City	\$ 307	\$ 217	\$ 276	\$ 58
Cash and investments held by fiscal agent	80	218	-	424
Receivables, net:				
Loans	-	-	-	-
Intergovernmental	-	-	4,330	-
Interest	3	9	-	-
Restricted assets:				
Cash and investments held by City	-	-	-	-
Cash and investments held by fiscal agent	1,190	3,255	-	1,949
<b>Total assets</b>	<b><u>\$ 1,580</u></b>	<b><u>\$ 3,699</u></b>	<b><u>\$ 4,606</u></b>	<b><u>\$ 2,431</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Matured bonds and interest payable	\$ -	\$ -	\$ -	\$ 2,393
Deposits	-	-	-	-
Deferred revenue	3	9	4,330	-
<b>Total liabilities</b>	<b><u>3</u></b>	<b><u>9</u></b>	<b><u>4,330</u></b>	<b><u>2,393</u></b>
Fund balances:				
Nonspendable:				
Noncurrent assets	-	-	-	-
Restricted:				
Debt service	1,190	3,255	165	-
Committed:				
Debt service	-	-	-	-
Assigned:				
Debt service	345	320	-	38
Other programs	-	115	111	-
Unrealized investment gains	42	-	-	-
<b>Total fund balances</b>	<b><u>1,577</u></b>	<b><u>3,690</u></b>	<b><u>276</u></b>	<b><u>38</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,580</u></b>	<b><u>\$ 3,699</u></b>	<b><u>\$ 4,606</u></b>	<b><u>\$ 2,431</u></b>

**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Balance Sheet**

June 30, 2012

(in thousands)

	<b>2002 Refunding Revenue Bond Public Facilities Projects Fund</b>	<b>2005 Refunding Revenue Bond Fund</b>	<b>2006 Series A Revenue Bond Fund</b>	<b>2006 Series B Revenue Bond Fund</b>
<b><u>ASSETS</u></b>				
Cash and investments held by City	\$ 74	\$ -	\$ 600	\$ 2,737
Cash and investments held by fiscal agent	81	-	64	24
Receivables, net:				
Loans	-	-	6,144	-
Intergovernmental	-	20,890	8,092	13,366
Interest	-	-	9	5
Restricted assets:				
Cash and investments held by City	-	-	809	-
Cash and investments held by fiscal agent	821	-	6,927	4,002
<b>Total assets</b>	<b><u>\$ 976</u></b>	<b><u>\$ 20,890</u></b>	<b><u>\$ 22,645</u></b>	<b><u>\$ 20,134</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities:</b>				
Matured bonds and interest payable	\$ 930	\$ -	\$ -	\$ -
Deposits	-	-	803	-
Deferred revenue	-	20,890	14,245	13,371
<b>Total liabilities</b>	<b><u>930</u></b>	<b><u>20,890</u></b>	<b><u>15,048</u></b>	<b><u>13,371</u></b>
<b>Fund balances:</b>				
<b>Nonspendable:</b>				
Noncurrent assets	-	-	-	-
<b>Restricted:</b>				
Debt service	-	-	6,927	4,002
<b>Committed:</b>				
Debt service	-	-	-	2,278
<b>Assigned:</b>				
Debt service	46	-	670	483
Other programs	-	-	-	-
Unrealized investment gains	-	-	-	-
<b>Total fund balances</b>	<b><u>46</u></b>	<b><u>-</u></b>	<b><u>7,597</u></b>	<b><u>6,763</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 976</u></b>	<b><u>\$ 20,890</u></b>	<b><u>\$ 22,645</u></b>	<b><u>\$ 20,134</u></b>

(continued)

**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Balance Sheet**

June 30, 2012

(in thousands)

	2006 Series D Revenue Bond Fund	2006 Series E Revenue Bond Fund	Other City Debt Fund	Total Other Debt Service Funds
<b>ASSETS</b>				
Cash and investments held by City	\$ 4	\$ 43	\$ 119	\$ 4,435
Cash and investments held by fiscal agent	-	-	-	891
Receivables, net:				
Loans	-	-	605	6,749
Intergovernmental	-	1,990	-	48,668
Interest	-	-	-	26
Restricted assets:				
Cash and investments held by City	-	-	-	809
Cash and investments held by fiscal agent	-	-	271	18,415
Total assets	<u>\$ 4</u>	<u>\$ 2,033</u>	<u>\$ 995</u>	<u>\$ 79,993</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Matured bonds and interest payable	\$ -	\$ -	\$ -	\$ 3,323
Deposits	-	-	-	803
Deferred revenue	-	1,990	-	54,838
Total liabilities	<u>-</u>	<u>1,990</u>	<u>-</u>	<u>58,964</u>
Fund balances:				
Nonspendable:				
Noncurrent assets	-	-	605	605
Restricted:				
Debt service	-	-	271	15,810
Committed:				
Debt service	-	-	-	2,278
Assigned:				
Debt service	4	43	119	2,068
Other programs	-	-	-	226
Unrealized investment gains	-	-	-	42
Total fund balances	<u>4</u>	<u>43</u>	<u>995</u>	<u>21,029</u>
Total liabilities and fund balances	<u>\$ 4</u>	<u>\$ 2,033</u>	<u>\$ 995</u>	<u>\$ 79,993</u>

**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	<b>1993 Series A Revenue Bond Fund</b>	<b>1993 Series B Revenue Bond Fund</b>	<b>2002 Capital Improvement Revenue Bond Fund</b>	<b>2002 Refunding Revenue Bond Light Rail Projects Fund</b>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 1,880	\$ -
Interest, rents, and concessions	34	73	224	24
Contributions from property owners	-	-	-	-
Total revenues	<u>34</u>	<u>73</u>	<u>2,104</u>	<u>24</u>
Expenditures:				
Debt service:				
Principal	639	1,835	4,615	2,335
Interest and fiscal charges	424	1,178	586	117
Total expenditures	<u>1,063</u>	<u>3,013</u>	<u>5,201</u>	<u>2,452</u>
Excess (deficiency) of revenues over (under) expenditures	(1,029)	(2,940)	(3,097)	(2,428)
Other financing sources:				
Transfers in	<u>662</u>	<u>2,412</u>	<u>3,103</u>	<u>503</u>
Net change in fund balances	(367)	(528)	6	(1,925)
Fund balances, beginning of year	<u>1,944</u>	<u>4,218</u>	<u>270</u>	<u>1,963</u>
Fund balances, end of year	<u>\$ 1,577</u>	<u>\$ 3,690</u>	<u>\$ 276</u>	<u>\$ 38</u>

**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	<u>2002 Refunding Revenue Bond Public Facilities Projects Fund</u>	<u>2003 Capital Improvement Revenue Bond Fund</u>	<u>2005 Refunding Revenue Bond Fund</u>
Revenues:			
Intergovernmental	\$ -	\$ -	\$ 80
Interest, rents, and concessions	11	-	1,024
Contributions from property owners	-	-	-
Total revenues	<u>11</u>	<u>-</u>	<u>1,104</u>
Expenditures:			
Debt service:			
Principal	908	1,225	615
Interest and fiscal charges	45	1,068	2,828
Total expenditures	<u>953</u>	<u>2,293</u>	<u>3,443</u>
Excess (deficiency) of revenues over (under) expenditures	(942)	(2,293)	(2,339)
Other financing sources:			
Transfers in	133	2,293	2,339
Net change in fund balances	(809)	-	-
Fund balances, beginning of year	<u>855</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ -</u>



**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	<b>2006</b> <b>Series A</b> <b>Revenue</b> <b>Bond Fund</b>	<b>2006</b> <b>Series B</b> <b>Revenue</b> <b>Bond Fund</b>	<b>2006</b> <b>Series C</b> <b>Revenue</b> <b>Bond Fund</b>	<b>2006</b> <b>Series D</b> <b>Revenue</b> <b>Bond Fund</b>
Revenues:				
Intergovernmental	\$ 190	\$ 255	\$ -	\$ -
Interest, rents, and concessions	851	972	-	-
Contributions and donations	1,255	-	-	-
Total revenues	<u>2,296</u>	<u>1,227</u>	<u>-</u>	<u>-</u>
Expenditures:				
Debt service:				
Principal	2,870	900	570	-
Interest and fiscal charges	3,997	3,067	1,313	125
Total expenditures	<u>6,867</u>	<u>3,967</u>	<u>1,883</u>	<u>125</u>
Excess (deficiency) of revenues over (under) expenditures	(4,571)	(2,740)	(1,883)	(125)
Other financing sources:				
Transfers in	4,670	2,792	1,883	125
Net change in fund balances	99	52	-	-
Fund balances, beginning of year	<u>7,498</u>	<u>6,711</u>	<u>-</u>	<u>4</u>
Fund balances, end of year	<u>\$ 7,597</u>	<u>\$ 6,763</u>	<u>\$ -</u>	<u>\$ 4</u>

(continued)

**City of Sacramento**  
**Other Debt Service Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012

(in thousands)

	<b>2006 Series E Revenue Bond Fund</b>	<b>Other City Debt Fund</b>	<b>Total Other Debt Service Funds</b>
Revenues:			
Intergovernmental	\$ -	\$ 490	\$ 2,895
Interest, rents, and concessions	105	46	3,364
Contributions and donations	-	-	1,255
Total revenues	<u>105</u>	<u>536</u>	<u>7,514</u>
Expenditures:			
Debt service:			
Principal	-	667	17,179
Interest and fiscal charges	4,130	179	19,057
Total expenditures	<u>4,130</u>	<u>846</u>	<u>36,236</u>
Excess (deficiency) of revenues over (under) expenditures	(4,025)	(310)	(28,722)
Other financing sources:			
Transfers in	<u>4,026</u>	<u>241</u>	<u>25,182</u>
Net change in fund balances	1	(69)	(3,540)
Fund balances, beginning of year	<u>42</u>	<u>1,064</u>	<u>24,569</u>
Fund balances, end of year	<u>\$ 43</u>	<u>\$ 995</u>	<u>\$ 21,029</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER CAPITAL PROJECTS FUNDS

Other capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for governmental capital assets. The following capital projects funds have been classified as nonmajor funds:

**THE GENERAL FUND CAPITAL PROJECTS FUND** is used to account for the proceeds of bond issues and associated capital projects.

**THE CROCKER ART MUSEUM EXPANSION FUND** is used to account for contributions from the Crocker Art Museum Association (CAMA) and related expenditures for the museum expansion project.

**THE FINANCING PLANS FUND** is used to account for the construction of public infrastructure funded by fee districts and finance plans. The Financing Plans Fund projects include the North Natomas Financing Plan, the Richard/Railyards/Downtown Development District, the Willowcreek Project Area, the Jacinto Creek Planning Area and the City-wide Park Development Impact Fee program.

**THE SPECIAL DISTRICTS CAPITAL PROJECTS FUND** is used to account for the proceeds of special assessment bond issues which are used in the construction of street lighting, curbs, gutters, sidewalks and drainage infrastructure.

**City of Sacramento**  
**Other Capital Projects Funds**  
**Combining Balance Sheet**  
June 30, 2012  
(in thousands)

	General Fund Capital Projects Fund	Crocker Art Museum Expansion Fund	Financing Plans Fund	Special Districts Capital Projects Fund	Total Other Capital Projects Funds
<b>ASSETS</b>					
Cash and investments held by City	\$ 279	\$ 241	\$ 62,453	\$ 10,774	\$ 73,747
Securities lending assets	-	-	280	-	280
Receivables, net:					
Accounts	-	-	1,068	27	1,095
Loans	-	9,861	-	-	9,861
Interest	-	24	904	-	928
Investments sold	-	-	624	-	624
Restricted assets:					
Cash and investments held by City	12,489	64	-	-	12,553
<b>Total assets</b>	<b>\$ 12,768</b>	<b>\$ 10,190</b>	<b>\$ 65,329</b>	<b>\$ 10,801</b>	<b>\$ 99,088</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Securities lending obligations	\$ 207	\$ 241	\$ 995	\$ 66	\$ 1,509
Accounts payable	87	-	1,359	95	1,541
Deferred revenue	-	9,885	2,188	-	12,073
<b>Total liabilities</b>	<b>294</b>	<b>10,126</b>	<b>4,542</b>	<b>161</b>	<b>15,123</b>
Fund balances:					
Restricted:					
Capital projects	11,960	64	60,215	10,640	82,879
Debt service	514	-	-	-	514
Other programs	-	-	572	-	572
<b>Total fund balances</b>	<b>12,474</b>	<b>64</b>	<b>60,787</b>	<b>10,640</b>	<b>83,965</b>
<b>Total liabilities and fund balances</b>	<b>\$ 12,768</b>	<b>\$ 10,190</b>	<b>\$ 65,329</b>	<b>\$ 10,801</b>	<b>\$ 99,088</b>

**City of Sacramento**  
**Other Capital Projects Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	General Fund Capital Projects Fund	Crocker Art Museum Expansion Fund	Financing Plans Fund	Special Districts Capital Projects Fund	Total Other Capital Projects Funds
Revenues:					
Interest, rents, and concessions	\$ 361	\$ 502	\$ 599	\$ 201	\$ 1,663
Community service fees	-	-	479	-	479
Assessment levies	-	-	-	2,280	2,280
Contributions and donations	-	-	-	2,000	2,000
<b>Total revenues</b>	<b>361</b>	<b>502</b>	<b>1,078</b>	<b>4,481</b>	<b>6,422</b>
Expenditures:					
Current:					
General government	6	-	170	12	188
Parks and recreation	-	-	217	-	217
Nondepartment	-	-	-	67	67
Capital outlay	2,346	-	6,462	2,424	11,232
Debt service:					
Principal	-	-	517	-	517
Interest and fiscal charges	-	-	73	-	73
<b>Total expenditures</b>	<b>2,352</b>	<b>-</b>	<b>7,439</b>	<b>2,503</b>	<b>12,294</b>
(Deficiency) excess of revenues (under) over expenditures	(1,991)	502	(6,361)	1,978	(5,872)
Other financing sources (uses):					
Transfers out	(126)	(468)	(2,568)	-	(3,162)
Issuance of long-term debt	-	-	73	-	73
<b>Total other financing sources (uses)</b>	<b>(126)</b>	<b>(468)</b>	<b>(2,495)</b>	<b>-</b>	<b>(3,089)</b>
<b>Net change in fund balances</b>	<b>(2,117)</b>	<b>34</b>	<b>(8,856)</b>	<b>1,978</b>	<b>(8,961)</b>
<b>Fund balances, beginning of year</b>	<b>14,591</b>	<b>30</b>	<b>69,643</b>	<b>8,662</b>	<b>92,926</b>
<b>Fund balances, end of year</b>	<b>\$ 12,474</b>	<b>\$ 64</b>	<b>\$ 60,787</b>	<b>\$ 10,640</b>	<b>\$ 83,965</b>

## PERMANENT FUNDS

Permanent funds are used to account for and report resources that are held by the City which are legally restricted to the extent that only earnings may be used for purposes that support City programs. The resources must be spent as provided in legal trust agreements and related state laws. The following permanent funds have been classified as nonmajor funds:

**THE ANN LAND FUND** is used to account for gifts to the City. The investment income is available to aid destitute persons in the City.

**THE BERTHA HENSCHEL FUND** is used to account for gifts to the City. The investment income is available to aid destitute persons in the City.

**THE GEORGE CLARK SCHOLARSHIP FUND** is used to account for an endowment established by George Clark, Mayor of Sacramento in 1900. The investment income is available to provide college scholarships for Sacramento high school seniors.

**THE ALICE MILLER FUND** is used to account for gifts to the City. The investment income is available to care for a specific area of the Old City Cemetery.

**THE SACRAMENTO HISTORY MUSEUM FUND** is used to account for gifts to the Museum. The investment income is available to help pay the operating expenses of the Museum.

**THIS PAGE INTENTIONALLY LEFT BLANK**



**City of Sacramento**  
**Permanent Funds**  
**Combining Balance Sheet**

June 30, 2012  
(in thousands)

---

	<u>Ann Land Fund</u>	<u>Bertha Henschel Fund</u>	<u>George Clark Scholarship Fund</u>
<b><u>ASSETS</u></b>			
Cash and investments held by City	\$ 805	\$ 2,408	\$ 790
Securities lending assets	19	58	59
Receivables, net:			
Interest	<u>2</u>	<u>7</u>	<u>2</u>
Total assets	<u>\$ 826</u>	<u>\$ 2,473</u>	<u>\$ 851</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Securities lending obligations	<u>\$ 25</u>	<u>\$ 75</u>	<u>\$ 62</u>
Fund balances:			
Nonspendable:			
Permanent fund principal	272	278	25
Restricted:			
Other programs	<u>529</u>	<u>2,120</u>	<u>764</u>
Total fund balances	<u>801</u>	<u>2,398</u>	<u>789</u>
Total liabilities and fund balances	<u>\$ 826</u>	<u>\$ 2,473</u>	<u>\$ 851</u>

**City of Sacramento**  
**Permanent Funds**  
**Combining Balance Sheet**

June 30, 2012  
(in thousands)

	<u>Alice Miller Fund</u>	<u>Sacramento History Museum Fund</u>	<u>Total Permanent Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments held by City	\$ 49	\$ 328	\$ 4,380
Securities lending assets	-	-	136
Receivables, net:			
Interest	-	-	11
Total assets	<u>\$ 49</u>	<u>\$ 328</u>	<u>\$ 4,527</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Securities lending obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162</u>
Fund balances:			
Nonspendable:			
Permanent fund principal	3	300	878
Restricted:			
Other programs	<u>46</u>	<u>28</u>	<u>3,487</u>
Total fund balances	<u>49</u>	<u>328</u>	<u>4,365</u>
Total liabilities and fund balances	<u>\$ 49</u>	<u>\$ 328</u>	<u>\$ 4,527</u>

**City of Sacramento**  
**Permanent Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

---

	<u>Ann Land Fund</u>	<u>Bertha Henschel Fund</u>	<u>George Clark Scholarship Fund</u>
Revenues:			
Interest, rents, and concessions	\$ 65	\$ 194	\$ 56
Contributions and donations	-	1	-
	<u>65</u>	<u>195</u>	<u>56</u>
Total revenues			
Expenditures:			
Current:			
General government	35	104	23
	<u>35</u>	<u>104</u>	<u>23</u>
Excess (deficiency) of revenues over (under) expenditures	30	91	33
Fund balances, beginning of year	<u>771</u>	<u>2,307</u>	<u>756</u>
Fund balances, end of year	<u>\$ 801</u>	<u>\$ 2,398</u>	<u>\$ 789</u>

**City of Sacramento**  
**Permanent Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Alice Miller Fund</u>	<u>Sacramento History Museum Fund</u>	<u>Total Permanent Funds</u>
Revenues:			
Interest, rents, and concessions	\$ 1	\$ 7	\$ 323
Contributions and donations	-	-	1
	<u>1</u>	<u>7</u>	<u>324</u>
Total revenues			
Expenditures:			
Current:			
General government	-	-	162
	<u>-</u>	<u>-</u>	<u>162</u>
Excess (deficiency) of revenues over (under) expenditures	1	7	162
Fund balances, beginning of year	<u>48</u>	<u>321</u>	<u>4,203</u>
Fund balances, end of year	<u>\$ 49</u>	<u>\$ 328</u>	<u>\$ 4,365</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**

## OTHER ENTERPRISE FUNDS

Enterprise funds are used to account for self-supporting City programs that provide services on a user-fee basis to the general public. The following enterprise funds have been classified as nonmajor funds:

**THE PARKING FUND** is used to account for the operation and maintenance of the City's off-street parking facilities throughout the City.

**THE 4<sup>th</sup> R FUND** is used to account for a program that provides school age child care services at various locations throughout the City.

**THE MARINA FUND** is used to account for the operation and maintenance of the City's Marina located on the Sacramento River at Miller Park.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Other Enterprise Funds**  
**Combining Statement of Net Position**

June 30, 2012  
(in thousands)

	Parking Fund	4th R Fund	Marina Fund	Total Other Enterprise Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments held by City	\$ 29,966	\$ 266	\$ 1,176	\$ 31,408
Cash and investments held by fiscal agent	118	-	-	118
Securities lending assets	142	-	-	142
Receivables, net:				
Accounts	827	46	33	906
Loans	60	-	-	60
Intergovernmental	-	26	-	26
Interest	180	-	-	180
Investments sold	317	-	-	317
Prepaid items	7	8	-	15
<b>Total current assets</b>	<b>31,617</b>	<b>346</b>	<b>1,209</b>	<b>33,172</b>
Noncurrent assets:				
Restricted assets:				
Cash and investments held by City	314	29	52	395
Cash and investments held by fiscal agent	1,759	-	-	1,759
Loans receivable	712	-	-	712
Deferred charges	341	182	-	523
Capital assets:				
Land	6,795	-	3,821	10,616
Buildings and improvements	60,212	1,546	17,679	79,437
Machinery and equipment	6,902	-	208	7,110
Less: accumulated depreciation/amortization	(31,044)	(639)	(7,246)	(38,929)
<b>Total noncurrent assets</b>	<b>45,991</b>	<b>1,118</b>	<b>14,514</b>	<b>61,623</b>
<b>Total assets</b>	<b>77,608</b>	<b>1,464</b>	<b>15,723</b>	<b>94,795</b>



**City of Sacramento**  
**Other Enterprise Funds**  
**Combining Statement of Net Position**  
June 30, 2012  
(in thousands)

	<u>Parking Fund</u>	<u>4th R Fund</u>	<u>Marina Fund</u>	<u>Total Other Enterprise Funds</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Securities lending obligations	351	-	-	351
Accounts payable	645	93	16	754
Accrued payroll	118	204	15	337
Accrued compensated absences	11	15	1	27
Interest payable	200	-	633	833
Deposits	-	-	85	85
Unearned revenue	518	29	40	587
Accrued claims and judgements	12	-	-	12
Capital leases payable	-	-	90	90
Revenue and other bonds payable, net	1,868	-	-	1,868
Notes payable	-	20	396	416
	<u>3,723</u>	<u>361</u>	<u>1,276</u>	<u>5,360</u>
Total current liabilities				
Noncurrent liabilities:				
Accrued compensated absences	273	327	33	633
OPEB liability	809	122	80	1,011
Capital leases payable	-	-	1,073	1,073
Revenue and other bonds payable, net	30,792	-	-	30,792
Notes payable	-	40	14,985	15,025
	<u>31,874</u>	<u>489</u>	<u>16,171</u>	<u>48,534</u>
Total noncurrent liabilities				
Total liabilities	<u>35,597</u>	<u>850</u>	<u>17,447</u>	<u>53,894</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	12,278	846	(2,030)	11,094
Unrestricted	29,733	(232)	306	29,807
Total net position (deficit)	<u>\$ 42,011</u>	<u>\$ 614</u>	<u>\$ (1,724)</u>	<u>\$ 40,901</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Other Enterprise Funds**  
**Combining Statement of Revenues,**  
**Expenses and Changes in Fund Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Parking Fund</u>	<u>4th R Fund</u>	<u>Marina Fund</u>	<u>Total Other Enterprise Funds</u>
Operating revenues:				
Charges for services:				
User fees and charges	\$ 18,065	\$ 5,229	\$ 1,345	\$ 24,639
Rents and concessions	704	-	1	705
Miscellaneous	-	3	13	16
Total operating revenues	<u>18,769</u>	<u>5,232</u>	<u>1,359</u>	<u>25,360</u>
Operating expenses:				
Employee services	3,727	5,073	432	9,232
Services and supplies	8,078	735	559	9,372
Depreciation/amortization	2,131	77	276	2,484
Claims and judgements	20	-	-	20
Total operating expenses	<u>13,956</u>	<u>5,885</u>	<u>1,267</u>	<u>21,108</u>
Operating income (loss)	<u>4,813</u>	<u>(653)</u>	<u>92</u>	<u>4,252</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	351	2	25	378
Revenue from other agencies	562	678	-	1,240
Interest expense	(1,751)	-	(741)	(2,492)
Amortization of deferred charges	(25)	-	-	(25)
Total nonoperating revenues (expenses)	<u>(863)</u>	<u>680</u>	<u>(716)</u>	<u>(899)</u>
Income (loss) before transfers	3,950	27	(624)	3,353
Transfers in	3	-	-	3
Transfers out	<u>(3,884)</u>	<u>-</u>	<u>(183)</u>	<u>(4,067)</u>
Changes in net position	69	27	(807)	(711)
Total net position (deficit), beginning of year	<u>41,942</u>	<u>587</u>	<u>(917)</u>	<u>41,612</u>
Total net position (deficit), end of year	<u>\$ 42,011</u>	<u>\$ 614</u>	<u>\$ (1,724)</u>	<u>\$ 40,901</u>

**City of Sacramento**  
**Other Enterprise Funds**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Parking Fund	4th R Fund	Marina Fund	Total Other Enterprise Funds
Cash flows from operating activities:				
Receipts from customers and users	\$ 18,552	\$ 5,226	\$ 1,356	\$ 25,134
Payments to suppliers	(8,569)	(741)	(555)	(9,865)
Payments to employees	(3,567)	(5,011)	(412)	(8,990)
Claims and judgements paid	(13)	-	-	(13)
Net cash provided by (used for) operating activities	<u>6,403</u>	<u>(526)</u>	<u>389</u>	<u>6,266</u>
Cash flows from noncapital financing activities:				
Transfers in from other funds	3	-	-	3
Transfers out to other funds	(2,815)	-	(183)	(2,998)
Intergovernmental revenue received	562	492	-	1,054
Net cash provided by (used for) noncapital financing activities	<u>(2,250)</u>	<u>492</u>	<u>(183)</u>	<u>(1,941)</u>
Cash flows from capital and related financing activities:				
Interfund loan repayments	(89)	-	-	(89)
Interest payments on interfund borrowings	(2)	-	-	(2)
Acquisition and construction of capital assets	(466)	-	-	(466)
Proceeds from issuance of debt	-	-	900	900
Principal payments on capital debt	(1,849)	(40)	(310)	(2,199)
Interest payments on capital debt	(1,723)	-	(296)	(2,019)
Transfers out to other funds	(1,069)	-	-	(1,069)
Net cash provided by (used for) capital and related financing activities	<u>(5,198)</u>	<u>(40)</u>	<u>294</u>	<u>(4,944)</u>
Cash flows from investing activities:				
Collection of interest and investment revenue	278	2	25	305
Payments for investments purchased in prior year	(311)	-	-	(311)
Investments sold with settlement after year end	(317)	-	-	(317)
Net cash provided by (used for) investing activities	<u>(350)</u>	<u>2</u>	<u>25</u>	<u>(323)</u>
Net increase (decrease) in cash and cash equivalents	(1,395)	(72)	525	(942)
Cash and cash equivalents, beginning of year	33,552	367	703	34,622
Cash and cash equivalents, end of year	<u>\$ 32,157</u>	<u>\$ 295</u>	<u>\$ 1,228</u>	<u>\$ 33,680</u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Cash and investments held by City	\$ 29,966	\$ 266	\$ 1,176	\$ 31,408
Cash and investments held by fiscal agent	118	-	-	118
Restricted cash and investments held by City	314	29	52	395
Restricted cash and investments held by fiscal agent	1,759	-	-	1,759
Total cash and cash equivalents, end of year	<u>\$ 32,157</u>	<u>\$ 295</u>	<u>\$ 1,228</u>	<u>\$ 33,680</u>

**City of Sacramento**  
**Other Enterprise Funds**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Parking Fund</u>	<u>4th R Fund</u>	<u>Marina Fund</u>	<u>Total Other Enterprise Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 4,813	\$ (653)	\$ 92	\$ 4,252
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation/amortization expense	2,131	77	276	2,484
Changes in assets and liabilities:				
Accounts receivable, net	(21)	(6)	(3)	(30)
Deferred charges	-	8	-	8
Accrued claims	7	-	-	7
Accounts payable	(491)	(14)	4	(501)
Accrued payroll	(14)	17	1	4
Accrued compensated absences	2	12	2	16
OPEB liabilities	172	33	17	222
Deposits	-	-	(2)	(2)
Unearned revenue	(196)	-	2	(194)
Net cash provided by (used for) operating activities	<u>\$ 6,403</u>	<u>\$ (526)</u>	<u>\$ 389</u>	<u>\$ 6,266</u>
Noncash investing, capital and financing activities:				
Capitalized interest	\$ 30	\$ -	\$ -	\$ 30
Amortization of bond premium, discount, and loss on refunding	(68)	-	-	(68)
Amortization of deferred charges	(25)	-	-	(25)
Change in securities lending assets	67	-	-	67
Change in securities lending obligations	32	-	-	32
Interest accrual on loans receivable	(29)	-	-	(29)
Accrual interest added to Marina Phase V loan	-	-	34	34

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **WATER FUND**

**THIS PAGE INTENTIONALLY LEFT BLANK**



**City of Sacramento**  
**Water Fund**  
**Combining Statement of Net Position**

June 30, 2012  
(in thousands)

	<u>Development Impact Fee Fund</u>	<u>User Fee Fund</u>	<u>ARRA Grant/Loan Fund</u>	<u>Grant Projects Fund</u>	<u>Total Water Fund</u>
<b>ASSETS</b>					
Current assets:					
Cash and investments held by City	\$ -	\$ 43,655	\$ 10	\$ (1,074)	\$ 42,591
Securities lending assets	-	290	-	-	290
Receivables, net:					
Accounts	1,500	18,171	-	-	19,671
Loans	2,050	6	-	-	2,056
Intergovernmental	-	-	-	1,191	1,191
Interest	332	356	-	-	688
Investments sold	-	645	-	-	645
Inventories	-	3,900	-	-	3,900
<b>Total current assets</b>	<b>3,882</b>	<b>67,023</b>	<b>10</b>	<b>117</b>	<b>71,032</b>
Noncurrent assets:					
Restricted assets:					
Cash and investments held by City	18,435	-	-	-	18,435
Cash and investments held by fiscal agent	-	-	-	-	-
Loans receivable	7,075	-	-	-	7,075
Deferred charges	-	1,739	-	-	1,739
Capital assets:					
Land	-	967	-	-	967
Buildings and improvements	-	37,468	-	-	37,468
Machinery and equipment	-	15,512	-	-	15,512
Transmission and distribution systems	389	570,146	-	304	570,839
Construction in progress	973	16,208	-	1,006	18,187
Software	-	201	-	-	201
Less: accumulated depreciation/amortization	(12)	(185,995)	-	(10)	(186,017)
<b>Total noncurrent assets</b>	<b>26,860</b>	<b>456,246</b>	<b>-</b>	<b>1,300</b>	<b>484,406</b>
<b>Total assets</b>	<b>30,742</b>	<b>523,269</b>	<b>10</b>	<b>1,417</b>	<b>555,438</b>

**City of Sacramento**  
**Water Fund**  
**Combining Statement of Net Position**  
June 30, 2012  
(in thousands)

	<u>Development Impact Fee Fund</u>	<u>User Fee Fund</u>	<u>ARRA Grant/Loan Fund</u>	<u>Grant Projects Fund</u>	<u>Total Water Fund</u>
<b><u>LIABILITIES</u></b>					
Current liabilities:					
Securities lending obligations	-	599	-	-	599
Accounts payable	59	4,120	10	113	4,302
Accrued payroll	-	829	-	-	829
Accrued compensated absences	-	120	-	-	120
Interest payable	-	766	-	-	766
Deposits	-	26	-	-	26
Unearned revenue	-	2,974	-	4	2,978
Accrued claims and judgements	-	90	-	-	90
Capital leases payable	-	-	-	-	-
Revenue and other bonds payable, net	-	4,916	-	-	4,916
Notes payable	-	-	-	-	-
	<u>59</u>	<u>14,440</u>	<u>10</u>	<u>117</u>	<u>14,626</u>
Total current liabilities					
Noncurrent liabilities:					
Accrued compensated absences	-	1,932	-	-	1,932
Water fee credits	-	1,702	-	-	1,702
OPEB liability	-	4,534	-	-	4,534
Capital leases payable	-	-	-	-	-
Revenue and other bonds payable, net	-	152,660	-	-	152,660
Notes payable	-	10,000	-	-	10,000
	<u>-</u>	<u>170,828</u>	<u>-</u>	<u>-</u>	<u>170,828</u>
Total noncurrent liabilities					
	<u>59</u>	<u>185,268</u>	<u>10</u>	<u>117</u>	<u>185,454</u>
Total liabilities					
<b><u>NET POSITION</u></b>					
Net investment in capital assets	1,350	286,931	-	1,300	289,581
Restricted for:					
Capital projects	29,333	-	-	-	29,333
Unrestricted	-	51,070	-	-	51,070
	<u>-</u>	<u>51,070</u>	<u>-</u>	<u>-</u>	<u>51,070</u>
Total net position (deficit)					
	<u>\$ 30,683</u>	<u>\$ 338,001</u>	<u>\$ -</u>	<u>\$ 1,300</u>	<u>\$ 369,984</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Water Fund**  
**Combining Statement of Revenues,**  
**Expenses and Changes in Fund Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	ARRA Grant/Loan Fund	Grant Projects Fund	Total Water Fund
Operating revenues:					
Charges for services:					
User fees and charges	\$ -	\$ 79,758	\$ -	\$ -	\$ 79,758
Miscellaneous	-	99	-	-	99
Total operating revenues	-	79,857	-	-	79,857
Operating expenses:					
Employee services	-	23,402	-	7	23,409
Services and supplies	3	19,614	-	157	19,774
Depreciation/amortization	8	16,438	-	10	16,456
Claims and judgements	-	163	-	-	163
Total operating expenses	11	59,617	-	174	59,802
Operating income (loss)	(11)	20,240	-	(174)	20,055
Nonoperating revenues (expenses):					
Interest and investment revenue	703	369	-	-	1,072
Revenue from other agencies	-	289	527	164	980
Interest expense	-	(7,421)	-	-	(7,421)
Amortization of deferred charges	-	(119)	-	-	(119)
Total nonoperating revenues (expenses)	703	(6,882)	527	164	(5,488)
Income (loss) before transfers	692	13,358	527	(10)	14,567
Capital contributions	2,193	1,087	-	1,310	4,590
Transfers in	-	11,689	-	-	11,689
Transfers out	-	(8,980)	(11,635)	-	(20,615)
Changes in net position	2,885	17,154	(11,108)	1,300	10,231
Total net position (deficit), beginning of year	27,798	320,847	11,108	-	359,753
Total net position (deficit), end of year	\$ 30,683	\$ 338,001	\$ -	\$ 1,300	\$ 369,984

**City of Sacramento**  
**Water Fund**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	ARRA Grant/Loan Fund	Grant Projects Fund	Total Water Fund
Cash flows from operating activities:					
Receipts from customers and users	\$ -	\$ 77,459	\$ -	\$ -	\$ 77,459
Payments to suppliers	(3)	(16,981)	-	(44)	(17,028)
Payments to employees	-	(22,367)	-	(7)	(22,374)
Claims and judgements paid	-	(114)	-	-	(114)
Net cash provided by (used for) operating activities	(3)	37,997	-	(51)	37,943
Cash flows from noncapital financing activities:					
Transfers in from other funds	-	54	-	-	54
Transfers out to other funds	-	(8,941)	-	-	(8,941)
Loan payments	-	(76)	-	-	(76)
Intergovernmental revenue received	-	289	-	136	425
Net cash provided by (used for) noncapital financing activities	-	(8,674)	-	136	(8,538)
Cash flows from capital and related financing activities:					
Interfund loan repayments	-	(329)	-	-	(329)
Interest payments on interfund loan repayments	-	(7)	-	-	(7)
Acquisition and construction of capital assets	(634)	(15,400)	(1,042)	(1,310)	(18,386)
Proceeds from issuance of debt	-	-	4,987	-	4,987
Principal payments on capital debt	-	(3,330)	-	-	(3,330)
Interest payments on capital debt	-	(7,978)	-	-	(7,978)
Capital contributions received	698	-	4,987	151	5,836
Loan repayments received	201	24	-	-	225
Net cash provided by (used for) capital and related financing activities	265	(27,020)	8,932	(1,159)	(18,982)
Cash flows from investing activities:					
Collection of interest and investment revenue	460	189	-	-	649
Investments received with settlement after year end	-	(645)	-	-	(645)
Loans made	-	(512)	-	-	(512)
Net cash provided by (used for) investing activities	460	(968)	-	-	(508)
Net increase (decrease) in cash and cash equivalents	722	1,335	8,932	(1,074)	9,915
Cash and cash equivalents, beginning of year	17,713	42,320	(8,922)	-	51,111
Cash and cash equivalents, end of year	\$ 18,435	\$ 43,655	\$ 10	\$ (1,074)	\$ 61,026
Reconciliation of cash and cash equivalents to the Statement of Net Position:					
Cash and investments held by City	\$ -	\$ 43,655	\$ 10	\$ (1,074)	\$ 42,591
Restricted cash and investments held by City	18,435	-	-	-	18,435
Total cash and cash equivalents, end of year	\$ 18,435	\$ 43,655	\$ 10	\$ (1,074)	\$ 61,026

**City of Sacramento**  
**Water Fund**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	ARRA Grant/Loan Fund	Grant Projects Fund	Total Water Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (11)	\$ 20,240	\$ -	\$ (174)	\$ 20,055
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation/amortization expense	8	16,438	-	10	16,456
Changes in assets and liabilities:					
Accounts receivable, net	-	(2,186)	-	-	(2,186)
Intergovernmental receivables	-	675	-	-	675
Inventories	-	564	-	-	564
Accounts payable	-	2,015	-	113	2,128
Accrued payroll	-	81	-	-	81
Accrued compensated absences	-	(71)	-	-	(71)
OPEB liabilities	-	1,025	-	-	1,025
Accrued claims and judgments	-	49	-	-	49
Unearned revenue	-	(833)	-	-	(833)
Net cash provided by (used for) operating activities	<u>\$ (3)</u>	<u>\$ 37,997</u>	<u>\$ -</u>	<u>\$ (51)</u>	<u>\$ 37,943</u>
Noncash investing, capital and financing activities:					
Contributions of capital assets	\$ -	\$ 22,121	\$ (21,635)	\$ -	\$ 486
Transfer of capital assets from governmental funds, net of depreciation	-	578	-	-	578
Transfer of capital assets, net of depreciation, from ARRA Grant/Loan Fund	-	21,633	(21,633)	-	-
Transfer of note payable from ARRA Grant/Loan Fund	-	(9,990)	9,990	-	-
Capitalized interest	13	459	-	-	472
Amortization of bond premium, discount, and loss on refunding	-	217	-	-	217
Amortization of deferred charges	-	(119)	-	-	(119)
Change in securities lending assets	-	166	-	-	166
Change in securities lending obligations	-	(116)	-	-	(116)
Purchase of capital assets on accounts payable	28	-	10	-	38
Change in intergovernmental receivable for capital contributions	-	-	-	1,159	1,159

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **WASTEWATER FUND**



**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Wastewater Fund**  
**Combining Statement of Net Position**  
June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	Grant Projects Fund	Total Wastewater Fund
<b>ASSETS</b>				
Current assets:				
Cash and investments held by City	\$ -	\$ 16,764	\$ -	\$ 16,764
Securities lending assets	-	94	-	94
Receivables, net:				
Accounts	-	10,228	-	10,228
Loans	-	237	-	237
Interest	-	157	-	157
Investments sold	-	210	-	210
Inventories	-	97	-	97
<b>Total current assets</b>	<b>-</b>	<b>27,787</b>	<b>-</b>	<b>27,787</b>
Noncurrent assets:				
Restricted assets:				
Cash and investments held by City	2,564	797	-	3,361
Loans receivable	-	1,056	-	1,056
Capital assets:				
Land	-	1,138	-	1,138
Buildings and improvements	-	14,906	-	14,906
Machinery and equipment	-	4,831	-	4,831
Transmission and distribution systems	-	145,405	-	145,405
Construction in progress	124	1,846	-	1,970
Software	-	296	-	296
Less: accumulated depreciation/amortization	-	(58,547)	-	(58,547)
<b>Total noncurrent assets</b>	<b>2,688</b>	<b>111,728</b>	<b>-</b>	<b>114,416</b>
<b>Total assets</b>	<b>2,688</b>	<b>139,515</b>	<b>-</b>	<b>142,203</b>

**City of Sacramento**  
**Wastewater Fund**  
**Combining Statement of Net Position**  
June 30, 2012  
(in thousands)

	<u>Development Impact Fee Fund</u>	<u>User Fee Fund</u>	<u>Grant Projects Fund</u>	<u>Total Wastewater Fund</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Securities lending obligations	-	193	-	193
Accounts payable	-	7,350	-	7,350
Accrued payroll	-	241	-	241
Accrued compensated absences	-	23	-	23
Interest payable	-	74	-	74
Accrued claims and judgements	-	57	-	57
Capital leases payable	-	133	-	133
Notes payable	-	703	-	703
	<u>-</u>	<u>8,774</u>	<u>-</u>	<u>8,774</u>
Total current liabilities	-	8,774	-	8,774
Noncurrent liabilities:				
Accrued compensated absences	-	571	-	571
OPEB liability	-	1,805	-	1,805
Capital leases payable	-	575	-	575
Notes payable	-	6,034	-	6,034
	<u>-</u>	<u>8,985</u>	<u>-</u>	<u>8,985</u>
Total noncurrent liabilities	-	8,985	-	8,985
Total liabilities	<u>-</u>	<u>17,759</u>	<u>-</u>	<u>17,759</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	124	102,430	-	102,554
Restricted for:				
Capital projects	2,564	-	-	2,564
Unrestricted	-	19,326	-	19,326
	<u>-</u>	<u>19,326</u>	<u>-</u>	<u>19,326</u>
Total net position (deficit)	<u>\$ 2,688</u>	<u>\$ 121,756</u>	<u>\$ -</u>	<u>\$ 124,444</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Wastewater Fund**  
**Combining Statement of Revenues,**  
**Expenses and Changes in Fund Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	Reimbursable Projects Fund	Total Wastewater Fund
Operating revenues:				
Charges for services:				
User fees and charges	\$ -	\$ 20,484	\$ -	\$ 20,484
Charge to Regional Sanitation District				
for operating and maintaining treatment plant	-	913	-	913
Miscellaneous	-	99	-	99
	<u>-</u>	<u>21,496</u>	<u>-</u>	<u>21,496</u>
Total operating revenues				
Operating expenses:				
Employee services	-	7,034	-	7,034
Services and supplies	-	8,747	122	8,869
Depreciation/amortization	-	4,084	-	4,084
Claims and judgements	-	371	-	371
	<u>-</u>	<u>20,236</u>	<u>122</u>	<u>20,358</u>
Total operating expenses				
Operating income (loss)	<u>-</u>	<u>1,260</u>	<u>(122)</u>	<u>1,138</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	52	183	-	235
Revenue from other agencies	-	-	17	17
Interest expense	-	(133)	-	(133)
	<u>52</u>	<u>50</u>	<u>17</u>	<u>119</u>
Total nonoperating revenues (expenses)				
Income (loss) before transfers	52	1,310	(105)	1,257
Capital contributions	220	1,312	105	1,637
Transfers in	-	19	-	19
Transfers out	-	(2,269)	-	(2,269)
	<u>272</u>	<u>372</u>	<u>-</u>	<u>644</u>
Changes in net position				
Total net position (deficit), beginning of year	<u>2,416</u>	<u>121,384</u>	<u>-</u>	<u>123,800</u>
Total net position (deficit), end of year	<u>\$ 2,688</u>	<u>\$ 121,756</u>	<u>\$ -</u>	<u>\$ 124,444</u>

**City of Sacramento**  
**Wastewater Fund**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	Grant Projects Fund	Total Wastewater Fund
Cash flows from operating activities:				
Receipts from customers and users	\$ -	\$ 21,141	\$ -	\$ 21,141
Payments to suppliers	-	(7,721)	(122)	(7,843)
Payments to employees	-	(6,562)	-	(6,562)
Claims and judgements paid	-	(339)	-	(339)
Net cash provided by (used for) operating activities	-	6,519	(122)	6,397
Cash flows from noncapital financing activities:				
Transfers in from other funds	-	19	-	19
Transfers out to other funds	-	(2,218)	-	(2,218)
Net cash provided by (used for) noncapital financing activities	-	(2,199)	-	(2,199)
Cash flows from capital and related financing activities:				
Interfund loan repayments	-	(108)	-	(108)
Interest payments on interfund loan repayments	-	(2)	-	(2)
Acquisition and construction of capital assets	(59)	(1,728)	-	(1,787)
Principal payments on capital debt	-	(687)	-	(687)
Interest payments on capital debt	-	(172)	-	(172)
Intergovernmental revenue received	-	-	17	17
Transfers out to other funds	-	(51)	-	(51)
Capital contributions received	220	-	105	325
Loan repayments received	-	2	-	2
Net cash provided by (used for) capital and related financing activities	161	(2,746)	122	(2,463)
Cash flows from investing activities:				
Collection of interest and investment revenue	52	118	-	170
Investments received with settlement after year end	-	(210)	-	(210)
Loans made	-	(181)	-	(181)
Net cash provided by (used for) investing activities	52	(273)	-	(221)
Net increase (decrease) in cash and cash equivalents	213	1,301	-	1,514
Cash and cash equivalents, beginning of year	2,351	16,260	-	18,611
Cash and cash equivalents, end of year	\$ 2,564	\$ 17,561	\$ -	\$ 20,125
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Cash and investments held by City	\$ -	\$ 16,764	\$ -	\$ 16,764
Restricted cash and investments held by City	2,564	797	-	3,361
Total cash and cash equivalents, end of year	\$ 2,564	\$ 17,561	\$ -	\$ 20,125

**City of Sacramento**  
**Wastewater Fund**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	Development Impact Fee Fund	User Fee Fund	Grant Projects Fund	Total Wastewater Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ -	\$ 1,260	\$ (122)	\$ 1,138
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation/amortization expense	-	4,084	-	4,084
Changes in assets and liabilities:				
Accounts receivable, net	-	(342)	-	(342)
Inventories	-	(16)	-	(16)
Accounts payable	-	334	-	334
Accrued payroll	-	40	-	40
Accrued compensated absences	-	45	-	45
OPEB liabilities	-	387	-	387
Accrued claims and judgments	-	32	-	32
Unearned revenue	-	(13)	-	(13)
Capital leases payable	-	708	-	708
Net cash provided by (used for) operating activities	<u>\$ -</u>	<u>\$ 6,519</u>	<u>\$ (122)</u>	<u>\$ 6,397</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets	\$ -	\$ 119	\$ -	\$ 119
Transfer of capital assets from governmental funds, net of depreciation	-	1,192	-	1,192
Capital lease obligation for purchase of Fleet Fund vehicles	-	(708)	-	(708)
Capitalized interest	-	33	-	33
Change in securities lending assets	-	50	-	50
Change in securities lending obligations	-	(33)	-	(33)

**THIS PAGE INTENTIONALLY LEFT BLANK**



## INTERNAL SERVICE FUNDS

Internal service funds are established to account for goods or services provided by one department within the City to other departments on a cost reimbursement basis. The following are internal service funds:

**THE FLEET MANAGEMENT FUND** is used to account for the operation, maintenance and replacement of the City's fleet of vehicles that serve the transportation needs of all City departments and divisions.

**THE RISK MANAGEMENT FUND** is used to account for the City's risk management and insurance programs.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Internal Service Funds**  
**Combining Statement of Net Position**  
June 30, 2012  
(in thousands)

	<b>Fleet Management Fund</b>	<b>Risk Management Fund</b>	<b>Total Internal Service Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and investments held by City	\$ 11,223	\$ 44,672	\$ 55,895
Cash and investments held by fiscal agent	-	210	210
Securities lending assets	-	184	184
Receivables, net:			
Accounts	68	38	106
Interest	-	226	226
Investments sold	-	410	410
Due from other funds	-	43,609	43,609
<b>Total current assets</b>	<b>11,291</b>	<b>89,349</b>	<b>100,640</b>
Noncurrent assets:			
Advances to other funds	-	13,966	13,966
Loans receivable	1	-	1
Deferred charges	28	-	28
Capital assets:			
Buildings and improvements	7,402	-	7,402
Machinery and equipment	457	-	457
Vehicles	118,751	-	118,751
Software	177	-	177
Less: accumulated depreciation/amortization	(72,787)	-	(72,787)
<b>Total noncurrent assets</b>	<b>54,029</b>	<b>13,966</b>	<b>67,995</b>
<b>Total assets</b>	<b>65,320</b>	<b>103,315</b>	<b>168,635</b>

**City of Sacramento**  
**Internal Service Funds**  
**Combining Statement of Net Position**  
June 30, 2012  
(in thousands)

	<b>Fleet Management Fund</b>	<b>Risk Management Fund</b>	<b>Total Internal Service Funds</b>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Securities lending obligations	-	287	287
Accounts payable	6,278	673	6,951
Accrued payroll	240	120	360
Accrued compensated absences	55	20	75
Interest Payable	10	-	10
Deposits	-	4	4
Unearned revenue	-	527	527
Accrued claims	51	13,772	13,823
Capital leases payable	22	-	22
Revenue and other bonds payable, net	322	-	322
	<u>6,978</u>	<u>15,403</u>	<u>22,381</u>
Total current liabilities			
Noncurrent liabilities:			
Accrued compensated absences	821	345	1,166
OPEB liability	1,845	263	2,108
Accrued claims and judgments	-	42,161	42,161
Capital leases payable	172	-	172
Revenue and other bonds payable, net	3,064	-	3,064
	<u>5,902</u>	<u>42,769</u>	<u>48,671</u>
Total noncurrent liabilities			
	<u>12,880</u>	<u>58,172</u>	<u>71,052</u>
Total liabilities			
<b><u>NET POSITION</u></b>			
Net investment in capital assets	50,420	-	50,420
Unrestricted	2,020	45,143	47,163
	<u>\$ 52,440</u>	<u>\$ 45,143</u>	<u>\$ 97,583</u>
Total net position			

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<b>Fleet Management Fund</b>	<b>Risk Management Fund</b>	<b>Total Internal Service Funds</b>
Operating revenues:			
Charges for services:			
User fees and charges	\$ 43,782	\$ 25,374	\$ 69,156
Operating expenses:			
Employee services	7,851	3,404	11,255
Services and supplies	22,564	6,352	28,916
Depreciation	8,636	-	8,636
Insurance premiums	-	2,274	2,274
Claims and judgements	54	17,249	17,303
Total operating expenses	39,105	29,279	68,384
Operating income (loss)	4,677	(3,905)	772
Nonoperating revenues (expenses):			
Interest and investment revenue	65	1,122	1,187
Insurance and other claim recoveries	-	270	270
Interest expense	(119)	-	(119)
Amortization of deferred charges	(3)	-	(3)
Gain (loss) on disposition of fixed assets	(237)	-	(237)
Loss on liquidation of inventory	(530)	-	(530)
Total nonoperating revenues (expenses)	(824)	1,392	568
Income (loss) before contributions and transfers	3,853	(2,513)	1,340
Transfers in	423	7	430
Transfers out	(779)	(26)	(805)
Changes in net position	3,497	(2,532)	965
Total net position, beginning of year	48,943	47,675	96,618
Total net position, end of year	\$ 52,440	\$ 45,143	\$ 97,583

**City of Sacramento**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<b>Fleet Management Fund</b>	<b>Risk Management Fund</b>	<b>Total Internal Service Funds</b>
<b>Cash flows from operating activities:</b>			
Receipts from interfund services provided	\$ 43,102	\$ 83,707	\$ 126,809
Payments to suppliers	(22,215)	(68,936)	(91,151)
Payments to employees	(7,365)	(3,353)	(10,718)
Claims and judgments paid	(26)	(15,254)	(15,280)
<b>Net cash provided by (used for) operating activities</b>	<b>13,496</b>	<b>(3,836)</b>	<b>9,660</b>
<b>Cash flows from noncapital financing activities:</b>			
Transfers in from other funds	-	7	7
Transfers out to other funds	(728)	(26)	(754)
Proceeds from sale of inventory	482	-	482
Collections on interfund loans	-	13,704	13,704
Loans made to other funds	-	(43,359)	(43,359)
Claim and judgment recoveries	-	239	239
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(246)</b>	<b>(29,435)</b>	<b>(29,681)</b>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(10,944)	-	(10,944)
Proceeds from sale of capital assets	751	-	751
Principal payments on capital debt	(323)	-	(323)
Interest payments on capital debt	(131)	-	(131)
Transfers in from other funds	372	-	372
<b>Net cash used for capital and related financing activities</b>	<b>(10,275)</b>	<b>-</b>	<b>(10,275)</b>
<b>Cash flows from investing activities:</b>			
Collection of interest and investment revenue	65	1,196	1,261
Payments for investments purchased in prior year	-	(712)	(712)
Investment sold with settlement after year end	-	(410)	(410)
<b>Net cash provided by investing activities</b>	<b>65</b>	<b>74</b>	<b>139</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,040</b>	<b>(33,197)</b>	<b>(30,157)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>8,183</b>	<b>78,079</b>	<b>86,262</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 11,223</b>	<b>\$ 44,882</b>	<b>\$ 56,105</b>
<b>Reconciliation of cash and cash equivalents to the Statement of Net Position:</b>			
Cash and investments held by City	\$ 11,223	\$ 44,672	\$ 55,895
Cash and investments held by fiscal agent	-	210	210
<b>Total cash and cash equivalents, end of year</b>	<b>\$ 11,223</b>	<b>\$ 44,882</b>	<b>\$ 56,105</b>

**City of Sacramento**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Fleet Management Fund</u>	<u>Risk Management Fund</u>	<u>Total Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 4,677	\$ (3,905)	\$ 772
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	8,636	-	8,636
Changes in assets and liabilities:			
Accounts receivable, net	28	3	31
Inventories	201	-	201
Accounts payable	148	(1,986)	(1,838)
Accrued payroll	3	3	6
Accrued compensated absences	66	(13)	53
OPEB liabilities	417	61	478
Accrued claims	28	1,995	2,023
Deposit	-	2	2
Unearned revenue	-	4	4
Non-cash contribution from Wastewater Fund	(708)	-	(708)
Net cash provided by (used for) operating activities	<u>\$ 13,496</u>	<u>\$ (3,836)</u>	<u>\$ 9,660</u>
Noncash investing, capital and financing activities:			
Capital assets purchased on capital lease	\$ 708	\$ -	\$ 708
Amortization of bond premium, discount, and loss on refunding	(10)	-	(10)
Amortization of deferred charges	3	-	3
Change in securities lending assets	-	11	11
Change in securities lending obligations	-	(6)	(6)
Write down of obsolete inventory	(530)	-	(530)
Change in accounts receivable related to claim and judgment recoveries	-	31	31
Purchase of capital assets on accounts payable	3,569	-	3,569



**THIS PAGE INTENTIONALLY LEFT BLANK**

## INVESTMENT TRUST FUNDS

Investment trust funds account for assets and related liabilities of legally separate entities for which the City provides investment services.

**Investment Pool** is used to account for assets and liabilities held for external participants in the City Sponsored Investment Pool.

**Individual Investment Accounts** are used to account for assets and liabilities, held for entities external to the City, which are not invested in the City Sponsored Investment Pool.

**City of Sacramento**  
**Investment Trust Funds**  
**Combining Statement of Fiduciary Net Position**

June 30, 2012  
(in thousands)

	<u>Investment Pool</u>	<u>Individual Investment Accounts</u>	<u>Total Investment Trust Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments held by City	\$ 58,153	\$ 86,879	\$ 145,032
Securities lending assets	187	352	539
Receivables, net:			
Interest	230	509	739
Investments sold	416	-	416
	<u>58,986</u>	<u>87,740</u>	<u>146,726</u>
Total assets			
<b><u>LIABILITIES</u></b>			
Securities lending obligations	200	735	935
Accounts payable	-	830	830
	<u>200</u>	<u>1,565</u>	<u>1,765</u>
Total liabilities			
<b><u>NET POSITION</u></b>			
Held in trust	<u>\$ 58,786</u>	<u>\$ 86,175</u>	<u>\$ 144,961</u>

**City of Sacramento**  
**Investment Trust Funds**  
**Combining Statement of Changes in Fiduciary Net Position**

For the Fiscal Year Ended June 30, 2012  
(in thousands)

	<u>Investment Pool</u>	<u>Individual Investment Accounts</u>	<u>Total Investment Trust Funds</u>
Additions:			
From investment activities:			
Net appreciation in fair value of investments	\$ (379)	\$ (2,786)	\$ (3,165)
Interest	1,285	6,245	7,530
Dividends	-	-	-
Total investment earnings	906	3,459	4,365
Less investment expenses:			
Banking, interest, and fiscal agent expenses	122	20	142
Net income from investing activities	784	3,439	4,223
From securities lending activities:			
Net appreciation in fair value of investments	-	-	-
Interest	1	3	4
Total securities lending income	1	3	4
Securities lending expenses:			
Borrower rebates	-	-	-
Management fees	-	1	1
Total securities lending expenses	-	1	1
Net income from securities lending activities	1	2	3
Net investment income	785	3,441	4,226
Deposits	75,585	66,877	142,462
Total additions	76,370	70,318	146,688
Deductions:			
Withdrawals	91,046	188,991	280,037
Change in net position	(14,676)	(118,673)	(133,349)
Net position, beginning of year	73,462	204,848	278,310
Net position, end of year	\$ 58,786	\$ 86,175	\$ 144,961

## AGENCY FUNDS

Agency funds account for assets held for other organizations, governments or private individuals and include:

**THE ASSESSMENT DISTRICTS FUND** is used to account for monies collected from parcel assessments to service debt issued for improvements in 1911 and 1915 Act districts in the City.

**THE COMMUNITY FACILITIES DISTRICTS FUND** is used to account for monies collected from special tax assessments to service debt issued for improvements and to pay other costs of Mello-Roos districts in the City.

# City of Sacramento

## Agency Funds

### Combining Statement of Fiduciary Assets and Liabilities

June 30, 2012

(in thousands)

---

	<b>Assessment Districts Fund</b>	<b>Community Facilities Districts Fund</b>	<b>Total Agency Funds</b>
<b><u>ASSETS</u></b>			
Cash and investments held by City	\$ 11,967	\$ 16,780	\$ 28,747
Cash and investments held by fiscal agent	2,381	15,532	17,913
Receivables, net:			
Taxes	-	379	379
Accounts	26	-	26
Interest	24	19	43
Total assets	<u>\$ 14,398</u>	<u>\$ 32,710</u>	<u>\$ 47,108</u>
<b><u>LIABILITIES</u></b>			
Due to bondholders	<u>\$ 14,398</u>	<u>\$ 32,710</u>	<u>\$ 47,108</u>

## City of Sacramento

### Agency Funds

#### Combining Statement of Changes in Fiduciary Assets and Liabilities

For the Fiscal Year Ended June 30, 2012

(in thousands)

#### ASSESSMENT DISTRICTS FUND

	<u>Balance Beginning of Fiscal Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Fiscal Year</u>
<b><u>ASSETS</u></b>				
Cash and investments held by City	\$ 11,662	\$ 2,386	\$ 2,081	\$ 11,967
Cash and investments held by fiscal agent	2,447	571	637	2,381
Receivables, net:				
Accounts	23	26	23	26
Interest	24	24	24	24
	<u>14,156</u>	<u>3,007</u>	<u>2,765</u>	<u>14,398</u>
Total assets	<u>\$ 14,156</u>	<u>\$ 3,007</u>	<u>\$ 2,765</u>	<u>\$ 14,398</u>
<b><u>LIABILITIES</u></b>				
Due to bondholders	<u>\$ 14,156</u>	<u>\$ 2,576</u>	<u>\$ 2,334</u>	<u>\$ 14,398</u>

# City of Sacramento

## Agency Funds

### Combining Statement of Changes in Fiduciary Assets and Liabilities

For the Fiscal Year Ended June 30, 2012

(in thousands)

#### COMMUNITY FACILITIES DISTRICTS FUND

	<u>Balance Beginning of Fiscal Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Fiscal Year</u>
<b><u>ASSETS</u></b>				
Cash and investments held by City	\$ 16,710	\$ 14,200	\$ 14,130	\$ 16,780
Cash and investments held by fiscal agent	16,287	610	1,365	15,532
Receivables, net:				
Taxes	377	379	377	379
Interest	72	19	72	19
	<u>33,446</u>	<u>15,208</u>	<u>15,944</u>	<u>32,710</u>
Total assets	<u>\$ 33,446</u>	<u>\$ 15,208</u>	<u>\$ 15,944</u>	<u>\$ 32,710</u>
<b><u>LIABILITIES</u></b>				
Due to bondholders	<u>\$ 33,446</u>	<u>\$ 15,139</u>	<u>\$ 15,875</u>	<u>\$ 32,710</u>



## City of Sacramento

### Agency Funds

#### Combining Statement of Changes in Fiduciary Assets and Liabilities

For the Fiscal Year Ended June 30, 2012

(in thousands)

#### TOTAL - ALL AGENCY FUNDS

	<u>Balance Beginning of Fiscal Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Fiscal Year</u>
<b><u>ASSETS</u></b>				
Cash and investments held by City	\$ 28,372	\$ 16,586	\$ 16,211	\$ 28,747
Cash and investments held by fiscal agent	18,734	1,181	2,002	17,913
Receivables, net:				
Taxes	377	379	377	379
Accounts	23	26	23	26
Interest	96	43	96	43
Total assets	<u>\$ 47,602</u>	<u>\$ 18,215</u>	<u>\$ 18,709</u>	<u>\$ 47,108</u>
<b><u>LIABILITIES</u></b>				
Due to bondholders	<u>\$ 47,602</u>	<u>\$ 17,715</u>	<u>\$ 18,209</u>	<u>\$ 47,108</u>

(continued)

# Statistical Section

## **Statistical Section**

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

### **Financial Trends Information**

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

### **Revenue Capacity Information**

These schedules contain trend information to help the reader understand the City's most significant local revenue source, property taxes.

### **Debt Capacity Information**

These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

### **Successor Agency Information**

These schedules present revenue and debt capacity information related to the Successor Agency for the former Redevelopment Agency of the City of Sacramento. These schedules contain trend information to help the reader understand the Successor Agency's primary revenue source, property tax distributions from the county redevelopment property tax trust fund, and affordability of the Successor Agency's current level of outstanding debt.

### **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

**City of Sacramento**  
**Net Position by Component** <sup>(1) (2) (3)</sup>  
**Last Ten Fiscal Years**

(accrual basis accounting, in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities					
Net investment in capital assets	\$ 1,042,608	\$ 1,135,271	\$ 1,223,934	\$ 1,155,619	\$ 1,296,115
Restricted for:					
Capital projects	94,682	110,794	52,773	149,982	155,596
Debt service	9,949	11,508	9,882	797	509
Transportation programs	-	-	-	-	-
Other programs	13,177	21,394	24,801	28,634	31,649
Housing and redevelopment	184,269	273,473	274,130	-	-
Trust and endowments:					
Expendable	4,519	4,962	1,927	5,368	6,513
Nonexpendable	1,803	1,927	2,920	1,927	1,927
Unrestricted	(28,060)	(111,552)	(71,536)	155,072	145,750
Total governmental activities net position	<u>\$ 1,322,947</u>	<u>\$ 1,447,777</u>	<u>\$ 1,497,399</u>	<u>\$ 1,497,399</u>	<u>\$ 1,638,059</u>
Business-type activities					
Net investment in capital assets	\$ 726,196	\$ 782,620	\$ 839,889	\$ 623,208	\$ 634,966
Restricted for:					
Capital projects	-	-	-	425	425
Housing and redevelopment	2,808	3,421	1,776	-	-
Other programs	438	-	1,038	-	-
Unrestricted	124,505	113,957	93,751	115,223	119,050
Total business-type activities net position	<u>\$ 853,947</u>	<u>\$ 899,998</u>	<u>\$ 936,454</u>	<u>\$ 738,856</u>	<u>\$ 754,441</u>
Primary government					
Net investment in capital assets	\$ 1,768,804	\$ 1,917,891	\$ 2,063,823	\$ 1,778,827	\$ 1,931,081
Restricted for:					
Capital projects	94,682	110,794	52,773	150,407	156,021
Debt service	9,949	11,508	9,882	797	509
Transportation programs	-	-	-	-	-
Other programs	13,615	21,394	25,839	28,634	31,649
Housing and redevelopment	187,077	276,894	275,906	-	-
Trust and endowments:					
Expendable	4,519	4,962	1,927	5,368	6,513
Nonexpendable	1,803	1,927	2,920	1,927	1,927
Unrestricted	96,445	2,405	22,215	270,295	264,800
Total primary government net position	<u>\$ 2,176,894</u>	<u>\$ 2,347,775</u>	<u>\$ 2,455,285</u>	<u>\$ 2,236,255</u>	<u>\$ 2,392,500</u>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.  
(2) The fiscal year 2008 amounts for governmental activities net assets invested in capital assets, net of related debt, and restricted net assets have been reclassified.  
(3) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Net Position by Component** <sup>(1) (2) (3)</sup>  
**Last Ten Fiscal Years**

(accrual basis accounting, in thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
Governmental activities					
Net investment in capital assets	\$ 1,296,978	\$ 1,378,249	\$ 1,411,767	\$ 1,451,059	\$ 1,500,603
Restricted for:					
Capital projects	239,377	221,594	186,619	156,157	149,830
Debt service	531	544	494	1,105	1,101
Transportation programs	-	-	-	21,484	18,103
Other programs	30,996	30,836	32,443	23,544	23,274
Housing and redevelopment	-	-	-	-	-
Trust and endowments					
Expendable	6,159	4,442	4,690	5,659	6,870
Nonexpendable	1,934	1,934	1,934	1,934	878
Unrestricted	124,408	84,092	76,953	16,107	(7,872)
Total governmental activities net position	<u>\$ 1,700,383</u>	<u>\$ 1,721,691</u>	<u>\$ 1,714,900</u>	<u>\$ 1,677,049</u>	<u>\$ 1,692,787</u>
Business-type activities					
Net investment in capital assets	\$ 656,951	\$ 687,417	\$ 691,197	\$ 701,157	\$ 705,527
Restricted for:					
Capital projects	-	16,866	25,781	30,184	33,209
Housing and redevelopment	-	-	-	-	-
Other programs	-	-	-	-	530
Unrestricted	119,975	92,458	106,148	113,804	123,265
Total business-type activities net assets	<u>\$ 776,926</u>	<u>\$ 796,741</u>	<u>\$ 823,126</u>	<u>\$ 845,145</u>	<u>\$ 862,531</u>
Primary government					
Net investment in capital assets	\$ 1,953,929	\$ 2,065,666	\$ 2,102,964	\$ 2,152,216	\$ 2,206,130
Restricted for:					
Capital projects	239,377	238,460	212,400	186,341	183,039
Debt service	531	544	494	1,105	1,101
Transportation programs	-	-	-	21,484	18,103
Other programs	30,996	30,836	32,443	23,544	23,804
Housing and redevelopment	-	-	-	-	-
Trust and endowments					
Expendable	6,159	4,442	4,690	5,659	6,870
Nonexpendable	1,934	1,934	1,934	1,934	878
Unrestricted	244,383	176,550	183,101	129,911	115,393
Total primary government net position	<u>\$ 2,477,309</u>	<u>\$ 2,518,432</u>	<u>\$ 2,538,026</u>	<u>\$ 2,522,194</u>	<u>\$ 2,555,318</u>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.  
(2) The fiscal year 2008 amounts for governmental activities net assets invested in capital assets, net of related debt, and restricted net assets have been reclassified.  
(3) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Changes in Net Position <sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**

(accrual basis of accounting, in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Expenses <sup>(3)</sup></b>					
<i>Governmental Activities</i>					
General government	\$ 27,548	\$ 26,739	\$ 28,759	\$ 38,804	\$ 41,536
Police	106,177	106,676	124,204	134,213	148,586
Fire	55,408	57,799	74,606	87,844	97,044
Public works	93,777	108,413	-	-	-
General services	-	-	21,502	18,853	17,502
Transportation	-	-	71,871	88,749	89,063
Economic development	3,688	4,283	-	8,212	8,538
Convention, culture & leisure	11,132	6,823	6,824	17,825	19,602
Parks and recreation	38,435	41,486	44,534	49,341	55,661
Code enforcement	-	-	-	7,184	9,946
Community development	-	-	-	-	-
Neighborhood services	5,893	6,883	7,880	2,560	2,505
Planning and development	15,071	18,780	-	-	-
Development services	-	-	67,852	36,739	27,851
Planning	-	-	-	-	8,158
Housing and redevelopment	72,227	46,774	64,018	-	-
Library	8,187	8,185	8,505	9,147	9,433
Nondepartmental	28,274	32,473	36,492	-	-
Interest on long-term debt	17,900	29,306	31,752	22,693	31,067
<b>Total governmental activities expenses</b>	<b>483,717</b>	<b>494,620</b>	<b>588,799</b>	<b>522,164</b>	<b>566,492</b>
<i>Business type activities</i>					
Water	31,312	47,843	51,950	55,896	58,890
Wastewater	12,247	12,734	13,447	14,685	17,171
Storm drainage	27,721	27,010	34,988	34,544	36,473
Solid waste	35,058	36,102	39,260	40,329	45,050
Community center	18,281	18,310	19,066	19,333	19,704
Child development	4,689	4,492	5,092	5,666	5,868
Marina	1,701	1,656	1,684	1,437	1,384
Parking	13,092	13,580	14,115	14,056	16,375
Advanced life support	7,265	7,823	-	-	-
Golf	6,758	6,846	6,719	-	-
Housing and redevelopment	87,817	123,892	135,282	-	-
<b>Total business-type activities</b>	<b>245,941</b>	<b>300,288</b>	<b>321,603</b>	<b>185,946</b>	<b>200,915</b>
<b>Total primary government expenses</b>	<b>\$ 729,658</b>	<b>\$ 794,908</b>	<b>\$ 910,402</b>	<b>\$ 708,110</b>	<b>\$ 767,407</b>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

(3) The expenses reported in the governmental activities and business-type activities are net of indirect charges between the departments.

**City of Sacramento**  
**Changes in Net Position <sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**

(accrual basis of accounting, in thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>Expenses <sup>(3)</sup></b>					
<i>Governmental Activities</i>					
General government	\$ 49,841	\$ 45,956	\$ 44,278	\$ 42,238	\$ 40,846
Police	159,207	153,874	152,922	159,908	153,392
Fire	104,149	107,119	109,210	111,174	116,418
Public works	-	-	-	-	-
General services	27,527	28,132	29,175	25,679	26,148
Transportation	89,016	95,238	89,358	97,350	98,384
Economic development	10,048	10,055	9,815	10,467	9,704
Convention, culture & leisure	21,518	18,573	18,064	21,348	19,857
Parks and recreation	60,930	54,209	51,984	56,162	45,448
Code enforcement	10,154	10,882	10,984	-	-
Community development	-	-	18,848	25,821	24,286
Neighborhood services	1,667	1,370	1,105	-	-
Planning and development	-	-	-	-	-
Development services	30,247	24,063	-	-	-
Planning	6,830	2,973	-	-	-
Housing and redevelopment	-	-	-	-	-
Library	9,935	13,976	16,827	14,635	13,301
Nondepartmental	-	-	-	-	-
Interest on long-term debt	31,157	29,284	29,658	24,903	23,583
<b>Total governmental activities expenses</b>	<b>612,226</b>	<b>595,704</b>	<b>582,228</b>	<b>589,685</b>	<b>571,367</b>
<i>Business type activities</i>					
Water	63,364	66,757	60,902	63,073	67,335
Wastewater	18,330	20,498	17,389	18,990	20,491
Storm drainage	38,570	38,483	37,040	37,815	37,692
Solid waste	48,735	67,911	47,076	48,203	53,205
Community center	20,507	20,342	19,563	18,530	18,125
Child development	6,604	7,617	6,797	6,274	5,885
Marina	1,257	1,045	1,625	2,662	2,008
Parking	17,154	16,009	16,390	15,786	15,732
Advanced life support	-	-	-	-	-
Golf	-	-	-	-	-
Housing and redevelopment	-	-	-	-	-
<b>Total business-type activities</b>	<b>214,521</b>	<b>238,662</b>	<b>206,782</b>	<b>211,333</b>	<b>220,473</b>
<b>Total primary government expenses</b>	<b>\$ 826,747</b>	<b>\$ 834,366</b>	<b>\$ 789,010</b>	<b>\$ 801,018</b>	<b>\$ 791,840</b>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

(3) The expenses reported in the governmental activities and business-type activities are net of indirect charges between the departments.

**City of Sacramento**  
**Changes in Net Position <sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**

(accrual basis of accounting, in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Program Revenues</b>					
<i>Governmental activities</i>					
Charge for services					
General government	\$ 4,613	\$ 4,766	\$ 4,768	\$ 4,902	\$ 5,333
Police	3,272	3,126	3,456	3,986	3,959
Fire	4,421	5,022	16,854	18,721	17,579
Public works	42,034	39,942	-	-	-
General services	-	-	7,600	9,636	10,327
Transportation	-	-	12,097	15,058	14,261
Economic development	1,843	212	-	5,235	5,905
Convention, culture & leisure	4,391	4,526	1,970	8,995	9,759
Parks and recreation	3,679	4,193	4,794	15,907	17,142
Code enforcement	-	-	-	1	2,417
Community development	-	-	-	-	-
Neighborhood services	1,723	2,755	2,714	2,969	1,085
Planning and development	16,924	17,600	-	-	-
Development services	-	-	43,941	27,834	25,261
Planning	-	-	-	-	4
Housing and redevelopment	1,940	1,389	1,311	-	-
Nondepartmental	4,163	376	494	-	-
Total charge for services	89,003	83,907	99,999	113,244	113,032
Operating grants and contributions	68,199	59,821	77,052	59,348	52,805
Capital grants and contributions	137,307	204,955	147,034	122,010	189,710
Total governmental activities program revenues	294,509	348,683	324,085	294,602	355,547
<i>Business - type activities</i>					
Charge for services					
Water	42,616	45,994	49,009	53,480	58,363
Wastewater	14,593	15,304	16,332	17,285	18,609
Storm drainage	29,299	30,086	31,336	31,400	31,981
Solid waste	35,431	38,423	42,241	42,984	46,351
Community center	5,742	5,843	6,391	6,743	7,348
Child development	4,298	4,361	4,766	5,086	5,377
Marina	1,587	1,711	1,745	1,889	1,827
Parking	15,897	16,210	16,422	17,342	18,706
Advanced life support	10,107	11,035	-	-	-
Golf	6,254	6,329	6,408	-	-
Housing and redevelopment	10,497	10,899	13,720	-	-
Total charge for services	176,321	186,195	188,370	176,209	188,562
Operating grants and contributions	71,799	99,582	112,326	1,230	1,422
Capital grants and contributions	21,446	18,592	35,318	31,638	14,728
Total business - type activities program revenues	269,566	304,369	336,014	209,077	204,712
Total primary government program revenues	\$ 564,075	\$ 653,052	\$ 660,099	\$ 503,679	\$ 560,259
<b>Net (Expense) Revenue</b>					
Governmental activities	\$ (189,208)	\$ (145,937)	\$ 324,085	\$ (227,562)	\$ (210,945)
Business - type activities	23,625	4,081	336,014	23,131	3,797
Total primary government net expenses	\$ (165,583)	\$ (141,856)	\$ 660,099	\$ (204,431)	\$ (207,148)

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

(3) The expenses reported in the governmental activities and business-type activities are net of indirect charges between the departments.

Source: City of Sacramento Comprehensive Annual Financial Reports



**City of Sacramento**  
**Changes in Net Position <sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**

(accrual basis of accounting, in thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>Program Revenues</b>					
<i>Governmental activities</i>					
Charge for services					
General government	\$ 5,233	\$ 5,290	\$ 6,614	\$ 5,827	\$ 5,608
Police	4,203	4,819	4,098	10,316	9,714
Fire	17,936	24,448	22,711	21,998	21,643
Public works	-	-	-	-	-
General services	10,471	10,878	9,964	10,442	10,965
Transportation	19,574	26,391	28,857	28,614	28,309
Economic development	8,143	8,345	8,497	9,136	8,800
Convention, culture & leisure	9,425	11,026	9,689	9,364	7,985
Parks and recreation	13,343	10,187	10,122	10,039	11,579
Code enforcement	3,800	7,932	5,627	-	-
Community development	-	-	8,752	15,409	15,459
Neighborhood services	123	195	166	-	-
Planning and development	-	-	-	-	-
Development services	19,867	16,115	-	-	-
Planning	114	108	-	-	-
Housing and redevelopment	-	-	-	-	-
Nondepartmental	-	-	-	-	-
Total charge for services	112,232	125,734	115,097	121,145	120,062
Operating grants and contributions	51,845	53,206	59,179	51,289	54,287
Capital grants and contributions	141,919	119,689	90,888	69,234	112,247
Total governmental activities program revenues	305,996	298,629	265,164	241,668	286,596
<i>Business - type activities</i>					
Charge for services					
Water	65,411	62,619	70,463	79,315	79,809
Wastewater	20,704	19,775	20,284	21,360	21,513
Storm drainage	33,289	32,747	34,082	34,160	34,545
Solid waste	52,434	55,949	58,901	62,906	64,055
Community center	7,556	7,651	7,020	6,780	7,521
Child development	5,587	5,640	5,473	5,309	5,232
Marina	1,378	1,748	1,782	1,464	1,359
Parking	19,626	18,661	18,784	18,660	18,769
Advanced life support	-	-	-	-	-
Golf	-	-	-	-	-
Housing and redevelopment	-	-	-	-	-
Total charge for services	205,985	204,790	216,789	229,954	232,803
Operating grants and contributions	1,824	2,343	2,381	2,358	3,744
Capital grants and contributions	11,661	38,094	14,148	10,417	5,289
Total business - type activities program revenues	219,470	245,227	233,318	242,729	241,836
Total primary government program revenues	\$ 525,466	\$ 543,856	\$ 498,482	\$ 484,397	\$ 528,432
<b>Net (Expense) Revenue</b>					
Governmental activities	\$ (306,230)	\$ (297,075)	\$ (317,064)	\$ (348,017)	\$ (284,771)
Business - type activities	4,949	6,565	26,536	31,396	21,363
Total primary government net expenses	\$ (301,281)	\$ (290,510)	\$ (290,528)	\$ (316,621)	\$ (263,408)

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

(3) The expenses reported in the governmental activities and business-type activities are net of indirect charges between the departments.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Changes in Net Position <sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**

(accrual basis of accounting, in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>General Revenues and Other Changes in Net Position</b>					
<i>Governmental activities</i>					
Taxes:					
Property taxes	\$ 57,898	\$ 63,877	\$ 70,456	\$ 112,234	\$ 127,454
Redevelopment tax increment	29,300	35,314	40,676	-	-
Utility user taxes	48,675	52,538	53,893	56,243	55,619
Other taxes	20,098	25,984	30,668	32,002	28,379
Sales taxes shared state revenue	57,984	61,822	55,342	59,118	55,846
In-lieu sales tax	-	-	15,284	13,956	18,197
In-lieu motor vehicle tax	25,809	27,179	26,393	-	-
Grants and other intergovernmental revenue not restricted to specific programs	3,841	4,137	-	-	-
Investment earnings	26,274	18,290	24,751	21,741	39,867
Miscellaneous	9,545	6,966	10,267	7,516	12,544
Contributions to permanent fund	-	124	-	1	1
Gain (loss) on disposition of capital assets	118	-	3,437	-	-
Special items, net	-	-	-	-	-
Transfers	(5,393)	(25,546)	(9,800)	8,159	13,698
<b>Total Governmental activities</b>	<b>274,149</b>	<b>270,685</b>	<b>321,367</b>	<b>310,970</b>	<b>351,605</b>
<i>Business-type activities</i>					
Taxes:					
Other taxes	13,567	13,436	14,398	15,419	17,258
Investment earnings	4,163	2,437	4,342	5,231	8,227
Miscellaneous	-	676	1,015	3	1
Gain (loss) on disposition of capital assets	6	-	6,891	722	-
Transfers	5,393	25,546	9,800	(8,159)	(13,698)
<b>Total business-type activities</b>	<b>23,129</b>	<b>42,095</b>	<b>36,446</b>	<b>13,216</b>	<b>11,788</b>
<b>Total primary government</b>	<b>\$ 297,278</b>	<b>\$ 312,780</b>	<b>\$ 357,813</b>	<b>\$ 324,186</b>	<b>\$ 363,393</b>
<b>Change in Net Position</b>					
Governmental activities	\$ 84,941	\$ 124,748	\$ 645,452	\$ 83,408	\$ 140,660
Business-type activities	46,754	46,176	372,460	36,347	15,585
<b>Total primary government</b>	<b>\$ 131,695</b>	<b>\$ 170,924</b>	<b>\$ 1,017,912</b>	<b>\$ 119,755</b>	<b>\$ 156,245</b>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

(3) The expenses reported in the governmental activities and business-type activities are net of indirect charges between the departments.

**City of Sacramento**  
**Changes in Net Position** <sup>(1) (2)</sup>  
**Last Ten Fiscal Years**

(accrual basis of accounting, in thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>General Revenues and Other</b>					
<b>Changes in Net Position</b>					
<i>Governmental activities</i>					
Taxes:					
Property taxes	\$ 137,782	\$ 135,806	\$ 123,681	\$ 118,801	\$ 114,874
Redevelopment tax increment	-	-	-	-	-
Utility user taxes	57,561	57,775	58,693	58,907	58,787
Other taxes	23,865	20,358	18,591	18,327	17,403
Sales taxes shared state revenue	54,821	48,905	46,769	47,680	50,683
In-lieu sales tax	16,344	15,745	14,332	14,548	14,081
In-lieu motor vehicle tax	-	-	-	-	-
Grants and other intergovernmental revenue not restricted to specific programs	-	4,224	4,591	2,610	-
Investment earnings	34,343	14,896	11,508	6,260	10,953
Miscellaneous	12,142	10,368	12,743	12,464	11,005
Contributions to permanent fund	7	-	-	4	1
Gain (loss) on disposition of capital assets	-	2,912	-	2,336	-
Special items, net	18,791	(929)	-	-	-
Transfers	12,898	8,348	19,365	28,229	22,722
<b>Total Governmental activities</b>	<b>368,554</b>	<b>318,408</b>	<b>310,273</b>	<b>310,166</b>	<b>300,509</b>
<i>Business-type activities</i>					
Taxes:					
Other taxes	17,538	15,852	14,233	15,403	15,781
Investment earnings	6,898	5,746	4,964	3,449	2,957
Miscellaneous	353	-	-	-	-
Gain (loss) on disposition of capital assets	5,645	-	17	-	7
Transfers	(12,898)	(8,348)	(19,365)	(28,229)	(22,722)
<b>Total business-type activities</b>	<b>17,536</b>	<b>13,250</b>	<b>(151)</b>	<b>(9,377)</b>	<b>(3,977)</b>
<b>Total primary government</b>	<b>\$ 386,090</b>	<b>\$ 331,658</b>	<b>\$ 310,122</b>	<b>\$ 300,789</b>	<b>\$ 296,532</b>
<b>Change in Net Position</b>					
Governmental activities	\$ 62,324	\$ 21,333	\$ (6,791)	\$ (37,851)	\$ 15,738
Business-type activities	22,485	19,815	26,385	22,019	17,386
<b>Total primary government</b>	<b>\$ 84,809</b>	<b>\$ 41,148</b>	<b>\$ 19,594</b>	<b>\$ (15,832)</b>	<b>\$ 33,124</b>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 63 for the period ended June 30, 2011. "Net Position" prior to the implementation was reported as "Net Assets".

(3) The expenses reported in the governmental activities and business-type activities are net of indirect charges between the departments.

**City of Sacramento**  
**Fund Balances, Governmental Funds** <sup>(1) (2)</sup>  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting, in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>General Fund</b>					
Reserved for:					
Noncurrent assets	\$ 1,742	\$ 1,200	\$ 1,305	\$ 1,074	\$ 987
Encumbrances	7,864	12,410	10,790	14,089	17,070
Inventories and prepaids	-	-	-	-	-
Unreserved	104,253	109,868	141,331	133,573	113,421
Nonspendable:					
Prepaid items	-	-	-	-	-
Noncurrent assets	-	-	-	-	-
Restricted:					
Other programs	-	-	-	-	-
Committed:					
Economic uncertainty	-	-	-	-	-
Capital projects	-	-	-	-	-
Other programs	-	-	-	-	-
Assigned:					
Unrealized investment gains	-	-	-	-	-
Next year's budget	-	-	-	-	-
<b>Total general fund</b>	<b>\$ 113,859</b>	<b>\$ 123,478</b>	<b>\$ 153,426</b>	<b>\$ 148,736</b>	<b>\$ 131,478</b>
<b>All Other Governmental Funds</b>					
Reserved for:					
Noncurrent assets	\$ 58,669	\$ 68,152	\$ 70,511	\$ 993	\$ 935
Encumbrances	97,073	70,611	67,585	32,087	33,855
Debt service	19,489	23,485	24,721	23,138	22,568
Inventories and prepaids	-	-	-	-	-
Housing/redevelopment	225	1,410	106,624	-	-
Trust obligations	1,803	1,927	1,927	1,927	1,927
Capital projects	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds	75,305	76,971	75,224	80,115	34,125
Capital projects funds	141,444	214,811	58,302	192,768	276,582
Debt service funds	4,077	6,558	13,959	7,615	7,651
Permanent funds	2,361	2,706	2,920	3,131	3,855
Nonspendable:					
Prepaid items	-	-	-	-	-
Noncurrent assets	-	-	-	-	-
Permanent fund principal	-	-	-	-	-
Restricted:					
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Other programs	-	-	-	-	-
Committed:					
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Other programs	-	-	-	-	-
Assigned:					
Debt service	-	-	-	-	-
Unrealized investment gains	-	-	-	-	-
Other programs	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 400,446</b>	<b>\$ 466,631</b>	<b>\$ 421,773</b>	<b>\$ 341,774</b>	<b>\$ 381,498</b>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 54 for the period ended June 30, 2011. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Fund Balances, Governmental Funds** <sup>(1) (2)</sup>  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting, in thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>General Fund</b>					
Reserved for:					
Noncurrent assets	\$ 1,604	\$ 969	\$ 514	\$ -	\$ -
Encumbrances	8,947	5,189	6,301	-	-
Inventories and prepaids	449	316	304	-	-
Unreserved	87,962	65,614	47,988	-	-
Nonspendable:					
Prepaid items	-	-	-	63	23
Noncurrent assets	-	-	-	245	71
Restricted:					
Other programs	-	-	-	86	64
Committed:					
Economic uncertainty	-	-	-	14,340	20,263
Capital projects	-	-	-	19,612	21,542
Other programs	-	-	-	12,468	9,349
Assigned:					
Unrealized investment gains	-	-	-	972	402
Next year's budget	-	-	-	5,138	9,354
<b>Total general fund</b>	<b>\$ 98,962</b>	<b>\$ 72,088</b>	<b>\$ 55,107</b>	<b>\$ 52,924</b>	<b>\$ 61,068</b>
<b>All Other Governmental Funds</b>					
Reserved for:					
Noncurrent assets	\$ 875	\$ 746	\$ 1,149	\$ -	\$ -
Encumbrances	113,669	78,390	30,000	-	-
Debt service	22,634	20,517	20,269	-	-
Inventories and prepaids	1,344	35	35	-	-
Housing/redevelopment	-	-	-	-	-
Trust obligations	1,934	1,934	1,934	-	-
Capital projects	-	-	2,210	-	-
Unreserved, reported in:					
Special revenue funds	79,289	73,626	93,583	-	-
Capital projects funds	131,595	104,824	100,308	-	-
Debt service funds	9,200	9,868	10,047	-	-
Permanent funds	3,700	2,567	2,798	-	-
Nonspendable:					
Prepaid items	-	-	-	30	29
Noncurrent assets	-	-	-	1,577	605
Permanent fund principal	-	-	-	1,934	878
Restricted:					
Capital projects	-	-	-	161,365	150,475
Debt service	-	-	-	20,870	18,230
Other programs	-	-	-	50,264	50,026
Committed:					
Capital projects	-	-	-	606	469
Debt service	-	-	-	2,278	2,278
Other programs	-	-	-	646	2,096
Assigned:					
Debt service	-	-	-	2,878	2,068
Unrealized investment gains	-	-	-	120	42
Other programs	-	-	-	2,281	4,093
Unassigned	-	-	-	(31,287)	(48,094)
<b>Total all other governmental funds</b>	<b>\$ 364,240</b>	<b>\$ 292,507</b>	<b>\$ 262,333</b>	<b>\$ 213,562</b>	<b>\$ 183,195</b>

Notes: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(2) The City of Sacramento implemented GASB 54 for the period ended June 30, 2011. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Changes in Fund Balances, Governmental Funds <sup>(1)</sup>**  
**Last Ten Fiscal Years**

(modified accrual basis of accounting, in thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Revenues</b>					
Taxes	\$ 224,051	\$ 249,050	\$ 269,695	\$ 273,010	\$ 287,254
Intergovernmental	179,058	137,234	167,448	134,905	148,521
Charges for services	39,320	45,226	58,836	64,063	64,902
Fines, forfeits and penalties	6,276	7,223	7,804	8,065	8,285
Interest, rents, and concessions	21,442	13,998	17,278	18,195	34,398
Community service fees	40,508	45,936	40,315	64,360	40,386
Assessment levies	16,112	17,387	18,443	19,374	21,424
Contributions from property owners	11,996	54,936	46,343	3,942	44,099
Donations	947	215	63	94	-
Miscellaneous	8,083	3,098	3,670	1,463	395
<b>Total revenues</b>	<b>547,793</b>	<b>574,303</b>	<b>629,895</b>	<b>587,471</b>	<b>649,664</b>
<b>Expenditures</b>					
General Government	22,108	24,503	25,886	30,456	31,172
Police	101,707	105,089	121,548	137,391	149,159
Fire	53,555	56,986	73,360	87,648	91,965
General Services	-	-	16,325	14,925	14,348
Transportation	-	-	22,038	34,691	37,598
Neighborhood Services	5,893	6,883	7,880	1,917	1,815
Convention, Culture & Leisure	7,127	4,829	4,847	13,060	15,074
Economic Development	2,544	2,361	-	5,461	5,882
Parks and Recreation	34,262	37,167	38,898	43,477	47,884
Code enforcement	-	-	-	7,184	9,713
Community Development	-	-	-	-	-
Library	7,636	7,636	7,997	8,587	8,868
Utilities	274	274	219	109	109
Nondepartmental	21,805	26,336	32,284	24,811	18,526
Public Works	46,289	48,466	-	-	-
Development Services	-	-	66,785	35,802	32,600
Planning	-	-	-	-	8,079
Housing and Redevelopment	53,650	47,231	58,399	-	-
Planning and Building	15,115	17,560	-	-	-
Capital Outlay					
City	135,657	143,414	127,157	95,683	193,954
SHRA	14,334	12,678	10,229	-	-
Subtotal - capital outlay	149,991	156,092	137,386	95,683	193,954
Debt Service					
City					
Principal	18,896	26,449	21,260	21,213	17,253
Interest and fiscal charges	18,297	20,163	19,415	21,973	30,216
Bond issuance costs	-	-	-	2,600	1,519
Advance refunding escrow	4,382	-	-	1,154	213
SHRA					
Principal	9,862	11,445	12,978	-	-
Interest and fiscal charges	13,177	14,782	16,382	-	-
Subtotal - debt service	64,614	72,839	70,035	46,940	49,201
<b>Total Expenditures</b>	<b>586,570</b>	<b>614,252</b>	<b>683,887</b>	<b>588,142</b>	<b>715,947</b>
Excess (deficiency) of revenues over (under) expenditures	(38,777)	(39,949)	(53,992)	(671)	(66,283)
<b>Other Financing Sources (uses)</b>					
Transfers in	66,732	90,952	57,544	52,864	56,203
Transfers out	(57,862)	(114,577)	(53,208)	(38,609)	(37,441)
Issuance of long-term debt	197,176	137,436	14,983	212,339	147,281
Premium on long term debt	-	-	-	7,447	14,857
Proceeds from sale of property	5,100	6,427	5,286	-	-
Payments to participating governments	-	-	-	(25,500)	-
Payments to refunded bond escrow	(25,038)	(2,712)	-	(63,560)	(92,151)
Donation of capital assets	6,820	-	-	-	-
Discount on long-term debt	-	(1,245)	-	-	-
Special items, net	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>192,928</b>	<b>116,281</b>	<b>24,605</b>	<b>144,981</b>	<b>88,749</b>
Net change in fund balances	\$ 154,151	\$ 76,332	\$ (29,387)	\$ 144,310	\$ 22,466
Debt services as a percentage of noncapital expenditures	14.80%	15.90%	12.82%	9.53%	9.43%

Note: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Changes in Fund Balances, Governmental Funds <sup>(1)</sup>**  
**Last Ten Fiscal Years**

(modified accrual basis of accounting, in thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>Revenues</b>					
Taxes	\$ 286,498	\$ 277,370	\$ 260,749	\$ 254,705	\$ 256,564
Intergovernmental	137,341	161,418	174,214	125,758	154,937
Charges for services	63,285	70,403	62,962	67,831	62,760
Fines, forfeits and penalties	9,916	12,213	12,118	11,093	11,891
Interest, rents, and concessions	28,430	15,414	10,928	9,627	15,494
Community service fees	16,831	13,297	7,875	3,647	3,058
Assessment levies	25,894	33,204	31,970	33,482	35,294
Contributions from property owners	31,753	8,132	7,972	9,440	6,170
Donations	-	-	-	-	-
Miscellaneous	296	212	196	411	2,090
<b>Total revenues</b>	<b>600,244</b>	<b>591,663</b>	<b>568,984</b>	<b>515,994</b>	<b>548,258</b>
<b>Expenditures</b>					
General Government	33,778	31,938	27,471	26,049	24,610
Police	148,392	145,148	147,059	144,081	142,204
Fire	94,284	99,613	102,430	97,573	98,749
General Services	23,198	23,396	21,025	19,353	19,388
Transportation	30,235	32,902	31,023	29,708	33,183
Neighborhood Services	1,547	1,363	1,007	-	-
Convention, Culture & Leisure	16,080	15,116	13,196	13,291	10,670
Economic Development	8,035	9,472	9,136	9,819	9,396
Parks and Recreation	53,499	45,845	40,312	36,650	30,393
Code enforcement	9,595	10,605	10,279	-	-
Community Development	-	-	15,873	23,307	21,819
Library	9,366	13,406	12,366	12,398	11,739
Utilities	83	67	67	137	97
Nondepartmental	27,373	26,028	26,818	33,407	32,269
Public Works	-	-	-	-	-
Development Services	28,261	21,881	-	-	-
Planning	5,626	2,709	-	-	-
Housing and Redevelopment	-	-	-	-	-
Planning and Building	-	-	-	-	-
Capital Outlay					
City	153,507	180,125	156,146	91,902	118,259
SHRA	-	-	-	-	-
Subtotal - capital outlay	153,507	180,125	156,146	91,902	118,259
Debt Service					
City					
Principal	19,529	45,789	18,577	44,189	21,595
Interest and fiscal charges	30,689	30,468	29,697	25,209	24,028
Bond issuance costs	607	-	-	-	-
Advance refunding escrow	-	-	-	-	-
SHRA					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Subtotal - debt service	50,825	76,257	48,274	69,398	45,623
<b>Total Expenditures</b>	<b>693,684</b>	<b>735,871</b>	<b>662,482</b>	<b>607,073</b>	<b>598,399</b>
Excess (deficiency) of revenues over (under) expenditures	(93,440)	(144,208)	(93,498)	(91,079)	(50,141)
<b>Other Financing Sources (uses)</b>					
Transfers in	58,989	65,076	53,621	58,006	55,435
Transfers out	(39,780)	(33,695)	(30,241)	(27,025)	(27,590)
Issuance of long-term debt	5,666	10,981	22,963	6,808	73
Premium on long term debt	-	-	-	-	-
Proceeds from sale of property	-	2,992	-	2,336	-
Payments to participating governments	-	-	-	-	-
Payments to refunded bond escrow	-	-	-	-	-
Donation of capital assets	-	-	-	-	-
Discount on long-term debt	-	-	-	-	-
Special items, net	18,791	(929)	-	-	-
<b>Total other financing sources (uses)</b>	<b>43,666</b>	<b>44,425</b>	<b>46,343</b>	<b>40,125</b>	<b>27,918</b>
Net change in fund balances	\$ (49,774)	\$ (99,783)	\$ (47,155)	\$ (50,954)	\$ (22,223)
Debt services as a percentage of noncapital expenditures	9.41%	13.72%	9.35%	13.06%	9.41%

Note: (1) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento  
Tax Revenues by Source, Governmental Funds  
Last Ten Fiscal Years**

(modified accrual basis of accounting, in thousands)

<b>Fiscal Year</b>	<b>Property</b>	<b>Tax Increment</b>	<b>Sales &amp; Use</b>	<b>Utility Users</b>	<b>Others</b>	<b>Total</b>
2003	\$ 57,772	\$ 29,300	\$ 62,018	\$ 48,675	\$ 26,286	\$ 224,051
2004	64,377	35,314	66,234	52,538	30,587	249,050
2005	70,405	40,676	70,627	53,893	34,094	269,695
2006 <sup>(2)</sup>	112,144 <sup>(1)</sup>	-	72,479	56,243	32,144	273,010
2007	145,376 <sup>(3)</sup>	-	56,441	55,618	29,819	287,254
2008	150,901	-	54,821	57,561	23,215	286,498
2009	151,551	-	48,905	57,775	19,139	277,370
2010	140,013	-	45,670	58,700	16,366	260,749
2011	133,099	-	47,680	58,887	15,039	254,705
2012	130,287	-	50,683	58,787	16,807	256,564

Notes: (1) Property taxes in fiscal year 2006 include approximately \$30 million of in-lieu vehicle license fee revenue reported as intergovernmental revenues in fiscal year 2005.

(2) The Sacramento Housing and Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(3) In lieu sales tax was reported as intergovernmental revenue in fiscal year 2006.

This revenue is reported as property tax in fiscal year 2007 and subsequent fiscal years.

Sources: (A) City of Sacramento Comprehensive Annual Financial Reports  
(B) Finance Department, City of Sacramento



# City of Sacramento

## Assessed Value and Estimated Actual Value of Taxable Property

### Last Ten Fiscal Years

(in thousands)

Fiscal Year End June 30	Gross Assessed Value <sup>(1)</sup>				Exemptions	Net Assessed Taxable Value	Total Direct Tax Rate <sup>(2)</sup>
	Real Property	Personal Property	Public Utility	Total			
2003	\$ 21,855,519	\$ 1,157,123	\$ 66,428	\$ 23,079,070	\$ 478,334	\$ 22,600,736	1.0000
2004	23,859,347	1,168,917	60,909	25,089,173	489,478	24,599,695	1.0000
2005 <sup>(3)</sup>	27,010,976	1,343,104	57,800	28,411,880	500,620	27,911,260	1.0000
2006	31,112,448	1,374,566	56,950	32,543,964	506,813	32,037,151	1.0000
2007	35,687,712	1,441,042	54,611	37,183,365	509,257	36,674,108	1.0000
2008	39,286,839	1,548,914	15,371 <sup>(4)</sup>	40,851,124	505,519	40,345,605	1.0000
2009	40,360,550	1,691,096	11,948	42,063,594	503,159	41,560,435	1.0000
2010	37,446,222	1,819,726	11,937	39,277,885	499,878	38,778,007	1.0000
2011	36,388,660	1,742,824	11,977	38,143,461	496,459	37,647,002	1.0000
2012	35,267,406	1,711,462	12,132	36,991,000	488,888	36,502,112	1.0000

Notes: (1) Article XIII A, added to California Constitution by Proposition 13 in 1978, fixed the base for valuation of property subject to taxes at the full cash value that appeared on the Assessor's 1975-76 assessment roll. Therefore, full cash value can be increased to reflect:

- a) annual inflation up to 2%
- b) current market value at time of ownership change;
- c) market value for new construction.

Estimated actual value of taxable property cannot be easily determined as the property in the City is not reassessed annually. Reassessment normally occurs when ownership changes

(2) This 1.00% is shared by all taxing agencies for which the subject property resides within.

(3) The Sacramento Housing Redevelopment Agency, reported as a blended component unit until fiscal year 2005, has been eliminated from the City's subsequent financial statements.

(4) The decrease in public utility assessed value is primarily due to the transfer of the downtown railyards from a railroad company to a private developer and the City.

Source: County of Sacramento, Office of Auditor/Controller

**City of Sacramento**  
**Direct and Overlapping Property Tax Rates <sup>(1)</sup>**  
**Per \$100 of Assessed Value**  
**Last Ten Fiscal Years**

---

<b>Fiscal Year End June 30</b>	<b>Basic County, City, and School Levy <sup>(2)</sup></b>	<b>County of Sacramento</b>	<b>Schools</b>	<b>Special Districts</b>	<b>Total</b>
2003	1.0000	—	0.0815	0.0082	1.0897
2004	1.0000	—	0.1058	0.0070	1.1128
2005	1.0000	—	0.0647	0.0067	1.0714
2006	1.0000	—	0.1163	0.0055	1.1218
2007	1.0000	—	0.0922	—	1.0922
2008	1.0000	—	0.0956	—	1.0956
2009	1.0000	—	0.1012	—	1.1012
2010	1.0000	—	0.1035	—	1.1035
2011	1.0000	—	0.1069	—	1.1069
2012	1.0000	—	0.1174	—	1.1174

Note : (1) Data is stated at full value as required under Article XIII-A of the Constitution of the State of California.

(2) This 1.00% is shared by all taxing agencies for which the subject property resides within.

---

Source: County of Sacramento, Office of Auditor/Controller

**City of Sacramento**  
**Principal Property Taxpayers**  
**Current Fiscal Year and Nine Years Ago**

(in thousands)

Taxpayer	2012			2003		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Hines Sacramento Wells Fargo	\$ 391,849	1	1.07 %	\$ -	-	- %
CIM Sacramento LLC	227,866	2	0.62	-	-	-
Verizon	160,723	3	0.44	-	-	-
Arden Fair Associates	131,865	4	0.36	114,700	5	0.51
Comcast Cable	127,309	5	0.35	-	-	-
621 Capitol Mall LLC	115,137	6	0.32	-	-	-
300 Capitol Association NF LP	114,727	7	0.31	-	-	-
Downtown Plaza LLC	97,565	8	0.27	126,567	2	0.56
1415 Meridian Plaza LLC	81,818	9	0.22	-	-	-
Sacramento Equities REIT	81,806	10	0.22	-	-	-
400 Capital Mall Venture	-	-	-	135,387	1	0.60
Shriners Hospital	-	-	-	120,341	4	0.53
980 9th Street	-	-	-	87,234	6	0.39
Sacramento Hotel Corporation	-	-	-	86,454	7	0.38
Prentiss Properties Natomas LP	-	-	-	78,761	10	0.35
McClatchy Newspaper Inc.	-	-	-	80,514	9	0.36
VV USA City LP	-	-	-	81,677	8	0.36
Spieker Properties LP	-	-	-	121,419	3	0.54
	<u>1,530,665</u>		<u>4.19</u>	<u>1,033,054</u>		<u>4.58</u>
All other taxpayers	<u>34,971,447</u>		<u>95.81</u>	<u>21,567,682</u>		<u>95.42</u>
Total	<u>\$ 36,502,112</u>		<u>100.00 %</u>	<u>\$ 22,600,736</u>		<u>100.00 %</u>

Source: County of Sacramento, Office of Auditor/Controller

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Property Tax Levies and Collections** <sup>(1) (2)</sup>  
**Last Ten Fiscal Years**  
(in thousands)

---

<u>Fiscal Year End June 30</u>	<u>Current Tax Collections</u>	<u>Delinquent Taxes Collected</u>	<u>Total Tax Collections</u>
2003	\$ 57,067	\$ 705	\$ 57,772
2004	63,748	629	64,377
2005	70,343	62	70,405
2006	112,052	92	112,144
2007	142,771 <sup>(3)</sup>	2,605	145,376
2008	146,828	4,073	150,901
2009	147,780	4,839	152,619
2010	136,313	3,700	140,013
2011	130,711	2,388	133,099
2012	127,914	1,729	129,643

- Notes: (1) Includes City tax collections only; does not include SHRA, a component unit until fiscal year 2005.  
(2) The City cannot provide property tax levy information because property tax levies by jurisdiction are not provided by the County of Sacramento.  
(3) Property taxes in 2007 and subsequent years include revenue reported in 2006 as in lieu sales tax.

---

Source: City of Sacramento, Finance Department

**City of Sacramento**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

(in thousands, except Population and Per Capita)

Fiscal Year	Governmental Activities				
	Revenue Bonds	Tax Allocation Bonds	Certificates of Participation	Notes Payable	Capital Leases
2003 <sup>(1)(2)</sup>	\$ 385,180	\$ 96,971	\$ 1,765	\$ 13,952	\$ 1,264
2004 <sup>(3)(4)</sup>	440,550	144,047	820	15,504	2,456
2005	427,590	137,454	324	16,440	2,549
2006 <sup>(5)(6)</sup>	529,598	-	104	993	1,940
2007 <sup>(7)</sup>	548,175	-	-	25,935	8,062
2008	532,354	-	-	25,875	8,806
2009	514,431	-	-	812	7,354
2010	496,641	-	-	746	11,203
2011	477,588	-	-	677	9,910
2012	457,324	-	-	605	8,439

Notes:

- 1) New revenue bonds of \$160 million and refunding bonds of \$47 million were issued.
  - 2) The decrease in 2003 results from refunding a majority of the certificates of participation in the amount of \$55 million.
  - 3) Tax allocation bonds were issued in 2004 by the City's redevelopment agency.
  - 4) \$68 million in revenue bonds were issued in 2004.
  - 5) \$151 million in revenue bonds and \$168 million in refunding revenue bonds were issued in 2006.
  - 6) In 2006, the Sacramento Housing and Redevelopment Agency was eliminated as a blended component unit.
  - 7) In 2007, \$31 million of revenue bonds, \$187 million of refunding bonds and a \$25 million note payable were issued.
- NA) Personal income data was not available in 2007, 2008, 2009, 2010, 2011 and 2012.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

(in thousands, except Population and Per Capita)

Fiscal Year	Business-Type Activities				Total Primary Government	Percentage of Personal Income	Population	Per Capita
	Revenue Bonds	Certificates of Participation	Notes Payable	Capital Leases				
2003 <sup>(1)(2)</sup>	\$ 389,898	\$ 69	\$ 63,691	\$ -	\$ 952,790	7 %	433,355	2,199
2004 <sup>(3)(4)</sup>	381,085	43	67,310	-	1,051,815	7	440,976	2,385
2005	397,441	15	74,943	1,146	1,057,902	7	452,959	2,336
2006 <sup>(5)(6)</sup>	353,065	-	49,210	2,279	937,189	6	457,514	2,048
2007 <sup>(7)</sup>	331,024	-	46,540	1,760	961,496	NA	467,343	2,057
2008	322,965	-	49,977	2,710	942,687	NA	475,743	1,982
2009	312,967	-	49,103	6,487	891,154	NA	481,097	1,852
2010	302,064	-	56,307	8,295	875,256	NA	486,189	1,800
2011	289,950	-	56,388	7,066	841,579	NA	469,566	1,792
2012	277,241	-	55,131	11,693	810,433	NA	470,956	1,721

Notes:

- 1) New revenue bonds of \$160 million and refunding bonds of \$47 million were issued.
  - 2) The decrease in 2003 results from refunding a majority of the certificates of participation in the amount of \$55 million.
  - 3) Tax allocation bonds were issued in 2004 by the City's redevelopment agency.
  - 4) \$68 million in revenue bonds were issued in 2004.
  - 5) \$151 million in revenue bonds and \$168 million in refunding revenue bonds were issued in 2006.
  - 6) In 2006, the Sacramento Housing and Redevelopment Agency was eliminated as a blended component unit.
  - 7) In 2007, \$31 million of revenue bonds, \$187 million of refunding bonds and a \$25 million note payable were issued.
- NA) Personal income data was not available in 2007, 2008, 2009, 2010, 2011 and 2012.

Source: City of Sacramento Comprehensive Annual Financial Reports

**City of Sacramento**  
**Ratios of Net General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

(in thousands, except Population and Per Capita)

<b>Fiscal Year</b>	<b>Total Gross General Obligation Bonds</b>	<b>Amounts Restricted for Principal Repayments</b>	<b>Total Net General Obligation Bonds</b>	<b>Actual Taxable Value of Property</b>	<b>Percentage of Actual Taxable Value of Property</b>	<b>Population</b>	<b>Net Bonded Debt Per Capita</b>
2003	\$ -	\$ -	\$ -	\$ 22,600,736	0.00%	433,355	-
2004	-	-	-	24,599,695	0.00%	440,976	-
2005	-	-	-	27,911,260	0.00%	452,959	-
2006	-	-	-	32,037,151	0.00%	457,514	-
2007	-	-	-	36,674,108	0.00%	467,343	-
2008	-	-	-	40,345,605	0.00%	475,743	-
2009	-	-	-	41,560,435	0.00%	481,097	-
2010	-	-	-	38,778,007	0.00%	486,189	-
2011	-	-	-	37,647,002	0.00%	469,566	-
2012	-	-	-	36,502,112	0.00%	470,956	-

Source: City of Sacramento Comprehensive Annual Financial Reports and the County of Sacramento.



**City of Sacramento**  
**Direct and Overlapping Governmental Activities Debt <sup>(1)</sup>**  
**As of June 30, 2012**  
(in thousands)

Governmental Unit	Total Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping Tax and Assessment Debt:			
Los Rios Community College District	\$ 308,710	24.159 %	\$ 74,581
Natomas Unified School District	182,204	87.742	159,869
Sacramento Unified School District	331,143	81.182	268,828
San Juan Unified School District	299,539	3.073	9,205
Twin Rivers Unified School District (former elementary school district bonds)	90,087	45.665	41,138
Twin Rivers Unified School District (former Grant Joint Union High School District bonds)	187,683	47.000	88,211
Robla School District	24,301	59.730	14,515
City of Sacramento Community Facilities Districts	162,565	100.000	162,565
Elk Grove Unified School District Community Facilities District No. 1	143,834	11.567	16,637
Sacramento City Unified School District Community Facilities District No. 1	1,230	100.000	1,230
City of Sacramento 1915 Act Bonds	14,320	100.000	14,320
Sacramento Area Flood Control Agency, A.D. No.2	200,070	80.334	160,724
Sacramento Area Flood Control Agency Operation and Maintenance AD	2,690	40.477	1,089
Subtotal - Overlapping Tax and Assessment debt			<u>1,012,914</u>
Direct and Overlapping General Fund Debt:			
Sacramento County General Fund Obligations	336,654	29.062	97,838
Sacramento County Pension Obligations	976,998	29.062	283,935
Sacramento County Board of Education Certificates of Participation	9,315	29.062	2,707
Los Rios Community College District Certificates of Participation	6,105	24.159	1,475
Sacramento Unified School District Certificates of Participation	81,555	81.182	66,208
Sacramento Unified School District Pension Obligations	2,745	81.182	2,228
San Juan Unified School District Certificates of Participation	1,491	3.073	46
Twin Rivers Unified School District Certificates of Participation	129,825	47.000	61,018
Subtotal - Lease Obligation Debt			<u>515,456</u>
Total Overlapping Debt			<u>1,528,369</u>
City of Sacramento Direct Debt			<u>447,741</u>
Total Direct and Overlapping Debt			<u>\$ 1,976,110</u>

Note: (1) Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the City of Sacramento. This schedule estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Source: Data regarding overlapping debt is obtained from California Municipal Statistics, Inc.

**City of Sacramento**  
**Legal Debt Margin**  
**Last Ten Fiscal Years**  
(in thousands)

Fiscal Year	Debt Limit		Debt Applicable to Limit			Legal Debt Margin	Total net debt applicable to the limit as a percentage of debt limit
	Net Assessed Value	Debt Limit - 15% of Assessed Value	General Obligation Bonds	Amount set aside for repayment of general obligation debt	Total net debt applicable to limit		
2003	\$ 22,600,736	\$ 3,390,110	\$ -	\$ -	\$ -	\$ 3,390,110	0.00%
2004	24,599,695	3,689,954	-	-	-	3,689,954	0.00%
2005	27,911,260	4,186,689	-	-	-	4,186,689	0.00%
2006	32,037,151	4,805,573	-	-	-	4,805,573	0.00%
2007	36,674,108	5,501,116	-	-	-	5,501,116	0.00%
2008	40,345,605	6,051,841	-	-	-	6,051,841	0.00%
2009	41,560,435	6,234,065	-	-	-	6,234,065	0.00%
2010	38,778,007	5,816,701	-	-	-	5,816,701	0.00%
2011	37,647,002	5,647,050	-	-	-	5,647,050	0.00%
2012	36,502,112	5,475,317	-	-	-	5,475,317	0.00%

Sources: (A) City of Sacramento Comprehensive Annual Financial Reports.  
(B) County of Sacramento, Office of Auditor/Controller.

**City of Sacramento**  
**Demographic and Economic Statistics for Sacramento County**  
**Last Ten Calendar Years**  
(in thousands)

<b>Year</b>	<b>Population (A)</b>	<b>Personal Income (in millions of dollars)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Schooling</b>	<b>School Enrollment (B)</b>	<b>Unemployment Rate (C)</b>
2003	1,330,375	\$ 40,627	\$ 30,538	33.8	14.3	232,612	5.6 %
2004	1,351,455	43,229	31,987	33.7	14.2	235,369	5.7
2005	1,369,855	46,375	34,014	33.7	14.2	238,385	5.1
2006	1,385,607	48,313	35,197	34.1	NA	239,026	4.8
2007	1,406,804	NA	NA	NA	NA	238,233	5.3
2008	1,424,415	NA	NA	NA	NA	238,522	7.0
2009	1,433,187	NA	NA	NA	NA	237,722	11.9
2010	1,445,327	NA	NA	NA	NA	237,916	12.6
2011	1,428,355	NA	NA	NA	NA	237,567	12.7
2012	1,435,153	NA	NA	NA	NA	237,362	11.1

Sources: (A) <http://www.dof.ca.gov/research/demographic/reports/estimates/e-5/2011-20/view.php> (Population estimates are as of January 1st each year)

(B) California Department of Education, report on Sacramento County: <http://dq.cde.ca.gov/dataquest/>

(C) California Employment Development Department, Report 400 C - Monthly Labor Force Data for California Counties  
<http://www.labormarketinfo.edd.ca.gov/> (as of June each year)

**City of Sacramento  
Principal Employers  
Current Fiscal Year and Nine Years Ago**

Employer (A)	2012			2006 <sup>(1)</sup>		
	Employee (A) <sup>(2)</sup>	Rank	Percentage of Total Employment (B) <sup>(3)</sup>	Employee (A) <sup>(2)</sup>	Rank	Percentage of Total Employment (B)
State of California	69,763	1	11.57%	87,467	1	13.50%
Sacramento County	11,450	2	1.90%	14,408	2	2.22%
University of California, Davis Health System	7,725	3	1.28%	7,901	5	1.22%
Dignity Health	7,069	4	1.17%	-	-	-
Intel Corporation	6,633	5	1.10%	-	-	-
Kaiser Permanente	6,360	6	1.05%	8,656	3	1.34%
Sutter Health Sacramento Sierra Region	5,765	7	0.96%	4,181	8	0.65%
Elk Grove Unified School District	5,021	8	0.83%	-	-	-
Sacramento City Unified School District	5,000	9	0.83%	7,000	6	1.08%
San Juan Unified School District	4,700	10	0.78%	-	-	-
City of Sacramento	4,083	11	0.68%	5,003	7	0.77%
Los Rios Community College	-	-	-	8,000	4	1.23%
Wells Fargo & Co.	-	-	-	2,368	9	0.37%
California State University, Sacramento	-	-	-	2,295	10	0.35%
Sacramento Municipal Utility District	-	-	-	2,169	11	0.33%

Notes: (1) Data is not available from nine years ago. Fiscal Year 2006 was the first year this data was presented.  
(2) Ranked by number of employees in full-time equivalents.  
(3) Percentage of total employment is calculated based on Sacramento County's total employment force of 602,900 (per Employment Development Department website) in June 2012.

Sources: (A) Sacramento Business Journal, April 20, 2012. List of largest employers in Sacramento County.  
(B) Employment Development Department, State of California.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Assessed Value of Taxable Property<sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**  
(in thousands)

PROJECT AREA	Fiscal Year				
	2003	2004	2005	2006	2007
Merged Downtown					
Secured	\$ 1,662,431	\$ 1,786,667	\$ 1,898,779	\$ 1,961,343	\$ 2,095,806
Unsecured	138,319	119,926	130,133	136,059	141,829
Utility	5,777	5,781	5,282	5,280	5,274
Total	<u>\$ 1,806,527</u>	<u>\$ 1,912,374</u>	<u>\$ 2,034,194</u>	<u>\$ 2,102,682</u>	<u>\$ 2,242,909</u>
Del Paso Heights					
Secured	\$ 149,885	\$ 172,192	\$ 196,526	\$ 260,127	\$ 338,413
Unsecured	10,203	11,086	11,417	10,364	10,930
Utility	-	-	-	-	-
Total	<u>\$ 160,088</u>	<u>\$ 183,278</u>	<u>\$ 207,943</u>	<u>\$ 270,491</u>	<u>\$ 349,343</u>
Alkali Flat					
Secured	\$ 92,003	\$ 84,456	\$ 91,498	\$ 96,749	\$ 104,672
Unsecured	3,958	14,870	12,784	13,802	15,521
Utility	37	37	37	37	37
Total	<u>\$ 95,998</u>	<u>\$ 99,363</u>	<u>\$ 104,319</u>	<u>\$ 110,588</u>	<u>\$ 120,230</u>
Oak Park					
Secured	\$ 279,818	\$ 290,062	\$ 348,674	\$ 441,020	\$ 549,470
Unsecured	12,618	21,900	11,306	10,644	10,970
Utility	-	-	-	-	-
Total	<u>\$ 292,436</u>	<u>\$ 311,962</u>	<u>\$ 359,980</u>	<u>\$ 451,664</u>	<u>\$ 560,440</u>
River District (formerly Richards Blvd)					
Secured	\$ 340,617	\$ 349,823	\$ 368,429	\$ 383,756	\$ 396,256
Unsecured	33,542	31,661	29,806	30,896	31,005
Utility	38,018	38,382	37,775	37,533	2,759
Total	<u>\$ 412,177</u>	<u>\$ 419,866</u>	<u>\$ 436,010</u>	<u>\$ 452,185</u>	<u>\$ 430,020</u>
North Sacramento					
Secured	\$ 364,275	\$ 385,601	\$ 424,562	\$ 469,556	\$ 533,114
Unsecured	27,070	28,063	34,986	36,278	29,494
Utility	-	-	-	-	-
Total	<u>\$ 391,345</u>	<u>\$ 413,664</u>	<u>\$ 459,548</u>	<u>\$ 505,834</u>	<u>\$ 562,608</u>

Notes: (1) Property is assessed at full cash value upon transfer of title and the assessed value is increased annually by the lesser of the rate of inflation or 2%.

(2) One percent is the maximum tax rate by state law.

Source: County of Sacramento, Office of Auditor/Controller

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Assessed Value of Taxable Property<sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**  
(in thousands)

PROJECT AREA	Fiscal Year				
	2008	2009	2010	2011	2012
Merged Downtown					
Secured	\$ 2,203,787	\$ 2,549,340	\$ 2,656,453	\$ 2,504,312	\$ 2,427,850
Unsecured	146,071	174,529	172,285	160,110	145,125
Utility	4,107	997	997	997	997
Total	<u>\$ 2,353,965</u>	<u>\$ 2,724,866</u>	<u>\$ 2,829,735</u>	<u>\$ 2,665,419</u>	<u>\$ 2,573,972</u>
Del Paso Heights					
Secured	\$ 393,968	\$ 414,673	\$ 317,546	\$ 305,405	\$ 286,172
Unsecured	11,076	14,272	37,627	17,112	10,267
Utility	-	1	1	1	1
Total	<u>\$ 405,044</u>	<u>\$ 428,946</u>	<u>\$ 355,174</u>	<u>\$ 322,518</u>	<u>\$ 296,440</u>
Alkali Flat					
Secured	\$ 122,660	\$ 126,892	\$ 132,387	\$ 128,304	\$ 121,651
Unsecured	4,701	4,273	4,759	3,740	2,962
Utility	-	-	-	-	-
Total	<u>\$ 127,361</u>	<u>\$ 131,165</u>	<u>\$ 137,146</u>	<u>\$ 132,044</u>	<u>\$ 124,613</u>
Oak Park					
Secured	\$ 618,602	\$ 611,302	\$ 460,439	\$ 438,987	\$ 428,226
Unsecured	10,363	11,361	13,418	10,613	8,973
Utility	-	-	-	-	-
Total	<u>\$ 628,965</u>	<u>\$ 622,663</u>	<u>\$ 473,857</u>	<u>\$ 449,600</u>	<u>\$ 437,199</u>
River District (formerly Richards Blvd)					
Secured	\$ 404,185	\$ 434,882	\$ 454,256	\$ 405,518	\$ 403,771
Unsecured	34,967	44,693	45,813	41,732	31,661
Utility	4,120	4,120	4,200	4,200	4,264
Total	<u>\$ 443,272</u>	<u>\$ 483,695</u>	<u>\$ 504,269</u>	<u>\$ 451,450</u>	<u>\$ 439,696</u>
North Sacramento					
Secured	\$ 581,880	\$ 613,238	\$ 563,978	\$ 555,744	\$ 526,139
Unsecured	30,238	37,027	33,239	36,014	35,675
Utility	-	-	-	-	-
Total	<u>\$ 612,118</u>	<u>\$ 650,265</u>	<u>\$ 597,217</u>	<u>\$ 591,758</u>	<u>\$ 561,814</u>

Notes: (1) Property is assessed at full cash value upon transfer of title and the assessed value is increased annually by the lesser of the rate of inflation or 2%.

(2) One percent is the maximum tax rate by state law.

Source: County of Sacramento, Office of Auditor/Controller

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Assessed Value of Taxable Property<sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**  
(in thousands)

PROJECT AREA	Fiscal Year				
	2003	2004	2005	2006	2007
Franklin Boulevard					
Secured	\$ 389,585	\$ 429,292	\$ 450,740	\$ 507,056	\$ 566,043
Unsecured	44,211	44,090	43,519	44,426	42,667
Utility	-	-	-	-	-
Total	<u>\$ 433,796</u>	<u>\$ 473,382</u>	<u>\$ 494,259</u>	<u>\$ 551,482</u>	<u>\$ 608,710</u>
Stockton Boulevard					
Secured	\$ 246,597	\$ 267,341	\$ 306,436	\$ 370,130	\$ 417,045
Unsecured	12,060	14,516	13,282	13,381	12,071
Utility	-	-	-	-	-
Total	<u>\$ 258,657</u>	<u>\$ 281,857</u>	<u>\$ 319,718</u>	<u>\$ 383,511</u>	<u>\$ 429,116</u>
Army Depot					
Secured	\$ 163,041	\$ 159,883	\$ 160,357	\$ 402,960	\$ 896,449
Unsecured	52,180	94,488	98,651	88,155	104,420
Utility	775	824	920	922	841
Total	<u>\$ 215,996</u>	<u>\$ 255,195</u>	<u>\$ 259,928</u>	<u>\$ 492,037</u>	<u>\$ 1,001,710</u>
65th Street					
Secured	\$ -	\$ -	\$ -	\$ 203,524	\$ 224,504
Unsecured	-	-	-	165	26,401
Utility	-	-	-	739	611
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 204,428</u>	<u>\$ 251,516</u>
Railyards					
Secured	\$ -	\$ -	\$ -	\$ -	\$ -
Unsecured	-	-	-	-	-
Utility	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes: (1) Property is assessed at full cash value upon transfer of title and the assessed value is increased annually by the lesser of the rate of inflation or 2%.

(2) One percent is the maximum tax rate by state law.

Source: County of Sacramento, Office of Auditor/Controller



**City of Sacramento**  
**Successor Agency Trust Fund**  
**Assessed Value of Taxable Property<sup>(1) (2)</sup>**  
**Last Ten Fiscal Years**  
(in thousands)

PROJECT AREA	Fiscal Year				
	2008	2009	2010	2011	2012
Franklin Boulevard					
Secured	\$ 595,198	\$ 615,732	\$ 571,385	\$ 571,094	\$ 554,662
Unsecured	45,819	47,150	44,573	41,821	38,551
Utility	-	-	-	-	-
Total	<u>\$ 641,017</u>	<u>\$ 662,882</u>	<u>\$ 615,958</u>	<u>\$ 612,915</u>	<u>\$ 593,213</u>
Stockton Boulevard					
Secured	\$ 463,344	\$ 476,809	\$ 390,475	\$ 372,566	\$ 355,452
Unsecured	15,416	16,399	16,598	17,048	17,468
Utility	-	-	-	-	-
Total	<u>\$ 478,760</u>	<u>\$ 493,208</u>	<u>\$ 407,073</u>	<u>\$ 389,614</u>	<u>\$ 372,920</u>
Army Depot					
Secured	\$ 995,435	\$ 1,011,483	\$ 835,497	\$ 826,480	\$ 810,113
Unsecured	145,115	118,889	120,863	119,918	116,198
Utility	578	578	578	578	579
Total	<u>\$ 1,141,128</u>	<u>\$ 1,130,950</u>	<u>\$ 956,938</u>	<u>\$ 946,976</u>	<u>\$ 926,890</u>
65th Street					
Secured	\$ 243,734	\$ 240,544	\$ 224,753	\$ 242,905	\$ 230,618
Unsecured	22,673	29,115	25,010	25,040	25,808
Utility	-	-	-	-	-
Total	<u>\$ 266,407</u>	<u>\$ 269,659</u>	<u>\$ 249,763</u>	<u>\$ 267,945</u>	<u>\$ 256,426</u>
Railyards					
Secured	\$ -	\$ -	\$ 49,467	\$ 71,772	\$ 80,928
Unsecured	-	-	-	251	3,521
Utility	-	-	641	680	768
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,108</u>	<u>\$ 72,703</u>	<u>\$ 85,217</u>

Notes: (1) Property is assessed at full cash value upon transfer of title and the assessed value is increased annually by the lesser of the rate of inflation or 2%.

(2) One percent is the maximum tax rate by state law.

Source: County of Sacramento, Office of Auditor/Controller

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction** <sup>(1) (2)</sup>  
**Merged Downtown**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value</b> <sup>(3)</sup>	<b>Assessee's Value</b> <sup>(3)</sup>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
CIM Group LP	\$ 87,151	\$ 74,000	\$ (13,151)	0.51%
CIM & J Street Hotel Sacramento	63,474	50,000	(13,474)	0.52%
Chase Merrit Sacramento	41,900	12,569	(29,331)	1.14%
CIM Group LP	40,301	32,000	(8,301)	0.32%
GCCFC 2005 GG5 L Street	34,917	23,000	(11,917)	0.46%
925 L Street Inc.	31,158	9,347	(21,811)	0.85%
Sacramento Hotel Partner	22,770	3,400	(19,370)	0.75%
One Capitol Mall Investment	21,384	12,870	(8,514)	0.33%
Juno Commercial Real Estate	18,500	9,200	(9,300)	0.36%
Towers on Capitol Mall	17,000	14,000	(3,000)	0.12%
<b>Sub Total</b>	<b>378,555</b>	<b>240,386</b>	<b>(138,169)</b>	<b>5.37%</b>
All Other Taxpayers	2,195,417	-	-	-
<b>Total</b>	<b>\$ 2,573,972</b>	<b>\$ 240,386</b>	<b>\$ (138,169)</b>	<b>5.37%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento  
Successor Agency Trust Fund**

**Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>**

**Del Paso Heights**

**As of June 30, 2012**

(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
23002 Moulton Parkway LL	\$ 1,900	\$ 1,635	\$ (265)	0.09%
The Lenore Wyatt Living Trust	1,244	622	(622)	0.21%
Fine Homes, LLC	1,095	712	(383)	0.13%
Robert & Michelle Lundbo	954	500	(454)	0.15%
530 Display Way LLC	933	600	(333)	0.11%
Robert & Michelle Lundbo	916	600	(316)	0.11%
Robert & Michelle Lundbo	522	240	(282)	0.10%
Thahn Xuan La & Hanh Hon	438	153	(285)	0.10%
Richard Coltrim, Trustee	384	165	(219)	0.07%
The Lenore Wyatt Living Trust	368	183	(185)	0.06%
Sub Total	8,754	5,410	(3,344)	1.13%
All Other Taxpayers	287,686	-	-	-
Total	\$ 296,440	\$ 5,410	\$ (3,344)	1.13%

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>**  
**Alkali Flat**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Realty Advisors	\$ 6,911	\$ 3,456	\$ (3,455)	2.77%
Lynn R. Honlihan	2,073	1,000	(1,073)	0.86%
700 E Street Building	1,904	1,238	(666)	0.53%
Entezari, Hossein	1,205	600	(605)	0.49%
600 12th Street LLC	685	555	(130)	0.10%
Sub Total	12,778	6,849	(5,929)	4.76%
All Other Taxpayers	111,835	-	-	-
Total	<u>\$ 124,613</u>	<u>\$ 6,849</u>	<u>\$ (5,929)</u>	<u>4.76%</u>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

---

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction** <sup>(1) (2)</sup>  
**Oak Park**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Donald & Virginia Compto	\$ 2,894	\$ 2,110	\$ (784)	0.18%
St Hope Development Company	1,898	949	(949)	0.22%
Chu, Steven C	1,850	1,295	(555)	0.13%
Donald & Virginia Compto	1,487	1,190	(297)	0.07%
Fenstermacher Family Trust	1,227	615	(612)	0.14%
DB & S, LLC	1,025	666	(359)	0.08%
Maliheh H Pakzat	684	549	(135)	0.03%
Hellen, Loretta H.	408	172	(236)	0.05%
Guadalupe T Tapia	375	187	(188)	0.04%
Annexus Capital LLC	334	239	(95)	0.02%
Sub Total	12,182	7,972	(4,210)	0.96%
All Other Taxpayers	425,017	-	-	-
<b>Total</b>	<b>\$ 437,199</b>	<b>\$ 7,972</b>	<b>\$ (4,210)</b>	<b>0.96%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction** <sup>(1) (2)</sup>  
**River District**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Alan Mendell	\$ 12,547	\$ 3,900	\$ (8,647)	1.97%
RECP HAW Sacramento LLC	10,198	5,862	(4,336)	0.99%
ORIX Capital Markets LLC	6,118	4,000	(2,118)	0.48%
MLCFC 2007 9 Bercut Dr	5,877	2,900	(2,977)	0.68%
YSI XX Limited Partnership	3,991	3,300	(691)	0.16%
Geraldine Cowgill Trust	2,779	2,339	(440)	0.10%
10th North Industrial	2,733	1,367	(1,366)	0.31%
Motel 6 Operating LP #13	2,630	2,000	(630)	0.14%
MSN Enterprises LLC	2,387	1,192	(1,195)	0.27%
Signal Court/MEW LLC	2,323	1,400	(923)	0.21%
<b>Sub Total</b>	<b>51,583</b>	<b>28,260</b>	<b>(23,323)</b>	<b>5.30%</b>
All Other Taxpayers	388,113	-	-	-
<b>Total</b>	<b>\$ 439,696</b>	<b>\$ 28,260</b>	<b>\$ (23,323)</b>	<b>5.30%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento  
 Successor Agency Trust Fund  
 Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>  
 North Sacramento  
 As of June 30, 2012  
 (in thousands)**

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
PD Hotel Associates LLC	\$ 14,408	\$ 4,920	\$ (9,487)	1.69%
Dr Pepper Snapple Group	9,477	7,173	(2,305)	0.41%
Sent Expo Pointe LLC & S	8,483	5,514	(2,969)	0.53%
2006 Tcherkoyan Family Trust	7,065	3,533	(3,532)	0.63%
Recreational Equipment Inc.	6,412	3,100	(3,312)	0.59%
Patel, Ramesh	3,866	1,900	(1,966)	0.35%
CMS Woodlake Property	3,804	1,902	(1,902)	0.34%
Dr Pepper Snapple Group	3,709	2,675	(1,034)	0.18%
Michael C/Nancy L Tooley	2,594	1,297	(1,297)	0.23%
CMS Lathrop Way LLC	2,477	1,239	(1,238)	0.22%
<b>Sub Total</b>	<b>62,296</b>	<b>33,253</b>	<b>(29,043)</b>	<b>5.17%</b>
All Other Taxpayers	499,518	-	-	-
<b>Total</b>	<b>\$ 561,814</b>	<b>\$ 33,253</b>	<b>\$ (29,043)</b>	<b>5.17%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>**  
**Franklin Boulevard**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Advance Education, Inc.	\$ 5,291	\$ 932	\$ (4,358)	0.73%
Public Storage	4,024	1,960	(2,064)	0.35%
Chateau Lang Apartments	3,055	214	(2,841)	0.48%
Alnup Corp DBA Guardian	2,267	1,450	(817)	0.14%
Crown Enterprises, Inc.	1,066	533	(533)	0.09%
Crown Enterprises, Inc.	1,059	529	(530)	0.09%
Prichard, Lauren	870	575	(295)	0.05%
Gonzalez, Jose R	688	365	(323)	0.05%
Gonzalez, Jose R	662	350	(312)	0.05%
Jair, Jack and Rosemarie	581	174	(407)	0.07%
<b>Sub Total</b>	<b>19,563</b>	<b>7,082</b>	<b>(12,481)</b>	<b>2.10%</b>
All Other Taxpayers	573,650	-	-	-
<b>Total</b>	<b>\$ 593,213</b>	<b>\$ 7,082</b>	<b>\$ (12,481)</b>	<b>2.10%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor



**City of Sacramento  
 Successor Agency Trust Fund  
 Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>  
 Stockton Boulevard  
 As of June 30, 2012  
 (in thousands)**

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Bee Saigon Plaza LLC	\$ 17,374	\$ 8,600	\$ (8,774)	2.35%
Stockton Plaza Partners	9,572	5,000	(4,572)	1.23%
LSREF2 Clipper II LLC	9,248	6,410	(2,838)	0.76%
Hill Ct Inv Limited Part	5,533	2,000	(3,533)	0.95%
Brittany Arms LLC	5,549	3,855	(1,694)	0.45%
ESS Prisa II LLC	4,475	3,500	(975)	0.26%
Ross Dress For Less, Inc.	3,616	3,000	(616)	0.17%
Martin Ensquey	2,970	500	(2,470)	0.66%
Martin Ensquey	2,700	500	(2,200)	0.59%
Martin Ensquey	2,565	500	(2,065)	0.55%
<b>Sub Total</b>	<b>63,602</b>	<b>33,865</b>	<b>(29,737)</b>	<b>7.97%</b>
All Other Taxpayers	309,318	-	-	-
<b>Total</b>	<b>\$ 372,920</b>	<b>\$ 33,865</b>	<b>\$ (29,737)</b>	<b>7.97%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Top 10 Parcels Appealing Assessed Valuation - At Risk of Reduction** <sup>(1) (2)</sup>  
**Army Depot**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Allied Waste Industries	\$ 9,884	\$ 5,000	\$ (4,884)	0.53%
Mark C Ballantyne	7,771	3,915	(3,856)	0.42%
C/S Logistics Sacramento	5,937	4,144	(1,793)	0.19%
A & W Investments LLC	5,752	1,950	(3,802)	0.41%
Iron Mountain, Inc.	5,119	4,400	(719)	0.08%
6331 Power Inn Rd LLC	3,937	2,500	(1,437)	0.16%
Teichert Land Co.	3,332	2,200	(1,132)	0.12%
Singh Amarjit	2,749	1,500	(1,249)	0.13%
Rasm Enterprises	1,615	1,049	(566)	0.06%
Southdown Calif Cement	1,488	500	(988)	0.11%
<b>Sub Total</b>	<b>47,584</b>	<b>27,158</b>	<b>(20,426)</b>	<b>2.20%</b>
All Other Taxpayers	879,306	-	-	-
<b>Total</b>	<b>\$ 926,890</b>	<b>\$ 27,158</b>	<b>\$ (20,426)</b>	<b>2.20%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>**  
**65th Street**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
Valeo Sacramento LLC	\$ 21,043	\$ 6,312	\$ (14,731)	5.74%
Valeo Sacramento LLC	11,564	3,469	(8,095)	3.16%
Valeo Sacramento LLC	3,619	1,086	(2,533)	0.99%
KCMKC Props LP / FONG	2,356	1,178	(1,178)	0.46%
Home Depot USA Inc.	1,301	400	(901)	0.35%
GAWFCO Incorporated	953	650	(303)	0.12%
Eckert, George M.	935	600	(335)	0.13%
James L. Kouretas	921	650	(271)	0.11%
Suresh C. Paranjpe	53	5	(48)	0.02%
Sub Total	42,745	14,350	(28,395)	11.07%
All Other Taxpayers	213,681	-	-	-
<b>Total</b>	<b>\$ 256,426</b>	<b>\$ 14,350</b>	<b>\$ (28,395)</b>	<b>11.07%</b>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Parcels Appealing Assessed Valuation - At Risk of Reduction <sup>(1) (2)</sup>**  
**Railyard**  
**As of June 30, 2012**  
(in thousands)

<b>Assessee</b>	<b>Taxable Value <sup>(3)</sup></b>	<b>Assessee's Value <sup>(3)</sup></b>	<b>Value Difference</b>	<b>Percentage of Total Taxable Value</b>
S. Thomas Enterprises	\$ 29,300	\$ -	\$ (29,300)	34.38%
IA Sacramento Holdings	28,256	10,170	(18,086)	21.22%
St. Anton Investor, LLC	14,794	11,665	(3,129)	3.67%
REA Limited Partnership	5,406	3,120	(2,286)	2.68%
IA Sacramento Holdings	1,150	503	(647)	0.76%
Sub Total	78,906	25,458	(53,448)	62.72%
All Other Taxpayers	6,311	-	-	-
Total	<u>\$ 85,217</u>	<u>\$ 25,458</u>	<u>\$ (53,448)</u>	<u>62.72%</u>

Notes: (1) These are outstanding appeals; there is no estimate of outcome.

(2) Information for prior years is not readily available and is not statistically significant.

(3) Based on Assessor's report "At-Risk Assessed Valuation Through Appeals Process" as of June 30, 2012.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Merged Downtown**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Hines Sacramento Wells Fargo Center	\$ 206,544	1	8.02%	\$ -	-	-
621 Capitol Mall	117,394	2	4.56%	-	-	-
300 Capitol Associates NF LP	109,000	3	4.23%	-	-	-
CIM/980 9th Street Sacramento LP	96,602	4	3.75%	-	-	-
500 Capitol Mall	77,567	5	3.01%	-	-	-
Capitol Regency LLC	71,823	6	2.79%	48,054	8	2.51%
CIM/J Street Hotel Sacramento LP	71,154	7	2.76%	-	-	-
1325 J Street LLC	66,641	8	2.59%	-	-	-
1415 Meridian Plaza LLC/Valley View Investors	65,120	9	2.53%	-	-	-
Sacramento Equities REIT	61,000	10	2.37%	-	-	-
400 Capitol Mall Venture	-	-	-	138,053	1	7.22%
Downtown Plaza	-	-	-	127,921	2	6.69%
Sacramento Hotel Corporation	-	-	-	87,593	3	4.58%
SRI Six USBP LLC	-	-	-	80,629	4	4.22%
V V Usa City LP	-	-	-	74,020	5	3.87%
Alpine Realty Sacramento	-	-	-	64,496	6	3.37%
Sacramento Renaissance Tower	-	-	-	54,228	7	2.84%
California Hospital Association	-	-	-	32,290	9	1.69%
770 L Street Investment Group	-	-	-	31,620	10	1.65%
Sub Total	942,845		36.63%	738,904		38.64%
All Other Taxpayers	1,631,127		63.37%	1,173,470		61.36%
Total	\$ 2,573,972		100.00%	\$ 1,912,374		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Del Paso Heights**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Research Properties	\$ 5,146	1	1.74%	\$ 4,463	1	2.44%
BM Ventures LLC	5,084	2	1.72%	-	-	-
Woodhaven Senior Residences	4,341	3	1.46%	2,652	3	1.45%
John A/ Leta K Nichols 1994 Rev Trust	2,710	4	0.91%	-	-	-
Lundbom Family Trust	2,439	5	0.82%	-	-	-
US Rental Inc.	2,417	6	0.82%	2,096	4	1.14%
Proffutt Limited Partnership	2,099	7	0.71%	-	-	-
23002 Moulton Parkway LLC	1,938	8	0.65%	-	-	-
Harry & Mariann Brix 1993 Family Trust	1,811	9	0.61%	1,571	7	0.86%
Terkensha Associates	1,667	10	0.56%	1,331	9	0.73%
Anderson Family Trust	-	-	-	2,723	2	1.49%
United Rentals Inc.	-	-	-	1,880	5	1.03%
IBM Credit Corporation	-	-	-	1,783	6	0.97%
Sacramento Partners	-	-	-	1,335	8	0.73%
Crystal Bottling Company, Inc.	-	-	-	1,153	10	0.63%
Sub Total	29,652		10.00%	20,987		11.45%
All Other Taxpayers	266,788		90.00%	162,291		88.55%
Total	\$ 296,440		100.00%	\$ 183,278		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Alkali Flat**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Hearst-Argyle Stations Inc.	\$ 21,508	1	17.26%	\$ 19,905	1	20.03%
Crystal Cream/Butter Holdings, Inc.	11,328	2	9.09%	10,931	2	11.00%
Realty Advisors	7,049	3	5.66%	6,114	3	6.15%
City Park Apartment Homes	4,036	4	3.24%	-	-	-
520 Ninth Street	2,115	5	1.70%	1,834	5	1.85%
Janet Fortino Loehr Separate Prop Trust/Etal	1,988	6	1.60%	-	-	-
700 E Street Building Partner	1,942	7	1.56%	1,689	6	1.70%
John Dailey Trust/Charles D Deloney	1,912	8	1.53%	1,658	7	1.67%
GMA Investors LP	1,802	9	1.45%	-	-	-
Tarpin Samuel D	1,434	10	1.15%	1,296	10	1.30%
US Housing Partners II LP	-	-	-	3,500	4	3.52%
Washington Square III	-	-	-	1,507	8	1.52%
P. Bruce Booher	-	-	-	1,344	9	1.35%
Sub Total	55,114		44.23%	49,778		50.10%
All Other Taxpayers	69,499		55.77%	49,585		49.90%
Total	\$ 124,613		100.00%	\$ 99,363		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Oak Park**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Rainbow Baking	\$ 52,628	1	12.04%	\$ 7,000	2	2.24%
University of the Pacific	19,702	2	4.51%	-	-	-
Shriners Hospitals for Crippled Children	11,509	3	2.63%	-	-	-
GCCFC 2005 GG5 Y Street Limited Partners	10,102	4	2.31%	-	-	-
Broadway/Stockton Food Source Investors LLC	5,061	5	1.16%	-	-	-
Donald/Virginia Compton Family Trust	4,468	6	1.02%	-	-	-
Crestwood Medical Center Hospital	4,235	7	0.97%	2,513	6	0.81%
Security Public Storage	3,629	8	0.83%	3,103	4	0.99%
Edmar Invs LLC (Walgreens)	3,119	9	0.71%	2,670	5	0.86%
Campbell Taggart Baking Companies Inc./Etal	2,163	10	0.49%	1,876	7	0.60%
Regents of UC (Camellia Inn)	-	-	-	11,901	1	3.81%
Stockton/Broadway Partners	-	-	-	4,217	3	1.35%
John C Skinner 2001 Living Trust	-	-	-	1,348	8	0.43%
First States Invs. 5000A, LLC	-	-	-	1,227	9	0.39%
Stockton Boulevard Partners LLC	-	-	-	1,146	10	0.37%
Sub Total	116,616		26.67%	37,001		11.86%
All Other Taxpayers	320,583		73.33%	274,961		88.14%
Total	\$ 437,199		100.00%	\$ 311,962		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor



**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - River District**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
California Almond Growers	\$ 70,591	1	16.05%	\$ 45,241	1	10.78%
Grove Investment Company	33,357	2	7.59%	9,122	8	2.17%
MLCFC 2007 9 Bercut Dr Limited Partnership	18,229	3	4.15%	-	-	-
Mendell Allan/Etal	12,798	4	2.91%	-	-	-
Capitol Station 665 LLC	9,602	5	2.18%	-	-	-
BRE / LQ Props LLC	7,489	6	1.70%	-	-	-
C/J Warehouse	6,595	7	1.50%	-	-	-
Bank of America	6,241	8	1.42%	-	-	-
Dos Rios Venture	6,161	9	1.40%	-	-	-
Vida N Anello Revocable Living Trust	5,141	10	1.17%	-	-	-
Continental Plaza LLC	-	-	-	19,876	2	4.73%
Sunstone OP Properties LLC	-	-	-	10,868	3	2.59%
James/Roxanne Loen Trust	-	-	-	10,377	4	2.47%
Second Richards Boulevard Partners	-	-	-	10,161	5	2.42%
Ice Bear Inc. (Sequoia Pacific)	-	-	-	9,977	6	2.38%
LaQuinta Development Partner	-	-	-	9,952	7	2.37%
Andrew Alan Lewis Revocable	-	-	-	8,240	9	1.96%
Hammer Phyllis/Thomas J	-	-	-	7,787	10	1.85%
Sub Total	176,204		40.07%	141,601		33.73%
All Other Taxpayers	263,492		59.93%	278,265		66.27%
Total	\$ 439,696		100.00%	\$ 419,866		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - North Sacramento**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Seven-up Bottling Company	\$ 31,030	1	5.52%	\$ 19,005	4	4.59%
Price Company	21,598	2	3.84%	16,941	5	4.10%
Shri Gowri Ganesh Real Estate, LLC	14,696	3	2.62%	-	-	-
Merliz Incorporated	14,559	4	2.59%	20,602	3	4.98%
JB Management LP	13,109	5	2.33%	23,113	2	5.59%
JBDB Management LP	11,692	6	2.08%	-	-	-
McCuen Acoma Street Investors	11,577	7	2.06%	-	-	-
North Sacramento Land Company	10,324	8	1.84%	9,937	6	2.40%
Radiological Assoc of Sacto Medical Group	7,877	9	1.40%	-	-	-
SENT EXPO Pointe LLC	7,584	10	1.35%	-	-	-
PD Hotel Associates LLC	-	-	-	27,062	1	6.54%
Radiological Associates	-	-	-	6,561	7	1.59%
Dos Robles Limited Partnership	-	-	-	6,259	8	1.51%
KMAX Channel 31	-	-	-	3,065	9	0.74%
Recreational Equipment Inc.	-	-	-	5,165	10	1.25%
Sub Total	144,046		25.64%	137,710		33.29%
All Other Taxpayers	417,768		74.36%	275,954		66.71%
Total	\$ 561,814		100.00%	\$ 413,664		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Franklin Boulevard**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Campbell Soup Supply Co LLC	\$ 141,205	1	23.80%	\$ 136,419	1	28.82%
United States Cold Storage	9,243	2	1.56%	8,315	2	1.76%
Rosedown Associates LLC	6,732	3	1.13%	-	-	-
Extra Space Franklin Blvd. LLC	5,108	4	0.86%	-	-	-
ABF Freight System, Inc.	5,071	5	0.85%	-	-	-
Western Village LP	9,467	6	1.60%	-	-	-
Sei/PSP Vi Joint Ventures	4,135	7	0.70%	2,750	5	0.58%
Bowling Green Associates	3,977	8	0.67%	-	-	-
Con-Way Western Express Inc.	3,657	9	0.62%	-	-	-
47th Street Associates LLC	3,571	10	0.60%	-	-	-
Rosedown Apartments I LLC	-	-	-	6,457	3	1.36%
John Raleigh/David Yancey	-	-	-	3,449	4	0.73%
Chateau Lang Apartments LLC	-	-	-	2,702	6	0.57%
Preservation Southpointe LP	-	-	-	2,500	7	0.53%
Mulberry Estates LLC	-	-	-	2,335	8	0.49%
Jeon Family Trust	-	-	-	2,262	9	0.48%
Hampton Park	-	-	-	2,236	10	0.47%
Sub Total	192,166		32.39%	169,425		35.79%
All Other Taxpayers	401,047		67.61%	303,957		64.21%
Total	\$ 593,213		100.00%	\$ 473,382		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Stockton Boulevard**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Stockton Plaza Partners LLC	\$ 12,147	1	3.26%	-	-	-
EKG Investors LLC	11,154	2	2.99%	-	-	-
John M/Nancy M Kehriotis Living Trust	7,395	3	1.98%	6,413	1	2.28%
BE Saigon Plaza LLC	7,237	4	1.94%	-	-	-
NT Stockton Investors LLC	6,681	5	1.79%	-	-	-
LSREF2 Clipper II LLC	6,630	6	1.78%	-	-	-
Brittany Arms	5,660	7	1.52%	4,292	4	1.52%
IP Sac Commercial LLC	5,644	8	1.51%	-	-	-
ESS Prisa II LLC	4,758	9	1.28%	-	-	-
Mulleian Investments LLC	4,662	10	1.25%	3,985	5	1.41%
Preferred Properties LLC	-	-	-	5,940	2	2.11%
CCI Stockridge SAC LLC	-	-	-	5,508	3	1.95%
Ralphs Grocery	-	-	-	3,468	6	1.23%
Tran Jack Khai	-	-	-	3,075	7	1.09%
Shiloh Arms LTD	-	-	-	2,682	8	0.95%
Northern California Cement	-	-	-	2,511	9	0.89%
Fruitridge/Stockton LLC	-	-	-	2,186	10	0.78%
Sub Total	71,968		19.30%	40,060		14.21%
All Other Taxpayers	300,952		80.70%	241,797		85.79%
Total	\$ 372,920		100.00%	\$ 281,857		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Army Depot**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2004 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Engineered Polymer Solutions Inc.	\$ 15,847	1	1.71%	\$ 4,665	4	1.83%
R/G Hayward LLC	15,527	2	1.68%	-	-	-
Elder Creek Transfer/Recovery Inc.	11,371	3	1.23%	-	-	-
Buzz Oates LLC	9,718	4	1.05%	-	-	-
Ballantyne Diana S/Mark C/Jan W Leonard/M	7,986	5	0.86%	-	-	-
Air Products Manufacturing Corporation	7,868	6	0.85%	-	-	-
C/S Logistics Sacramento/Tracy LLC	7,131	7	0.77%	8,524	2	3.34%
A/W Investments LLC	5,866	8	0.63%	-	-	-
Teichert Land Co	5,721	9	0.62%	2,948	7	1.16%
Viviion Shops LLC	5,221	10	0.56%	4,528	5	1.77%
Prentiss/Copley Investment	-	-	-	11,116	1	4.36%
Air Products/Chemicals Inc.	-	-	-	8,341	3	3.27%
Inland Empire Investments	-	-	-	3,755	6	1.47%
W H Q	-	-	-	2,833	8	1.11%
Warehouse Way Associates	-	-	-	2,675	9	1.05%
Thunderbird Partners	-	-	-	2,388	10	0.94%
Sub Total	92,256		9.95%	51,773		20.29%
All Other Taxpayers	834,634		90.05%	203,422		79.71%
Total	\$ 926,890		100.00%	\$ 255,195		100.00%

Notes: (1) Data from Fiscal Year 2003 was not available.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - 65th Street**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2005 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
Valeo Sacramento LLC	\$ 33,900	1	13.22%	\$ -	-	-
Target Corporation	26,486	2	10.33%	22,181	2	7.64%
65th St Village LLC	8,700	3	3.39%	-	-	-
Farming Company Folsom Blvd LLC Etal	7,560	4	2.95%	-	-	-
Atlas Disposal Industries	6,477	5	2.53%	-	-	-
KCMC Properties, LP/Paul E Fong/MAE Etal	5,799	7	2.26%	13,034	4	4.49%
Dimension Properties LLC	5,671	6	2.21%	-	-	-
Kenneth/Susan Catchot Family 2005 Revocable	4,945	8	1.93%	5,567	6	1.92%
American River Self Storage LP	4,836	9	1.89%	8,531	5	2.94%
2800 Pico Associates LLC	4,142	10	1.62%	4,878	8	1.68%
Jefferson Commons-Sacramento LP	-	-	-	52,515	1	18.10%
Home Depot USA Inc.	-	-	-	14,506	3	5.00%
Commercial Net Lease Realty	-	-	-	5,095	7	1.76%
Gonzales Kimmel Enterprises	-	-	-	4,524	9	1.56%
John/Claudine Jackson Family Revocable Trust	-	-	-	4,459	10	1.54%
Sub Total	108,516		42.32%	135,290		46.62%
All Other Taxpayers	147,910		57.68%	154,927		53.38%
Total	\$ 256,426		100.00%	\$ 290,217		100.00%

Notes: (1) Data from Fiscal Year 2005 - 65th Street Redevelopment Area was formed in Fiscal Year 2005.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Principal Property Taxpayers - Railyards**  
**Current Fiscal Year and Nine Years Ago**  
(in thousands)

Assessee	2012			2010 <sup>(1)</sup>		
	Taxable Value <sup>(2)</sup>	Rank	Percentage of Total Taxable Value <sup>(3)</sup>	Taxable Value	Rank	Percentage of Total Taxable Value
IA Sacramento Development LLC	\$ 32,436	1	38.06%	\$ -	-	-
CCAA Partners LLC/Bruce W. Bell/Etal	15,234	2	17.88%	14,843	2	19.07%
New Baytree LLC	8,600	3	10.09%	14,826	3	19.05%
REA Limited Partnership	5,514	4	6.47%	5,378	4	6.91%
Sacramento County Employee Credit Union	4,073	5	4.78%	4,068	5	5.23%
PDRA/Company LLC	3,627	6	4.26%	3,537	6	4.54%
Mercy Housing CA 47	3,060	7	3.59%	-	-	-
Strumwasser Michael J/Silvia M	2,998	8	3.52%	2,924	7	3.76%
Bowman/Bay Building Joint Venture	2,169	9	2.55%	2,115	8	2.72%
CNPA Services Inc.	1,630	10	1.91%	-	-	-
S Thomas Enterprises of Sacramento	-	-	-	17,224	1	22.13%
John Morgan/Nelly B Patino/Eddie Cuevas	-	-	-	1,556	9	2.00%
Legacy Ventures LLC	-	-	-	1,245	10	1.60%
Sub Total	79,341		93.10%	67,716		87.00%
All Other Taxpayers	5,876		6.90%	10,117		13.00%
Total	\$ 85,217		100.00%	\$ 77,833		100.00%

Notes: (1) Data from Fiscal Year 2010 - Railyards Redevelopment Area was formed in Fiscal Year 2010.  
(2) Based on ownership of locally-assessed secured and unsecured property.  
(3) Based on total adjusted 2011-12 Project Area total taxable value.

Source: Sacramento County Assessor

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Debt Coverage Analysis**  
**Last Eight Fiscal Years**  
(in thousands)

**Merged Downtown**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ 22,090	\$ 217	\$ -	\$ 21,873	\$ 12,546	1.74	\$ NA	\$ NA	NA
2005-06	22,447	200	261	21,986	14,319	1.54	NA	NA	NA
2006-07	24,217	167	496	23,554	16,162	1.46	NA	NA	NA
2007-08	26,259	277	502	25,480	16,541	1.54	NA	NA	NA
2008-09	30,213	380	484	29,349	16,090	1.82	NA	NA	NA
2009-10	29,144	282	1,606	27,256	16,072	1.70	NA	NA	NA
2010-11	23,069	387	1,454	21,228	16,051	1.32	NA	NA	NA
2011-12	23,750	406	807	22,537	16,254	1.39	2,564	18,818	1.20

**Del Paso Heights**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ 2,269	\$ 23	\$ 85	\$ 2,160	\$ 553	3.90	\$ NA	\$ NA	NA
2005-06	3,172	28	197	2,948	949	3.11	NA	NA	NA
2006-07	3,837	29	307	3,501	1,290	2.71	NA	NA	NA
2007-08	4,181	27	357	3,796	1,606	2.36	NA	NA	NA
2008-09	4,079	51	169	3,859	1,625	2.37	NA	NA	NA
2009-10	3,222	33	377	2,812	1,627	1.73	NA	NA	NA
2010-11	2,901	45	322	2,534	1,626	1.56	NA	NA	NA
2011-12	2,551	44	199	2,307	1,769	1.30	86	1,855	1.24

**Alkali Flat**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ 984	\$ 11	\$ 7	\$ 966	\$ 629	1.54	\$ NA	\$ NA	NA
2005-06	1,061	11	19	1,031	621	1.66	NA	NA	NA
2006-07	1,168	9	33	1,126	618	1.82	NA	NA	NA
2007-08	1,270	14	34	1,222	619	1.98	NA	NA	NA
2008-09	1,234	17	14	1,203	618	1.95	NA	NA	NA
2009-10	1,253	15	54	1,185	616	1.92	NA	NA	NA
2010-11	1,106	18	68	1,020	619	1.65	NA	NA	NA
2011-12	1,077	18	19	1,039	622	1.67	453	1,075	0.97

Note:

NA) Subordinate debt was not presented in prior years. Prior years information not available for River District, Franklin Boulevard, Army Depot and 65th Street.



**City of Sacramento**  
**Successor Agency Trust Fund**  
**Debt Coverage Analysis**  
**Last Eight Fiscal Years**  
(in thousands)

**Oak Park**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ 3,836	\$ 39	\$ 119	\$ 3,678	\$ 1,370	2.68	\$ NA	\$ NA	NA
2005-06	4,957	44	274	4,639	1,686	2.75	NA	NA	NA
2006-07	5,939	45	404	5,490	2,846	1.93	NA	NA	NA
2007-08	6,255	69	409	5,777	2,769	2.09	NA	NA	NA
2008-09	5,854	73	381	5,400	2,767	1.95	NA	NA	NA
2009-10	4,213	49	372	3,792	2,757	1.38	NA	NA	NA
2010-11	3,871	60	314	3,498	2,761	1.27	NA	NA	NA
2011-12	3,772	63	150	3,559	2,756	1.29	69	2,825	1.26

**River District**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ NA	\$ NA	\$ NA	\$ NA	\$ -	-	\$ NA	\$ NA	NA
2005-06	NA	NA	NA	NA	-	-	NA	NA	NA
2006-07	NA	NA	NA	NA	-	-	NA	NA	NA
2007-08	NA	NA	NA	NA	-	-	NA	NA	NA
2008-09	NA	NA	NA	NA	-	-	NA	NA	NA
2009-10	NA	NA	NA	NA	-	-	NA	NA	NA
2010-11	NA	NA	NA	NA	-	-	NA	NA	NA
2011-12	1,372	25	246	1,100	-	-	492	492	2.24

**North Sacramento**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ 2,167	\$ 21	\$ 253	\$ 1,893	\$ 322	5.88	\$ NA	\$ NA	NA
2005-06	2,620	24	249	2,347	305	7.68	NA	NA	NA
2006-07	3,063	24	194	2,845	436	6.53	NA	NA	NA
2007-08	3,542	38	198	3,305	468	7.06	NA	NA	NA
2008-09	3,787	46	291	3,450	528	6.53	NA	NA	NA
2009-10	3,087	36	237	2,814	530	5.30	NA	NA	NA
2010-11	2,722	45	209	2,468	528	4.68	NA	NA	NA
2011-12	2,439	44	187	2,208	539	4.10	605	1,144	1.93

Note:

NA) Subordinate debt was not presented in prior years. Prior years information not available for River District, Franklin Boulevard, Army Depot and 65th Street.

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Debt Coverage Analysis**  
**Last Eight Fiscal Years**  
(in thousands)

**Franklin Boulevard**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ NA	\$ NA	\$ NA	\$ NA	\$ -	-	\$ NA	\$ NA	NA
2005-06	NA	NA	NA	NA	-	-	NA	NA	NA
2006-07	NA	NA	NA	NA	-	-	NA	NA	NA
2007-08	NA	NA	NA	NA	-	-	NA	NA	NA
2008-09	NA	NA	NA	NA	-	-	NA	NA	NA
2009-10	NA	NA	NA	NA	-	-	NA	NA	NA
2010-11	NA	NA	NA	NA	-	-	NA	NA	NA
2011-12	2,225	39	184	2,002	-	-	58	58	34.51

**Stockton Boulevard**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ 1,497	\$ 14	\$ 207	\$ 1,276	\$ -	-	\$ NA	\$ NA	NA
2005-06	2,293	19	169	2,105	-	-	NA	NA	NA
2006-07	2,557	19	338	2,200	115	19.16	NA	NA	NA
2007-08	2,930	31	350	2,548	115	22.20	NA	NA	NA
2008-09	2,849	33	957	1,860	208	8.92	NA	NA	NA
2009-10	1,957	22	405	1,529	187	8.19	NA	NA	NA
2010-11	1,611	26	317	1,268	191	6.63	NA	NA	NA
2011-12	1,496	26	387	1,083	180	6.02	206	386	2.81

**Army Depot**

Fiscal Year	Total Tax Increment	Property Tax Collection Fee	AB 1290 Pass thru	Net Tax Revenues	Senior Debt	Senior Debt Coverage	Subordinate Debt	Total Debt	Total Debt Coverage
2004-05	\$ NA	\$ NA	\$ NA	\$ NA	\$ -	-	\$ NA	\$ NA	NA
2005-06	NA	NA	NA	NA	-	-	NA	NA	NA
2006-07	NA	NA	NA	NA	-	-	NA	NA	NA
2007-08	NA	NA	NA	NA	-	-	NA	NA	NA
2008-09	NA	NA	NA	NA	-	-	NA	NA	NA
2009-10	NA	NA	NA	NA	-	-	NA	NA	NA
2010-11	NA	NA	NA	NA	-	-	NA	NA	NA
2011-12	2,617	44	523	2,050	-	-	713	713	2.88

Note:

NA) Subordinate debt was not presented in prior years. Prior years information not available for River District, Franklin Boulevard, Army Depot and 65th Street.

**City of Sacramento**  
**Successor Agency Trust Fund**  
**Debt Coverage Analysis**  
**Last Eight Fiscal Years**  
(in thousands)

**65th Street**

<b>Fiscal Year</b>	<b>Total Tax Increment</b>	<b>Property Tax Collection Fee</b>	<b>AB 1290 Pass thru</b>	<b>Net Tax Revenues</b>	<b>Senior Debt</b>	<b>Senior Debt Coverage</b>	<b>Subordinate Debt</b>	<b>Total Debt</b>	<b>Total Debt Coverage</b>
2004-05	\$ NA	\$ NA	\$ NA	\$ NA	\$ -	-	\$ NA	\$ NA	NA
2005-06	NA	NA	NA	NA	-	-	NA	NA	NA
2006-07	NA	NA	NA	NA	-	-	NA	NA	NA
2007-08	NA	NA	NA	NA	-	-	NA	NA	NA
2008-09	NA	NA	NA	NA	-	-	NA	NA	NA
2009-10	NA	NA	NA	NA	-	-	NA	NA	NA
2010-11	NA	NA	NA	NA	-	-	NA	NA	NA
2011-12	1,035	17	207	811	-	-	514	514	1.58

Note:

NA) Subordinate debt was not presented in prior years. Prior years information not available for River District, Franklin Boulevard, Army Depot and 65th Street.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**City of Sacramento**  
**Full-time Equivalent Employees by Function/Program**  
**Last Ten Fiscal Years**

Function/Program	Full-time Equivalent Employees as of June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Code Enforcement	-	-	-	82	94	92	107	90	-	-
Community Development	-	-	-	-	-	-	-	107	170	166
Convention, Culture & Leisure	263	263	204	204	208	213	214	206	196	194
Development Services	-	190	252	259	243	246	222	-	-	-
Economic Development	17	17	-	17	17	24	27	22	18	14
Fire	571	588	609	623	651	651	655	582	611	589
General Government	387	390	393	374	408	419	400	329	319	312
General Services	-	754	457	260	264	287	307	257	247	225
Neighborhood Services	80	243	86	16	16	15	15	9	-	-
Nondepartmental	1	-	-	-	-	-	-	-	-	-
Parks and Recreation	828	677	841	896	930	925	872	680	648	579
Planning	-	-	-	-	38	33	34	-	-	-
Planning and Building	176	-	-	-	-	-	-	-	-	-
Police	1,111	1,116	1,189	1,207	1,265	1,272	1,271	1,091	1,060	900
Public Works	749	-	-	-	-	-	-	-	-	-
Transportation	-	-	333	340	350	356	437	424	409	409
Utilities	490	492	497	727	732	741	741	752	698	698
<b>Total</b>	<b>4,672</b>	<b>4,729</b>	<b>4,860</b>	<b>5,003</b>	<b>5,213</b>	<b>5,273</b>	<b>5,300</b>	<b>4,549</b>	<b>4,374</b>	<b>4,083</b>

Source: City of Sacramento Approved Operating Budgets

**City of Sacramento**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

Function/program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Police</b>										
Adult arrests	23,015	23,046	25,623	27,314	24,703	22,783	21,230	20,555	19,885	17,058
Citizen initiated calls for service with officer responses	202,671	269,815	194,969	187,731	181,793	181,873	173,045	176,157	166,207	154,193
<b>Fire <sup>(1)</sup></b>										
Number of incidents	43,018	43,108	63,242	65,714	66,284	70,609	64,525	59,608 <sup>(2)</sup>	71,111	73,343
Number of structure fires	2,751	3,915	835	1,189	500	414	401	359 <sup>(2)</sup>	606	652
Number of construction inspection/reviews	3,037	4,596	5,181	NA	NA	NA	NA	2,790	NA	1,895
<b>General Services</b>										
Number of animal licenses issued	8,316	8,256	9,446	12,815	14,944	18,812	18,732	17,094	17,132	17,318
Number of animal outplacements	3,612	2,852	4,267	4,323	4,352	4,252	4,025	3,300	2,901	3,750
<b>Transportation</b>										
Number of traffic investigations completed	1,185	1,114	927	922	1,123	1,019	1,028	903	712 <sup>(4)</sup>	717
Number of parking citations issued	203,364	211,128	199,428	201,196	194,193	233,901	236,103	240,248	184,215 <sup>(5)</sup>	164,492
<b>Convention, Culture &amp; Leisure</b>										
Number of Community Convention Center events	609	591	607	600	664	568	528	453	417	389
Community Convention Center event attendance	1,016,787	981,766	929,425	833,428	849,000	863,759	862,000	780,000	873,577	796,000
Number of Zoo attendance	495,000	480,000	485,000	485,000	529,734	482,072	467,446	481,452	498,518	526,959
<b>Parks and Recreation</b>										
Number of students enrolled in START	7,700	8,000	7,149	7,913	8,845	8,364	8,695	8,563	7,437	5,755 <sup>(7)</sup>
Number of students enrolled in 4th R <sup>(9)</sup>	2,500	2,510	2,695	2,885	3,000	3,500	2,675	2,600	2,142	1,899
Number of lunches served through food programs	216,100	210,000	195,000	192,500	160,900	156,916	197,020	120,726 <sup>(3)</sup>	133,687	42,848 <sup>(8)</sup>
<b>Development Services</b>										
Number of building permits issued	17,389	18,089	17,869	18,261	16,930	14,349	13,182	11,786	11,474	11,545
Building permit valuation (in million of dollars)	1,060	1,001	883	817	1,005	862	557	543	387	281
<b>Code Enforcement</b>										
Vehicles abated by City	4,958	4,814	4,660	3,747	2,572	1,538	898	694	429	254 <sup>(10)</sup>
Notice and orders issued on housing and dangerous buildings	340	278	279	293	445	378	360	305	250	188 <sup>(11)</sup>
<b>Water</b>										
Number of accounts	129,852	131,745	136,347	151,459	151,459	135,665	137,029	136,600	136,812	137,148
Amount distributed/pumped (million of gallons)	44,165	46,852	44,177	45,180	49,463	NA	42,726	38,453	37,393	38,692
<b>Wastewater</b>										
Number of accounts	77,940	78,177	78,596	78,541	79,620	76,253	76,802	76,385	76,394	76,477
Amount distributed/pumped (million of gallons)	16,454	16,339	18,054	19,185	19,185	NA	15,889	14,302	NA	10,695
<b>Storm Drainage</b>										
Number of accounts	123,324	127,216	130,426	128,427	132,376	131,801	132,727	132,556	133,188	133,814
Amount distributed/pumped (million of gallons)	28,420	30,506	41,608	53,444	53,444	NA	27,936	27,288	NA	28,445
<b>Solid Waste</b>										
Residential garbage disposed (in Tons)	124,623	129,838	129,499	127,120	128,802	128,060	104,542	112,203	110,103	106,085
Commercial garbage collected (in Tons)	16,207	20,390	23,159	22,469	NA	24,804	18,937	17,688	12,918 <sup>(6)</sup>	12,251

- Notes: (1) The threshold for investigation of a fire was raised from \$10,000 or \$30,000 in fiscal year 2005.  
(2) Due to a system problem in October 2009, only 11 months of data are available.  
(3) In FY2010, the decrease in number of lunches served through food programs was due to decrease in number of sites in operation from 112 to 43. The sites were scaled back to better manage the program and reduce waste.  
(4) In FY2011, the reason for the significant drop in the number of citations written was due to a) the depressed economy; (b) there were 4 fewer parking enforcement officers; and 3) the staff were furloughed.  
(5) In FY2011, the reason for the significant drop in the number of citations written was due to a) the depressed economy; (b) there were 4 fewer parking enforcement officers; and 3) the staff were furloughed.  
(6) In FY2011, the reason for the significant drop in the commercial garbage collected was primarily due to loss of two major accounts, i.e. Sacramento City Unified School District to Atlas Disposal and California State University, Sacramento to Allied Waste.  
(7) In FY2012, the number of school sites the City of Sacramento served under START program were reduced from 57 to 46, thus reducing the total number of students enrolled.  
(8) In FY2012, the number of lunches served through food programs decreased significantly because the federal grant for this program ended in September 2011.  
(9) The number of students enrolled in 4th R program has been declining since FY2009 due to substantial decline in the subsidy-side of enrollees. Due to the recession many parents/guardians lost their employment and were not pursuing post secondary education/skill training which make them ineligible to receive these subsidies because the requirement for eligibility is either employment or post secondary education/skill training. In addition, there was also some decline in fee based enrollment.  
(10) In FY2012, the number of vehicles abated by City decreased significantly due to the slow economic conditions which led to people holding onto their vehicles longer as well as turning in vehicles for the cost of parts or scrap metal.  
(11) In FY2012, the number of complaints for housing and dangerous buildings declined largely due to proactive inspections performed under the City's Rental Housing Inspection Program which led to decrease in notice and orders issued on housing and dangerous buildings.

Source: Various City of Sacramento Departments

**City of Sacramento  
Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years**

Function/program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Police</b>										
Number of stations <sup>(1)</sup>	2	2	2	2	2	4	4	4	4	4
Number of patrol units <sup>(2)</sup>	241	239	238	229	210	210	210	242	242	242
Number of aircraft	NA	NA	NA	NA	NA	NA	3	3	3	4
Number of watercraft	NA	NA	NA	NA	NA	NA	2	2	2	3
<b>Fire</b>										
Number of stations	22	22	23	23	23	23	23	23	23	24
Number of fire protection vehicles	152	150	167	169	170	151	150	160	160	159
<b>Transportation</b>										
Miles of streets	2,922	2,936	2,960	3,025	3,034	3,045	3,044	3,063	3,108	3,108
Number of street lights	35,896	36,852	38,450	39,277	39,964	40,578	41,131	41,252	41,301	41,679
Number of City parking spaces <sup>(3)</sup>	8,580	8,580	8,488	8,518	8,795	8,798	8,484	8,484	8,484	8,484
Miles of off-street bikeways	50	53	58	62	67	76	78	78	82	82
<b>Parks and recreation</b>										
Number of parks	197	196	204	205	205	206	208	212	213	213
Park acreage <sup>(4)</sup>	2,998	3,627	3,122	3,124	3,125	3,126	3,167	3,171	3,171	3,150 <sup>(10)</sup>
Number of community centers <sup>(5)</sup>	17	17	17	17	17	16	13	13	13	13
Number of swimming pools (including wading pools)	22	23	23	23	23	23	26	26	26	26
<b>Water</b>										
Miles of water mains and distribution lines <sup>(6)(7)</sup>	1,434	1,467	1,708	1,873	1,873	1,859	1,720	1,724	1,596	1,599
<b>Sewers and storm drainage</b>										
Miles of sanitary sewers and storm drainage <sup>(8)</sup>	2,054	2,103	2,081	2,081	2,024	1,859	1,693	1,950	1,954	1,951
<b>Off-street parking</b>										
Number of City garages and open parking lots	12	12	11	11	12	12	10	10	10	10
<b>Golf</b>										
Number of golf courses	6	6	6	6	6	6	6	6	6	6
<b>Marina</b>										
Number of boat harbor slips	563	563	563	563	547	475 <sup>(9)</sup>	475	475	475	475

- Note: (1) From FY2008 onwards, police stations refer to stations plus police headquarters.  
(2) From FY2010 onwards, patrol units include cars and motorcycles.  
(3) From FY2009 onwards, City parking spaces is defined as only those which are City-owned.  
(4) Golf course acreage is not included from FY 2005 onwards.  
(5) Does not include neighborhood centers.  
(6) Water mains are pipes over 12" in size. Pipes 12" or less are considered Distribution Lines. Reporting categories have been changed to show this distinction FY2011 onwards. In addition, FY2011 onwards, Service Mains and Hydrant Mains are excluded.  
(7) From FY2009 onwards, does not include miles for private mains and mains owned by other agencies.  
(8) Non-pipe elements may have been included in years prior to FY2009.  
(9) In FY2008, the marina boat slips were made larger thereby decreasing their total number.  
(10) In FY2012, the City conveyed 22.79 acres to a developer from Granite Regional Park, pursuant to a development agreement, and acquired two parcel adding 1.73 acres to the Sacramento River Parkway.

Source: Various City of Sacramento Departments

# City of Sacramento

## Miscellaneous Statistics

### Current Fiscal Year and Nine Years Ago

Date of incorporation	1849	
Date of charter	1921	
Date City became State Capitol	1854	
Form of government	Council/Manager	
	<b>2012</b>	<b>2003</b>
Number of budgeted positions	4,083	4,672
Area in square miles	99	98
Altitude in feet	20	20
City of Sacramento facilities and services:		
<b>Police</b>		
Number of stations	4	2
Number of police personnel sworn / civilian (actual)	683/255	706/405
Number of patrol units	242	241
<b>Fire</b>		
Number of stations	24	22
Number of fire personnel sworn / unsworn	547/42	524/47
Number of fire protection vehicles	159	152
<b>Utilities</b>		
Miles of water mains and distribution lines <sup>(1)</sup>	1,599	1,434
Annual water production in gallons	39 billion	44 billion
Miles of sanitary sewers and storm drainage <sup>(2)</sup>	1,951	2,054
<b>Transportation</b>		
Miles of streets	3,108	2,922
Number of street lights	41,679	35,896
Number of City managed parking lots / spaces	21/10,465	12/8,580
Miles of off-street bikeways	82	50
<b>Convention, Culture and Leisure</b>		
Golf courses	6	6
Boat harbor slips <sup>(3)</sup>	475	563
Zoo animals <sup>(4)</sup>	511	474
Fairytale town attendance for year	238,776	196,692
Crocker Art Gallery attendance for year	249,617	160,322
Community Convention Center attendance for year	796,000	1,016,787
<b>Parks and Recreation</b>		
Parks	213	197
Park acreage <sup>(5)</sup>	3,150	2,998
Camp Sacramento attendance for year	2,487	3,482
Community centers	13	11
Neighborhood centers	5	N/A
Swimming pools	26	29
Baseball fields <sup>(6)</sup>	99	96
Soccer fields	129	49
Ball courts	176	118
<b>Library</b>		
Library branches	12	12
Library books and audiovisual recordings in circulation	813,552	886,144

Notes: (1) Water mains are pipes over 12" in size. Pipes 12" or less are considered Distribution Lines. Reporting categories have been changed to show this distinction FY2011 onwards. In addition, FY2011 onwards, Service Mains and Hydrant Mains are excluded.

(2) Non-pipe elements may have been included in years prior to FY2009.

(3) In FY2008, the marina boat slips were made larger thereby decreasing their total number.

(4) Zoo animals number is comprised of animals on-site (either owned by zoo or owned by other entity).

(5) Golf course acreage is not included from FY 2005 onwards.

(6) This includes softball, little league and adult baseball from FY2011 onwards.

Source: Various City of Sacramento Departments and Publications



## **KEVIN JOHNSON**

Mayor

## **ANGELIQUE ASHBY**

Vice Mayor, District 1

## **SANDY SHEEDY**

Councilmember, District 2

## **STEVE COHN**

Councilmember, District 3

## **ROBERT KING FONG**

Councilmember, District 4

## **JAY SCHENIRER**

Councilmember, District 5

## **KEVIN MCCARTY**

Councilmember, District 6

## **DARRELL FONG**

Councilmember, District 7

## **BONNIE J. PANNELL**

Councilmember, District 8

## **CITY OF SACRAMENTO FACTS**

- The City of Sacramento was founded in 1849 and is the oldest incorporated city in California.
- In 1920, city voters adopted a Charter (municipal constitution) and a City Council/City Manager form of government.
- The City is divided into eight districts.
- Elected members of the City Council serve a four-year term.
- The Mayor is elected by all voters in the City. In 2002, voters approved a measure for the Mayor to serve full-time. All other Councilmembers are elected by district and serve part-time.
- The Mayor and other Councilmembers have an equal vote in all matters.
- The City of Sacramento currently encompasses approximately 99 square miles.
- The current estimated population is 470,956.



[www.CityofSacramento.org](http://www.CityofSacramento.org)

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX C**  
**GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING**  
**THE CITY OF SACRAMENTO**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX C

### GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF SACRAMENTO

#### **Introduction**

The City of Sacramento (the “**City**”) is located at the confluence of the Sacramento and American Rivers in the northern part of California’s Central Valley. The City is approximately 75 air miles northeast of San Francisco, and benefits from a mild climate with many days of sunshine each year and with daily average temperatures ranging from 54 degrees Fahrenheit in January to 92 degrees Fahrenheit in July. The average elevation of the City is 25 feet above sea level.

The City was settled in the late 1830s and was incorporated in 1849. In 1854, the City became the location of the capital of the State of California (the “**State**”), a position made permanent by the State’s Constitutional Convention in 1879. Today, State government employees and government-related activities contribute substantially to the City’s economy.

#### **Government**

The City operates under a City Charter that currently provides for an elected nine-member City Council including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, the City Attorney, the City Clerk, and the City Treasurer to carry out its adopted policies. The Mayor is chairperson of the City Council and is elected in at-large City elections. Members of the City Council serve four-year terms and are elected from eight districts.

The City provides a number of municipal services, including administration, police, fire, library, recreation, parking, public works, and utilities services such as water production and distribution, refuse collection, storm drainage, and maintenance.

## Population

A comparison of the City’s population growth to that of the County of Sacramento (the “County”) and the State is provided in the table below. Population estimates are as of as of January 1 for each year.

**POPULATION ESTIMATES<sup>(1)</sup>**  
**CITY OF SACRAMENTO, COUNTY OF SACRAMENTO**  
**AND THE STATE OF CALIFORNIA**  
**FOR SELECTED CALENDAR YEARS 1970 THROUGH 2012**

<b>Year</b>	<b>City of Sacramento</b>	<b>Average Annual % Change</b>	<b>County of Sacramento</b>	<b>Average Annual % Change</b>	<b>State of California</b>	<b>Average Annual % Change</b>
1970	257,105		634,373		19,935,134	
1980	275,741	0.72%	783,381	2.35%	23,782,000	1.87%
1990	369,365	3.40	1,046,870	3.36	29,828,496	2.57
1995	384,300	0.81	1,120,733	1.41	31,910,000	1.45
2000	407,018	0.81	1,233,599	2.01	34,095,209	1.27
2005	453,592	1.85	1,378,538	1.46	36,899,392	1.32
2009	481,356	1.35	1,440,500	0.84	38,476,724	0.98
2010 <sup>(2)</sup>	466,488	-3.09	1,420,434	-1.61	37,309,382	-3.26
2011 <sup>(2)</sup>	472,178	0.69	1,430,884	0.74	37,570,307	0.70
2012 <sup>(2)</sup>	470,956	0.32	1,439,874	0.63	37,826,160	0.68

<sup>(1)</sup> Totals are estimates and may not add due to rounding.

<sup>(2)</sup> The population estimates for 2010 forward incorporate the 2010 Census Population Benchmark.

Source: State of California, Department of Finance.

## Industry and Employment

As the seat of State government, the City has traditionally had a large public-sector workforce. In recent years, the employment base in Sacramento and the surrounding area has diversified as the relatively low cost of living and the supply of skilled labor have drawn a number of technology, financial services, and healthcare employers.

As a result of the recent recession, unemployment levels throughout the country (including in the City) significantly increased from Fiscal Year 2007-08 to Fiscal Year 2010-11.

Set forth below are data reflecting the civilian labor force, employment, and unemployment for the Sacramento Metropolitan Statistical Area, which includes El Dorado, Placer, Sacramento, and Yolo Counties. These figures may not necessarily accurately reflect employment trends in the City.

**SACRAMENTO METROPOLITAN STATISTICAL AREA  
CIVILIAN LABOR FORCE, EMPLOYMENT, AND  
THE ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY  
FOR YEARS 2008 THROUGH 2012**

<b>LABOR FORCE:</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Labor force <sup>(1)</sup>	1,046,800	1,051,500	1,048,900	1,039,400	1,038,500
Employment	973,000	934,800	918,000	916,200	929,500
Unemployment	73,800	116,600	130,900	123,200	109,000
Unemployment Rate	7.0%	11.1%	12.5%	11.9%	10.5%
<b>EMPLOYMENT INDUSTRY:</b>					
Total All Industries <sup>(2)</sup>	890,200	839,800	817,900	810,300	817,500
Total Farm	8,200	8,300	8,100	8,300	8,200
Total Non-farm	882,100	831,500	809,900	802,000	809,400
Mining & Logging	700	400	400	400	400
Construction	56,200	43,500	38,400	36,200	36,600
Manufacturing	38,700	34,400	32,800	32,800	32,900
Trade, Transportation & Utilities	146,600	134,900	132,500	132,700	135,800
Information	19,200	18,300	17,200	16,700	16,500
Financial Activities	57,200	52,900	48,300	46,600	47,600
Professional & Business Services	110,100	101,100	102,200	101,400	103,400
Education & Health Services	99,700	99,800	99,400	102,700	106,100
Leisure & Hospitality	85,900	81,900	80,200	79,800	78,300
Other Services	29,600	28,800	28,100	28,000	28,000
Total Government	238,200	235,300	230,300	224,600	223,900
Federal Government	12,500	13,300	14,600	13,900	13,500
State and Local Government	225,800	222,100	215,600	210,700	210,400

<sup>(1)</sup> Labor-force data are by place of residence and include self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

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

Source: Labor Market Information Division of the California State Employment Development Department.

The two tables below identify the major private-sector employers and the major public-sector employers for the greater Sacramento area (Sacramento, El Dorado, Placer, Sutter, Yolo, and Yuba Counties). Major private employers in the Sacramento area include those in health care, electronics, telecommunications, retail, and financial services. Major public-sector employers include the State and the County. The data provided is through December 2012 and may not reflect subsequent changes in work force.

**SACRAMENTO COUNTY  
MAJOR PRIVATE SECTOR EMPLOYERS IN 2012**

<b>Company</b>	<b>Type of Business</b>	<b>No. of Full-Time Employees</b>
Dignity Health	Healthcare	7,069
Intel Corp.	Semiconductor Manufacture	6,633
Kaiser Permanente	Healthcare	6,360
Sutter Health Sacramento Sierra Region	Healthcare	5,765
Raley's	Retail Grocery Chain	3,694
Health Net of California	Managed Healthcare	2,552
Wells Fargo & Co.	Financial Services	2,160
VSP Global	Vision Healthcare	2,070
Sacramento Municipal Utility District	Electric Company	1,828
Aerojet	Manufacture	1,740

Source: Sacramento Business Journal, 2012 Book of Lists, December, 2012.

Note: Employment numbers are full-time equivalents except where otherwise noted.

**SACRAMENTO COUNTY  
MAJOR PUBLIC SECTOR EMPLOYERS IN 2012**

<b>Company</b>	<b>Type of Business</b>	<b>No. of Full-Time Employees</b>
State of California*	Government	69,763
Sacramento County	County Government	11,450
UC Davis Health System	Health Care	9,584
Elk Grove Unified School District**	Public School District	5,021
Sacramento City Unified School District***	Education	5,000
San Juan Unified School District	Public School	4,700
City of Sacramento****	City Government	4,083
Los Rios Community College District	Public two-year College District	3,269
California State University Sacramento	University	2,936
Folsom Cordova Unified School District	Unified School District	1,850

Source: Sacramento Business Journal, 2012 Book of Lists, December, 2012.

\* Plus 1,155 part-time employees.

\*\* Plus 1,963 active substitutes.

\*\*\* Plus 200 temporary employees.

\*\*\*\* Plus 1,095 seasonal employees.



## Commercial Activity

The following table summarizes taxable sales within the City during calendar years 2008 through 2011.

**CITY OF SACRAMENTO  
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS  
FOR YEARS 2008 THROUGH 2011<sup>(1)</sup>  
(\$ in Thousands)**

<u>Type of Business</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011<sup>(1)</sup></u>
Apparel	\$279,933	\$314,415	319,555	217,633
General Merchandise	635,959	486,181	484,713	340,151
Food & Beverage	265,079	272,980	282,078	212,834
Eating & Drinking	690,946	675,035	687,669	538,249
Household Furnishings	155,001	245,042	232,782	163,098
Building Materials	274,463	222,703	249,593	245,165
Automotive	367,082	285,724	259,294	217,633
Service Stations	535,786	424,739	484,980	433,830
Other Retail	<u>576,099</u>	<u>444,823</u>	<u>455,716</u>	<u>344,496</u>
Retail Stores Total	\$3,780,349	\$3,371,643	3,456,380	2,724,579
All Other Outlets	<u>1,924,068</u>	<u>1,577,522</u>	<u>1,491,067</u>	<u>1,178,291</u>
TOTAL:	<u>\$5,704,418</u>	<u>\$4,949,165</u>	<u>\$4,947,448</u>	<u>\$3,902,870</u>

<sup>(1)</sup> Third Quarter 2011

Note: Detail may not compute to total due to rounding.

Source: State Board of Equalization

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX D**  
**SUMMARY OF THE INDENTURE**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX D

### SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture, dated as of March 1, 2013 (the “Original Indenture”), between the City of Sacramento (the “City”) and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture, dated as of March 1, 2013 (the “First Supplemental Indenture”; the Original Indenture, as supplemented is referred to herein as the “Indenture”), between the City and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

#### Definitions

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date. For purposes of the Indenture, the term “principal of” shall also include Accreted Value, if appropriate.

“Accreted Value Table” means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

“Alternate Credit Enhancement” means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond, or other instrument, which secures, enhances, or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank, pension fund, or other institution, and delivered or made available to the Trustee, as a replacement or substitution for any Credit Enhancement then in effect.

“Alternate Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement, or similar liquidity facility, which secures, enhances, or guarantees the payment of purchase price of such Series of Bonds under certain conditions specified therein, issued by a commercial bank, insurance company, pension fund, or other institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

“Annual Debt Service” means, with respect to any Obligations and for any Fiscal Year, the aggregate amount of Debt Service on such Obligations becoming due and payable during such Fiscal Year.

“ARRA Loan” means the loan disbursed under Funding Agreement Number AR09FP22, dated September 8, 2009, and designated as City Agreement No. 2009-0850, between the City and the State of California Department of Public Health.

“Authorized Representative” means the City Manager of the City, the City Treasurer of the City, or such other person as may be designated to act on behalf of the City by resolution of the City Council of the City or by a written certificate delivered to the Trustee signed on behalf of the City by an Authorized Representative.

“Average Annual Debt Service” means with respect to any Obligations and as of any date of calculation, the quotient obtained by dividing (1) the sum of the Annual Debt Service on such Obligations for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or, if appropriate, the first full Fiscal Year following the issuance or incurrence of such Obligations) and terminating in the last Fiscal Year in which any Debt Service on such Obligations is due by (2) the number of such Fiscal Years.

“Balloon Indebtedness” means, with respect to any Obligation, 25% or more of the principal or other face amount of which matures or becomes due on the same date or within a 12-month period (with Mandatory Sinking Account Payments deemed to be payments of matured principal), that portion of such Obligation which matures or becomes due on such date or within such 12-month period.

“Beneficial Owner” means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including any Person holding Bonds through nominees or depositories, including the Securities Depository.

“Bond Obligation” means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

“Bond Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Bond Reserve Requirement” means (1) with respect to the Bond Reserve Fund, as of any date of calculation, an amount equal to 50% of the Maximum Annual Debt Service for the Participating Bonds, as computed and determined by the City and specified in writing to the Trustee; provided, that with respect to the issuance of additional Participating Bonds if the Bond Reserve Fund would have to be increased by an amount greater than 10% of the stated principal amount of such additional Participating Bonds (or, if the issue has more than a de minimis amount of original issue discount or premium, of the issue price of such Bonds) then the Bond Reserve Requirement shall be such lesser amount as is determined by a deposit of such 10%; and (2) with respect to any Bond Series Reserve Fund, the amount specified as such in the Supplemental Indenture establishing such Bond Series Reserve Fund.

“Bond Series Reserve Fund” means any fund by that name established with respect to one or more Series of Bonds other than Participating Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Bondholder” or “Holder” or “owner,” whenever used with respect to a Bond, means the person in whose name such Bond is registered.

“Bond” or “Bonds” means one or more of the City of Sacramento Water Revenue Bonds or Notes authorized by, and at any time Outstanding pursuant to, the Indenture.

“Business Day” means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds is issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York or the jurisdiction in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed; (2) for purposes of payments and other actions relating to Bonds secured or enhanced by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing institution at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed; (3) a day on which the New York Stock Exchange is closed; or (4) a day on which the payment system of the Federal Reserve System is not operational.

“Capital Appreciation Bonds” means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by an Authorized Representative. Any such instrument and supporting opinions, or representations, may but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“City” means the City of Sacramento, a municipal corporation and chartered city, duly organized and existing under and by virtue of the Constitution and laws of the State of California, and any successor thereto.

“Code” means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

“Continuing Disclosure Certificate” means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the continuing disclosure certificate or continuing disclosure agreement delivered by the City at the time of issuance and delivery of such Series of Bonds, as the same may be supplemented, modified, or amended in accordance with its terms.

“Corporate Trust Office” or “corporate trust office” means the corporate trust office of the Trustee at U.S. Bank National Association, One California Street, Suite 1000, San Francisco, California 94111, Attention: Global Corporate Trust Services, or such other or additional offices as may be designated by the Trustee from time to time; provided, that for registration, transfer, exchange, surrender, and payment of the Bonds, Corporate Trust Office shall initially mean the corporate trust operations office of the Trustee in Saint Paul, Minnesota.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, issuance, sale and delivery of a Series of Bonds, including advertising and printing costs; costs of preparation and reproduction of documents; filing and recording fees; travel expenses and costs relating to rating agency meetings and other meetings concerning such Series of Bonds; initial fees, expenses, and charges of the Trustee; legal fees and charges; fees and disbursements of consultants and professionals; financial advisor fees and expenses; rating agency fees; fees and charges for preparation, execution, transportation, and safekeeping of Bonds; surety, insurance, credit enhancement, and liquidity costs; fees payable in connection with the execution or termination of an Interest Rate Swap Agreement in connection with the issuance of a Series of Bonds; and any other cost, charge, or fee incurred in connection with the issuance of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

“Costs of Issuance Fund” means a fund by that name established pursuant to the provisions of a Supplemental Indenture to pay Costs of Issuance with respect to a Series of Bonds being issued pursuant to such Supplemental Indenture.

“Counterparty” means an entity which has entered into an Interest Rate Swap Agreement with the City.

“Coverage Requirement” means, for any Fiscal Year, an amount of System Net Revenues equal, in each case, to at least (1) 120% of the Debt Service on all Outstanding Bonds and Parity Obligations for such Fiscal Year, (2) 110% of the Debt Service on all Outstanding Bonds, Parity Obligations, and Subordinate Obligations for such Fiscal Year, and (3) 100% of all obligations of the City payable from System Net Revenues in such Fiscal Year.

“Credit Enhancement” means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond, or other instrument, which secures, enhances, or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank, pension fund, or other institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms. In the event of the delivery or availability of an Alternate Credit Enhancement, “Credit Enhancement” means such Alternate Credit Enhancement.

“Credit Enhancement Provider” means, with respect to a Series of Bonds, the Insurer, commercial bank, pension fund, or other institution issuing (or having primary obligation, or acting as agent for the institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

“Current Interest Bonds” means the Bonds of any Series that are designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and pay interest to the Holders thereof on a periodic basis prior to maturity.

“Debt Service,” when used with respect to any Obligations, means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Obligations during such Fiscal Year, (2) the principal or Mandatory Sinking Account Payments required to be paid with respect to such Obligations during such Fiscal Year, and (3) any other regularly scheduled payments on such Obligations during such Fiscal Year to the extent not included in clauses (1) and (2) of this definition, all of which are to be computed on the assumption that no portion of such Obligations shall cease to be outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(A) Balloon Indebtedness may, at the option of the City, be treated as if it were to be amortized in substantially equal annual installments over a term of up to 30 years (which period shall be designated by the City), commencing in the year of incurrence by the City of such Balloon Indebtedness, and the interest rate used for such computation shall be assumed by the City to be equal to either (1) a fixed rate equal to the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or, if that index is no longer published, an interest rate equal to 80% of the yield (as of the close on the Business Day immediately preceding the date of calculation) for outstanding United States Treasury bonds having a maturity of ten years or (2) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the City;

(B) unless a different subsection of this definition applies for purposes of determining maturities or amortization, in determining the amount due in each Fiscal Year, payment shall be assumed to be made in accordance with any amortization schedule established for such Obligations, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond and any contingencies that may result in a request for earlier payment shall be disregarded;



(C) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such Obligations for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Swap Index for the five years preceding such date of calculation (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the City shall designate in writing to the Trustee);

(D) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Obligations shall be calculated at an interest rate equal to 100% of the average One Month USD LIBOR Rate during the five years preceding such date of calculation or such higher rate as shall be specified in a Certificate of the City delivered to the Trustee (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the City shall designate in writing to the Trustee);

(E) with respect to any Obligations bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place providing for a synthetic fixed interest rate to maturity or for a specific term with respect to such Obligations, the interest rate on such Obligations shall be assumed to be the synthetic fixed interest rate specified in such Interest Rate Swap Agreement for such term;

(F) with respect to any Obligations bearing interest, or expected to bear interest, at a fixed interest rate for which an Interest Rate Swap Agreement is in place providing for a net variable interest rate with respect to such Obligations for a specific term, the interest rate on such Obligations shall be assumed to be equal for such term to the sum of (1) the fixed interest rate or rates to be paid on the Obligations, minus (2) the fixed interest rate receivable by the City under such Interest Rate Swap Agreement, plus (3) the average interest rate of the index on which the Interest Rate Swap Agreement is based, as identified in a Certificate of the City delivered to the Trustee, or, if not based on an identifiable index, then the average of the SIFMA Swap Index, in each case, over the five years preceding the date of calculation or such higher rate as shall be specified in a Certificate of the City delivered to the Trustee;

(G) if any Obligations feature an option, on the part of the owners or a requirement under the terms of such Obligations, to tender all or a portion of such Obligations to the City, the Trustee, or other fiduciary or agent, and to purchase such Obligations or portion thereof if properly presented, then for purposes of determining the amounts due in any Fiscal Year on such Obligations, the options or obligations of the owners of such Obligations to tender the same for purchase or payment shall be ignored;

(H) payments on Obligations shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor, and interest payments shall be excluded to the extent that such interest payments are (1) to be paid from the proceeds of Obligations, including any investment earnings thereon, held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or (2) paid or expected to be paid from Subsidy Payments;

(I) with respect to Obligations for which a reserve fund (including a Reserve Fund) is in place, the calculation of Debt Service for such Obligations for any Fiscal Year shall be reduced by the

amount of investment earnings on amounts on deposit in such reserve fund used or expected to be used to pay Debt Service on such Obligations during such Fiscal Year;

(J) with respect to Obligations for which a reserve fund (including a Reserve Fund) is in place, the amount on deposit in such reserve fund on any date of calculation of Debt Service shall be deducted from the amount due on the final maturity or due date of such Obligations if such amount on deposit in such reserve fund would be released at such maturity or due date and, to the extent the amount on deposit in such reserve fund is in excess of the amount due on the final maturity or due date of such Obligations, such excess shall be applied to the full amount due in each preceding Fiscal Year, in inverse order, until such amount on deposit in such reserve fund is exhausted;

(K) Reimbursement Obligations or potential Reimbursement Obligations shall be ignored; and

(L) net payments payable by the City on any Interest Rate Swap Agreement shall be ignored to the extent such Interest Rate Swap Agreement is used or expected to be used to determine the interest on Obligations under clauses (E) or (F) of this definition.

“Event of Default” means any of the events specified in the Indenture and described under the caption “Events of Default and Remedies – Events of Default” below.

“Fee and Expense Obligations” means any obligations of the City that constitute fees, expenses, and similar charges in connection with any Bonds, Parity Obligations, or Subordinate Obligations (including fees and expenses and termination payments on Interest Rate Swap Agreements) issued or incurred in accordance with the Indenture, which obligations are secured under the Indenture by the pledge made pursuant to the Indenture and payable from the Revenue Fund with the priority set forth in the Indenture.

“Fees and Expenses Fund” means the fund by that name established pursuant to the Indenture.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the City, which designation shall be provided to the Trustee in a Certificate delivered by the City.

“Fitch” means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Include” and its variants are terms of enlargement rather than of limitation. For example, “includes” means “includes but not limited to,” and “including” means “including but not limited to.”

“Indenture” means the Indenture, dated as of March 1, 2013, between the Trustee and the City, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof.

“Insurance” means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

“Insurer” means any provider of Insurance with respect to a Series of Bonds.

“Interest Fund” means the fund by that name established pursuant to the Indenture.

“Interest Payment Date,” with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Interest Rate Swap Agreement” or “Swap” means an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement, or security, however denominated, entered into between the City and a Counterparty, in connection with or incidental to the issuance, incurrence, or carrying of Obligations, including an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement, or security entered into in advance of the issuance or incurrence of Obligations.

“Interest Subsidy Bonds” means Bonds for which the City is entitled to receive Subsidy Payments.

“Investment Securities” means any of the following:

(A) The following obligations may be used as Investment Securities for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash;

(2) Direct obligations of the Department of the Treasury of the United States of America;

(3) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA’s)
- Federal Housing Administration
- Federal Financing Bank; and

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other government sponsored agencies approved by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

(B) The following obligations may be used as Investment Securities for all purposes other than defeasance investments in refunding escrow accounts:

(1) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) that have a rating (ratings on holding companies are not considered as the rating of the banks) on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and mature no more than 365 days after the date of purchase;

(2) Commercial paper that is rated at the time of purchase in the single highest classification, "A-1" by Standard & Poor's or "P-1" by Moody's, and matures not more than 270 days after the date of purchase;

(3) Investments in a money market fund rated at the time of investment "AAAm" or "AAAm-G" or better by Standard & Poor's, including funds for which the Trustee or an affiliate provides investment advice or other services;

(4) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated at the time of purchase, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Standard & Poor's and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(5) General obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state with a rating, at the time of purchase, of "Baa1/BBB+" or higher by both Moody's and Standard & Poor's;

(6) Any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured, and unguaranteed debt obligations or a claims paying ability rated (or the parent company or guarantor of which is rated) in either of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(7) The Local Agency Investment Fund managed by the Treasurer of the State of California, as referred to in Section 16429.1 of the Government Code of the State, but only to the extent such investment is registered in the name of the Trustee;

(8) Shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53601 of Title 5 Division 2, Chapter 4 of the Government Code of the State, as it may be amended;

(9) Investments in the City of Sacramento Investment Pool A; and

(10) Any other forms of investments, that relate solely to a Series of Bonds, as specified in a Supplemental Indenture providing for the issuance of such Series of Bonds.

“Letter of Credit Fund” means a fund by that name established to hold funds that are drawn on Credit Enhancement provided in the form of a letter of credit and that are to be applied to pay the principal of or interest on a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement, or similar liquidity facility that secures, enhances, or guarantees the payment of purchase price of such Series of Bonds under certain conditions specified therein, issued by a commercial bank, insurance company, pension fund, or other institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms. In the event of the delivery or availability of an Alternate Liquidity Facility, “Liquidity Facility” means such Alternate Liquidity Facility.

“Liquidity Facility Bonds” means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility. If designated as such in a Supplemental Indenture, Bonds purchased with moneys drawn under Credit Enhancement in the form of a letter of credit or other similar instrument shall be treated as Liquidity Facility Bonds.

“Liquidity Facility Provider” means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund, or other institution issuing (or having primary obligation, or acting as agent for the institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

“Liquidity Facility Rate” means, with respect to a Series of Bonds, the interest rate per annum, if any, specified in the Liquidity Facility delivered in connection with such Series of Bonds as applicable to Liquidity Facility Bonds.

“Maintenance and Operation Costs” means costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles used by the City consistently applied, including the expenses of maintenance, repair, billing and collection, and other expenses incurred to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City, salaries and wages of employees, payments to employees retirement systems, overhead, taxes (if any), fees of auditors, accountants, attorneys, engineers, or other consultants, and insurance premiums, in each case as attributable to the Water System, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water System that under

generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (4) charges for the payment of Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations.

“Mandatory Sinking Account Payment” means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the City in a Sinking Account for the payment of Term Bonds of such Series and maturity.

“Maturity Date” means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Maximum Annual Debt Service” means, with respect to any Obligations and as of any date of calculation, the maximum amount of Annual Debt Service becoming due and payable on such Obligations in any Fiscal Year during the period commencing with the Fiscal Year in which such calculation is made and terminating with the last Fiscal Year in which any Debt Service for such Obligations is due.

“Maximum Rate” means, with respect to any Bonds, the lesser of (1) the rate designated as the Maximum Rate for such Bonds in the Supplemental Indenture with respect to such Bonds and (2) the maximum rate of interest that may legally be paid on the Bonds from time to time.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Notice Parties” means, as and to the extent applicable, the City, the Trustee, any Credit Enhancement Provider for the Series of Bonds to which the notice being given relates, any Liquidity Provider for the Series of Bonds to which the notice being given relates, and any other party designated as a “Notice Party” for a Series of Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds.

“Obligations” means any Bonds, any Parity Obligations, or any Subordinate Obligations, as applicable.

“One Month USD LIBOR Rate” means the rate for deposits in U.S. dollars for a one-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time on the date of determination of such rate, except that, if such rate does not appear on such page on such date, then One Month USD LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time on such date to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the “Reference Banks”) selected by the City (provided, however, that the City may appoint an agent to identify such Reference Banks). The City or its agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One Month USD LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if

three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the City or its agent, at approximately 11:00 a.m., New York City time on such date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity. If none of the banks in New York City selected by the City or its agent is then quoting rates for such loans, then the One Month USD LIBOR Rate for the ensuing interest period will mean the One Month USD LIBOR Rate most recently in effect.

“Opinion of Bond Counsel” means a written opinion of a law firm of national standing in the field of public finance selected by the City.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture described below under the caption “Disqualified Bonds”) theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the provisions of the Indenture described below under the caption “Defeasance – Discharge of Liability on Bonds,” including Bonds (or portions of Bonds) referred to the Indenture described below under the caption “Money Held for Particular Bonds;” and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall, to the extent of such payment, remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the City, and the pledge of the Trust Estate and all covenants, agreements, and other obligations of the City to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider, and such Credit Enhancement Provider shall, to the extent of such payment, be subrogated to the rights of such Holders.

“Parity Obligations” means (1) the City’s obligations with respect to the ARRA Loan, (2) any obligation of the City (excluding fees and expenses and termination payments on Interest Rate Swap Agreements, which fees and expenses and termination payments shall be secured as Fee and Expense Obligations) incurred in accordance with the Indenture, and (3) any obligation of the City to pay the Rebate Requirement, all of which obligations are secured under the Indenture and payable from the Revenue Fund with the priority set forth in the Indenture.

“Participating Bonds” means the Bonds of each Series which, pursuant to the terms of the Supplemental Indenture relating to such Series, are secured by amounts in the Bond Reserve Fund.

“Participating Underwriter” means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Person” means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof, or any other entity, whether or not a legal entity.

“Principal Fund” means the fund by that name established pursuant to the Indenture.

“Principal Payment Date” means any date any amount of Bond Obligation becomes due and payable or any Mandatory Sinking Account Payments are required to be paid.

“Project Fund” means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the particular projects being financed with the proceeds of such Series of Bonds.

“Proportionate Basis,” when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of a portion of Bonds, “Proportionate Basis” shall have the same meaning set forth above except that “pay” or purchase” shall be substituted for “redeem” or “redemption” and “paid” or “purchased” shall be substituted for “redeemed.”

“Purchase Fund” means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Rate Stabilization Fund” means the fund referred to by that name in the Indenture.

“Rating Agency” means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody’s, and Standard & Poor’s, but in each instance only so long as each such Rating Agency maintains a rating on such Series of Bonds at the Request of the City.

“Rating Category” means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign, or other modifier; and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Rebate Requirement” means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

“Redemption Fund” means the fund by that name established pursuant to the Indenture.

“Redemption Price” means, with respect to any Bond (or portion thereof), the Bond Obligation of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Refunding Bonds” means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture described below under the caption “Issuance of Additional Bonds and Other Obligations – Issuance of Refunding Bonds.”

“Reimbursement Obligations” means any obligation of the City to repay, from System Net Revenues, amounts provided by a Credit Enhancement Provider under a Credit Enhancement or by Liquidity Facility Provider under a Liquidity Facility as credit or liquidity support for a Series of Bonds



or by any similar credit provider or liquidity provider as credit or liquidity support for Parity Obligations or Subordinate Obligations.

“Repository” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission or any successor agency thereto to receive reports and notices pursuant to Rule 15c2-12.

“Reserve Facility” means any insurance policy, letter of credit, or surety bond issued by a Reserve Facility Provider, meeting the requirements of the Indenture described below under the caption “Establishment and Application of Funds and Accounts – Reserve Funds,” and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

“Reserve Facility Provider” means any issuer of a Reserve Facility.

“Reserve Fund” means the Bond Reserve Fund or a Bond Series Reserve Fund, as the context requires.

“Revenue Bond Index” means the Revenue Bond Index published from time to time in *The Bond Buyer*.

“Revenue Fund” means the fund by that name established pursuant to the Indenture.

“Rule 15c2-12” means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

“Securities Depository” means The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depository, or no such depositories, as the City may designate in a Request of the City delivered to the Trustee.

“Serial Bonds” means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

“Series,” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption, and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as herein provided.

“Series 2013 Bonds” means the City of Sacramento Water Revenue Bonds, Series 2013 authorized by, and at any time Outstanding pursuant to, the Indenture.

“SIFMA Swap Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) (“SIFMA”) or by any Person acting in cooperation with or under the sponsorship of SIFMA and effective from such date.

“Sinking Account” means an account by that name established in the Principal Fund pursuant to the Indenture for the payment of Term Bonds.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” or “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“State” means the State of California.

“Subordinate Obligations” means any obligations (excluding fees and expenses and termination payments on Interest Rate Swap Agreements, which fees and expenses and termination payments shall be secured as Fee and Expense Obligations) of the City issued or incurred in accordance with the Indenture, which obligations are secured under the Indenture and payable from the Revenue Fund with the priority set forth in the Indenture.

“Subordinate Obligations Fund” means the fund by that name established pursuant to the Indenture.

“Subsidy Payments” means payments with respect to the interest due on a Series of Bonds made by the United States Treasury to the Trustee pursuant to Section 54AA of the Code, Section 6431 of the Code, or Section 1400U-2 of the Code or any successor to or extension or replacement of any of such provisions of the Code, or any provisions of the Code that create substantially similar direct-pay subsidy programs to such programs created pursuant to Section 54AA, Section 6431, or Section 1400U-2 of the Code.

“Supplemental Indenture” means any indenture hereafter duly executed and delivered, supplementing, modifying, or amending the Indenture, but only if and to the extent that such supplemental indenture is authorized under the Indenture.

“Swap Revenues” means all amounts, including termination payments, owed or paid to the City by any Counterparty under any Interest Rate Swap Agreement after offset for amounts owed or paid by the City to such Counterparty under such Interest Rate Swap Agreement.

“System Net Revenues” means System Revenues remaining after payment of Maintenance and Operation Costs then due and payable.

“System Revenues” means all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Water System determined in accordance with generally accepted accounting principles, consistently applied, including (1) all income, rents, rates, fees, connection fees, water system development fees, charges, standby charges, capacity charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, sold, furnished, or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law; (2) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Water System; (3) allocations from the Rate Stabilization Fund to the Water Fund; and (4) grants for maintenance and operations to the extent that the restrictions for the use thereof do not preclude them from being applied to the payment of Maintenance and Operation Costs or the Obligations; provided, however, that System Revenues shall exclude in all cases (a) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City and (b) any proceeds of the voter-approved general tax imposed on the gross revenues of the Water System from user fees and charges, which

proceeds are paid into the City's General Fund pursuant to Section 3.20.010 of the Sacramento City Code. As provided in the Indenture, the amount of available System Revenues shall be reduced by the amount of System Revenues allocated to the Rate Stabilization Fund.

"Tax Certificate" means each Tax Certificate delivered by the City at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Term Bonds" means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"Trust Estate" shall have the meaning given to such term in the provisions of the Indenture described below under Water Fund; Revenue Fund; Pledge of Trust Estate.

"Trustee" means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

"Variable Rate Indebtedness" means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

"Water Fund" means the existing fund by that name established and maintained by the City on its books.

"Water Service" means the water services made available or provided by the Water System.

"Water System" means the whole and each and every part of the properties, works, and facilities of the water system of the City including the portion thereof existing on the date hereof and including all additions, betterments, extensions, replacements, and improvements to such system or any part thereof and hereafter acquired or constructed.

### **Water Fund; Revenue Fund; Pledge of Trust Estate**

So long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or any other amounts payable hereunder remain unpaid, the City covenants and agrees that all System Revenues received by it shall be accounted for when and as received in the Water Fund which fund the City covenants and agrees to maintain on the City's books so long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations, or any other amounts payable hereunder remain unpaid, and all money accounted for within the Water Fund shall be applied and used only as provided herein and the Water Fund shall be accounted for separate and apart from all other moneys, funds, or other resources of the City. The City may, to the extent provided in the Indenture, allocate amounts accounted for in the Water Fund to the Rate Stabilization Fund or allocate amounts accounted for in the Rate Stabilization Fund to the Water Fund. From amounts accounted for within the Water Fund, the City shall pay, in the following order of priority: first, to the applicable payee or as otherwise required, all Maintenance and Operation Costs (including amounts reasonably required by the City to be set aside in contingency reserves for Maintenance and Operation Costs, the payment of which is not immediately required) as they become due and payable; and second, to the Trustee on or before each date the Trustee is required to make any transfer or deposit pursuant to the Indenture, such amount as is required for the Trustee to make the transfers and deposits required to be made by the Trustee on such date by the Indenture, including all amounts of principal, purchase price, interest, and

Redemption Price then due and payable with respect to the Bonds. If (a) no Event of Default has occurred and is continuing, (b) all Maintenance and Operation Costs are being and have been paid and are then current, and (c) all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid, then all money accounted for in the Water Fund, and the proceeds thereof, will be available for any lawful purpose of the City.

As security for the payment of all amounts owing on the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations, in the amounts and with the priorities set forth in the Indenture and in the Bonds, the City irrevocably pledges to the Trustee: (a) all System Net Revenues collected after the date of issuance of the Series 2013 Bonds; (b) all funds and accounts held by the Trustee under the Indenture or any Supplemental Indenture (other than the Rebate Fund, all Letter of Credit Funds, and all Purchase Funds) and all investments, money, instruments, and other property credited thereto or on deposit therein; (c) all investment earnings on amounts held by the Trustee in the funds and accounts under the Indenture, excluding amounts deposited in the Rebate Fund, any Letter of Credit Fund, and any Purchase Fund; (d) all Swap Revenues; (e) all Subsidy Payments; and (f) all proceeds of the foregoing whether now existing or hereafter arising (clauses (a) through (f) above collectively, the "Trust Estate"), subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. This collateral shall immediately be subject to this pledge, and this pledge shall constitute a lien and security interest which shall immediately attach to the collateral and be effective, binding, and enforceable against the City and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of this pledge and without the need for any physical delivery, recordation, filing or further act. All System Net Revenues spent by the City for a lawful purpose as described in the last sentence of the immediately preceding paragraph shall no longer be subject to the lien of the Indenture.

All Bonds and Parity Obligations shall be of equal rank with each other without preference, priority, or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations. All Subordinate Obligations shall be of equal rank with each other without preference, priority, or distinction of any Subordinate Obligations over any other Subordinate Obligations. All Fee and Expense Obligations shall be of equal rank with each other without preference, priority, or distinction of any Fee and Expense Obligations over any other Fee and Expense Obligations.

The Trustee shall deposit in a trust fund, designated as the "Revenue Fund," which fund the Trustee shall establish and maintain, all amounts received by it from the City pursuant to the Indenture, when and as received by the Trustee. Subject to the Indenture, all Swap Revenues and Subsidy Payments received by the Trustee shall also be deposited in the Revenue Fund.

The Trustee shall hold all funds and accounts established under the Indenture and required to be held by the Trustee (other than the Rebate Fund, all Letter of Credit Funds, and all Purchase Funds), and all investments, money, instruments, and other property credited thereto or on deposit therein, in trust for the benefit of the holders of the Bonds, the Parity Obligations, the Subordinate Obligations, and the Fee and Expense Obligations as their interests may appear under the Indenture. Such property shall be applied solely as provided in the Indenture.

The Bonds are limited obligations of the City and are payable as to both principal or purchase price and interest, and any premium upon redemption thereof, exclusively from the Trust Estate pledged under the Indenture and as provided in the Indenture.

## **Allocation of Moneys in the Revenue Fund**

So long as any Bonds are Outstanding or Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or any other amounts payable under the Indenture remain unpaid, the Trustee shall set aside on each date set forth in the Indenture and described below, the moneys in the Revenue Fund in the following funds (each of which the Trustee shall establish, maintain, and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations) in the following amounts and in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of moneys in the Revenue Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) the Trustee may set aside or transfer, on a parity with such deposits, amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations); (ii) payments on Interest Rate Swap Agreements that constitute Parity Obligations shall be payable from the Interest Fund and the required deposits below shall be adjusted to include payments on such Interest Rate Swap Agreements in accordance with the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations); and (iii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys:

First Priority – Interest Fund. No later than the Business Day prior to each Interest Payment Date, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to the aggregate amount of interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest on the Interest Payment Date). No deposit need be made into the Interest Fund with respect to any Bonds if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Date, and on each Interest Payment Date any excess amounts in the Interest Fund not needed to pay interest on such Interest Payment Date shall be transferred to the Revenue Fund (excepting any moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Date).

If Liquidity Facility Bonds are outstanding at the time of any required deposits to the Interest Fund, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

Second Priority – Principal Fund; Sinking Accounts. No later than the Business Day prior to each Principal Payment Date, the Trustee shall set aside in the Principal Fund an amount equal to (a) the aggregate amount of Bond Obligation becoming due and payable on such Principal Payment Date on the Outstanding Serial Bonds of all Series plus (b) the aggregate of the Mandatory Sinking Account Payments to be paid on such Principal Payment Date into the Sinking Accounts for the Term Bonds of all Series. If, however, the City certifies to the Trustee that any principal payments are expected to be paid from amounts on deposit in a Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Reserve Fund upon such payment, no amounts need be set aside towards such principal

to be so refunded or paid. All of the aforesaid deposits made in connection with Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that the moneys in the Revenue Fund shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any Principal Payment Date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series on such Principal Payment Date plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as the amount of Bond Obligation on such Serial Bonds and the Bond Obligation of and redemption premium on such Term Bonds shall bear to each other. In the event that the moneys in the Revenue Fund shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account on such date bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts on such date.

No deposit need be made into the Principal Fund on any date so long as there shall be in such fund (a) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms on the immediately succeeding Principal Payment Date plus (b) the aggregate of all Mandatory Sinking Account Payments required to be made on such Principal Payment Date. On each Principal Payment Date or as soon as practicable thereafter, any excess amounts in the Principal Fund not needed to pay Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date shall be transferred to the Revenue Fund.

If any Liquidity Facility Bonds are outstanding at the time of any required deposits to the Principal Fund, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates of any amortization or redemptions.

Third Priority – Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, the Trustee shall make such deposit to such Reserve Fund, as is required pursuant to the provisions of the Indenture described below under the caption “Establishment and Application of Funds and Accounts – Reserve Funds,” with each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Fourth Priority – Subordinate Obligations Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Subordinate Obligations Fund.” After the transfers to the Interest Fund, the Principal Fund, and the Reserve Funds described above that are required to be made on a given date have been made, the Trustee shall deposit in the Subordinate Obligations Fund such amount as the City shall specify in writing is necessary to make payments due and payable on such date with respect to Subordinate Obligations then outstanding.

Fifth Priority – Fees and Expenses Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Fees and Expenses Fund.” After the transfers to the Interest Fund, the Principal Fund, the Reserve Funds, and the Subordinate Obligation Fund described above that are required to be made on a given date have been made, the Trustee shall deposit in the Fees and Expenses Fund the amounts necessary for payment of Fee and Expense Obligations owing on such date.

If no Event of Default has occurred and is continuing and all payments then due and payable by the City pursuant to the Indenture have been paid, then, except as the City shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, amounts remaining in the Revenue Fund after all transfers to the Interest Fund, the Principal Fund, the Reserve Funds, the Subordinate Obligations Fund, and the Fees and Expenses Fund currently required to be made and the proceeds thereof, shall be transferred to the City on the same Business Day or as soon as practicable thereafter. The City may use and apply such amounts when received by it for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

### **Establishment and Application of Funds and Accounts**

Each of the funds and accounts described below is established by the Indenture.

Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purposes of (A) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) or reimbursing the Credit Enhancement Provider for a drawing for such purposes made on a Credit Enhancement that is an irrevocable, direct-pay letter of credit; and (B) making periodic payments on Interest Rate Swap Agreements, as provided in the Indenture. If amounts on deposit in the Interest Fund shall not be sufficient to pay in full all amounts payable from the Interest Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Interest Fund and payments then due).

Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided herein, or for reimbursing the Credit Provider for a drawing for such purposes made on a Credit Enhancement that is an irrevocable, direct-pay letter of credit. If amounts on deposit in the Principal Fund shall not be sufficient to pay in full all amounts payable from the Principal Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Principal Fund and payments then due).

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the “\_\_\_\_\_ Sinking Account,” inserting therein the Series and maturity designation of such Bonds. Not later than the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding the Mandatory Sinking Account Payment date, the Trustee has purchased Term

Bonds of such Series and maturity with moneys in such Sinking Account, or, during that period and prior to giving notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to the Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce the Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to this subsection shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the City by the Trustee. Any amounts remaining in a Sinking Account on September 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as practicable to the Revenue Fund. All Term Bonds purchased from a Sinking Account or deposited by the City with the Trustee in a 12-month period ending September 1 (or in a six-month period ending March 1 or September 1 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next March 1 or September 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City.

Reserve Funds. The Bond Reserve Fund shall secure all Participating Bonds and the City shall specify in the Supplemental Indenture relating to such Series of Bonds whether the Bonds of such Series constitute Participating Bonds. The City may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Series Reserve Fund as security for a Series of Bonds. Any Bond Series Reserve Fund so established by the City shall secure one or more Series of Bonds as the City shall determine and shall specify in the Supplemental Indenture establishing such Bond Series Reserve Fund. The Bond Reserve Fund and any Bond Series Reserve Fund established by the City shall be held by the Trustee and shall comply with the requirements of the Indenture described below.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in a Reserve Fund (which, subject to the other provisions of the Indenture, shall be transferred by the Trustee to the City), or in substitution of any Reserve Facility that is part of the Bond Reserve Requirement relating to one or more Series of Bonds, the City may, at any time and from time to time, deliver to the Trustee an irrevocable, direct-pay letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, that, together with cash, Investment Securities, or other Reserve Facilities (as described in the next paragraph), then on deposit in a Reserve Fund, will equal the applicable Bond Reserve Requirement. Such letter of credit shall have a term no less than three years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in the Indenture as described in this paragraph. At least one year prior to the stated expiration of such letter of credit, the City shall deliver one of the following to the Trustee; (1) a replacement letter of credit, (2) an extension of the letter of credit for at least one additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained; or (3) a Reserve Facility satisfying the requirements of the Indenture as described in the next paragraph. Upon delivery of such replacement letter of credit, extension or replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the Order of the City. If the City shall fail to deposit a replacement letter of credit, extension or replacement Reserve Facility with the Trustee, the City shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the



applicable Bond Reserve Requirement will be on deposit in the related Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the applicable Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in a Reserve Fund one week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Reserve Fund (which shall be transferred by the Trustee to the City) or in substitution of any Reserve Facility that is part of a Bond Reserve Requirement for any Bonds, the City may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy in an amount that, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Reserve Fund, is no less than the applicable Bond Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations are rated at the time of delivery in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained and shall be non-cancellable. In the event that such surety bond or insurance policy for any reason lapses or expires, the City shall immediately implement (1) or (3) of the preceding paragraph or make the 12 equal monthly deposits to the related Reserve Fund so that such Reserve Fund is replenished to the required level after a year.

Subject to the Indenture, all amounts in the Reserve Fund (including all amounts that may be obtained from a Reserve Facility on deposit in the Reserve Fund) shall be used and withdrawn by the Trustee, as follows: (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which the Reserve Fund relates; or (ii) together with any other moneys available therefor, (a) for the payment or redemption of all Bonds then Outstanding of the Series to which the Reserve Fund relates, or (b) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which the Reserve Fund relates, provided, however, that if funds on deposit in the Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which the Reserve Fund relates, the amount on deposit in the Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption, or (c) for the payment of the final principal and interest payment of the Bonds of such Series.

Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in the Reserve Fund prior to applying amounts held in the form of Reserve Facilities in the Reserve Fund. If the Trustee has applied all cash and Investment Securities and more than one Reserve Facility is being held on deposit in the Reserve Fund, then the Trustee shall, on a pro rata basis with respect to the portion of such Reserve Fund held in the form of Reserve Facilities (calculated by reference to the maximum amount of each such Reserve Facility), draw under each Reserve Facility issued with respect to such Reserve Fund, in a timely manner, and pursuant to the terms of such Reserve Facility, to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of, and if so provided by, the terms of the Reserve Facility, if any, enhancing the Bonds of such Series, shall so notify the City thereof and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal and interest so recovered.

The Trustee shall notify the City of any deficiency in the Reserve Fund (1) due to a withdrawal from the Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which the Reserve Fund relates or (2) resulting from a valuation of Investment Securities held on deposit in the Reserve Fund pursuant to the Indenture and shall request that the City replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility that is part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the City shall transfer to the Trustee, for deposit in the applicable Reserve Fund, System Net Revenues in an amount equal to one-twelfth of the aggregate amount of each unreplenished prior withdrawal from the Reserve Fund or decrease resulting from a valuation pursuant to the Indenture and shall further transfer to the Trustee, for transfer by the Trustee to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds of the Series to which the Reserve Fund relates, System Net Revenues in an amount equal to one-twelfth of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the System Net Revenues from the City each month, commencing with the month following the City's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in the Reserve Fund is at least equal to the applicable Bond Reserve Requirement.

Unless the City shall otherwise direct in writing, any amounts in the Reserve Fund in excess of the applicable Bond Reserve Requirement shall be transferred by the Trustee to the Revenue Fund on the Business Day following September 1 of each year; provided that such amounts shall be transferred only from available sources held in the Reserve Fund other than any Reserve Facility. In addition, amounts on deposit in the Reserve Fund shall be transferred by the Trustee to the City (1) upon the defeasance, retirement or refunding of Bonds of the Series to which such Reserve Fund relates provided that such transfer shall not be made unless (a) immediately thereafter all of the Bonds to which the Reserve Fund relates shall be deemed to have been paid pursuant to the defeasance provisions of the Indenture or (b) the amount remaining in the Reserve Fund after such transfer shall not be less than the applicable Bond Reserve Requirement; or (2) upon the replacement of cash on deposit in the Reserve Fund with one or more Reserve Facilities in accordance with the Indenture as described in the second and third paragraphs of this section, subject in the case of both clauses (1) and (2) to the requirements of the applicable Tax Certificate.

Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be used and withdrawn by the Trustee to pay Subordinate Obligations as such amounts become due and payable.

Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses, and similar charges owed by the City in connection with the Bonds or any Parity Obligations or Subordinate Obligations (including termination payments on any Interest Rate Swap Agreement) as such amounts shall become due and payable.

Redemption Fund. All moneys deposited by the City with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the City in a Request to the Trustee, in the manner, at the times, and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price

(exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the City. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the applicable Tax Certificate.

### **Payment Provisions Applicable to Interest Rate Swap Agreements**

Each Interest Rate Swap Agreement shall require that all payments by the Counterparty thereunder be paid directly to the Trustee. All such payments shall be deposited by the Trustee in the Revenue Fund.

Payments on Interest Rate Swap Agreements that are payable as Parity Obligations shall be payable by the Trustee to the Counterparty from the Interest Fund.

Payments on Interest Rate Swap Agreements that are payable as Subordinate Obligations shall be payable by the Trustee to the Counterparty from the Subordinate Obligations Fund.

Payments on Interest Rate Swap Agreements that are payable as Fee and Expense Obligations shall be payable by the Trustee to the Counterparty from the Fees and Expenses Fund.

The City may apply termination payments received from any Counterparty to the defeasance or redemption of all or a portion of the Obligations then outstanding.

### **Investment in Funds and Accounts**

All moneys in any of the funds and accounts held by the Trustee or established pursuant to the Indenture (including any Project Fund held by the Trustee) shall be invested, as directed by the City, solely in Investment Securities. Moneys in any Reserve Fund shall be invested in Investment Securities maturing in not more than five years or having a put option or demand option providing funds upon request for the purpose of payment of the Bonds to which such Reserve Fund relates as provided herein. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds or a Request of the City delivered to the Trustee, all interest, profits, and other income received from the investment of moneys in (1) the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (2) the Reserve Fund shall be retained in such Reserve Fund to the extent of any deficiency therein, and otherwise shall , at the direction of the City, be transferred to the Project Fund or Project Funds established in connection with the Series of Bonds to which the Reserve Fund relates, if any, or to the Revenue Fund; (3) a Costs of Issuance Fund shall be retained in such Costs of Issuance Fund until such time as such Costs of Issuance Fund is closed, and any earnings received on a Costs of Issuance Fund subsequent to the closure of such Costs of Issuance Fund

shall be transferred to the Revenue Fund; (4) a Project Fund shall be retained in such Project Fund, unless the City shall direct that such earnings be transferred to the Rebate Fund or such other fund as may be specified by the City; (5) the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; (6) any Letter of Credit Fund or Purchase Fund shall be retained in such Letter of Credit Fund or Purchase Fund, as applicable; and (7) any other fund or account shall be transferred to the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

### **Issuance of Additional Bonds and Other Obligations**

Issuance of Additional Bonds. Subsequent to the issuance of the Series 2013 Bonds, the City may by Supplemental Indenture establish one or more additional Series of Bonds that, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, are payable from the Trust Estate and secured by the pledge made under the Indenture equally and ratably with the Series 2013 Bonds, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the City, but only, with respect to each additional Series of Bonds issued subsequent to the Series 2013 Bonds issued under the Indenture, upon compliance by the City with the provisions of the Indenture and subject to the specific conditions set forth below, each of which is made a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing (or the issuance of such additional Series of Bonds will cure any such Event of Default).

(B) The Supplemental Indenture providing for the issuance of such Series shall state whether the Bonds of such Series are Participating Bonds. If the Bonds of such Series are Participating Bonds, the Supplemental Indenture shall require a deposit of the amount, if any, necessary to increase the amount on deposit in the Bond Reserve Fund to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Participating Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Subject to the provisions of the Indenture described above under the caption “Establishment and Application of Funds and Accounts – Reserve Funds,” if a Supplemental Indenture providing for the issuance of such Series shall require either (1) the establishment of a Bond Series Reserve Fund to provide additional security for such Series of Bonds, or (2) that the balance on deposit in an existing Bond Series Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Series Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, then the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. The deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the City or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The City shall deliver to the Trustee a Certificate of the City certifying either of the following:

(1) the System Net Revenues for either the most recent Fiscal Year for which audited financial statements are available or for any other period of 12 consecutive months (selected by the City) during the 18 months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to the Coverage Requirement for the most recently completed Fiscal Year, including in the calculation of the Coverage Requirement for this purpose the Average Annual Debt Service for the additional Series of Bonds to be issued. For the purpose of providing such Certificate, the City may adjust the System Net Revenues for such Fiscal Year or 12-month period, as the case may be, to reflect—

(a) an allowance for System Net Revenues that would have been derived from each new connection to the Water System made prior to the issuance of such additional Series of Bonds but which was not in existence, during all or any part of such Fiscal Year or 12-month period under consideration, in an amount equal to 90% of the estimated additional System Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12-month period, and

(b) an allowance for System Net Revenues that would have been derived from any increase in the rates, fees, and charges fixed and prescribed for Water Service which became effective prior to the issuance of such additional Series of Bonds but which was not in effect, during all or any part of such Fiscal Year or 12-month period, in an amount equal to the estimated additional System Net Revenues that would have been derived from such increase in rates, fees, and charges if it had been in effect prior to the beginning of such Fiscal Year or 12-month period; or

(2) the estimated System Net Revenues for each of the five Fiscal Years next following the earlier of (i) the end of the period during which interest on the additional Series of Bonds is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the additional Series of Bonds is to be issued, or (ii) the date on which substantially all projects financed with the proceeds of any Bonds, including the additional Series of Bonds to be issued, are expected to commence operations will be at least equal to the Coverage Requirement for each such Fiscal Year. For the purpose of providing such Certificate, the City may adjust the System Net Revenues to reflect—

(a) an allowance for System Net Revenues that are estimated to be derived from any increase in the rates, fees, and charges for Water Service which have been adopted by the City and which will be in effect during all or any portion of the period for which such estimates are provided; and

(b) an allowance for System Net Revenues that are estimated to be derived from new customers of the Water System anticipated to be served by any additions or improvements to or replacements or extensions of the Water System reasonably expected to become available during all or any portion of the period for which such estimates are provided in an amount equal to 90% of the additional System Net Revenues that are estimated to be derived from such customers.

For purposes of any computation pursuant to the paragraph above, with respect to Maintenance and Operation Costs, the City shall use such assumptions (which shall be set forth in the Certificate) as the City believes to be reasonable, taking into account (i) historical Maintenance and Operation Costs; (ii) Maintenance and Operation Costs associated with the additions or improvements to or replacements or extensions of the Water System to be financed with the proceeds of such additional Series of Bonds

and any other new additions or improvements to or extensions of the Water System during any period for which estimates are provided; and (iii) such other factors, including inflation and changing operations or policies of the City, as the City believes to be appropriate.

Nothing in the Indenture contained shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the City without compliance with the provisions of the Indenture described in paragraph (D) of the previous section; provided that the Trustee shall have been provided with a Certificate of the City to the effect that the City has determined that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

- (1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;
- (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;
- (3) any termination payment owed by the City to a Counterparty after offset for any payments made to the City from such Counterparty under any Interest Rate Swap Agreement that was entered into in connection with the Bonds or Parity Obligations to be refunded;
- (4) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;
- (5) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and
- (6) funding the Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the Indenture, the City shall deliver each of the documents identified below to the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

- (1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the City.
- (2) A Certificate of the City certifying: (i) that the Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the City; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the City may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel the Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of the Refunding Bonds; and provided further that no provision of the Indenture shall be construed to require the redemption of Bonds prior to their respective maturity dates in connection with the refunding thereof.

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, will be valid and binding obligations of the City when duly executed by the City and authenticated and delivered by the Trustee.

Limitations on the Issuance of Obligations Payable from the Trust Estate; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations. So long as any of the Bonds are Outstanding, the City shall not issue or incur any obligations or securities payable in whole or in part from the Trust Estate, howsoever denominated, except as follows:

(A) Bonds authorized pursuant to the Indenture, as described above under the caption “Issuance of Additional Bonds.”

(B) Refunding Bonds authorized pursuant to the Indenture, as described above under the caption “Issuance of Refunding Bonds.”

(C) Parity Obligations, provided that all of the following conditions to the issuance or incurrence of such Parity Obligations are satisfied on or as of the date on which the City issues or incurs such Parity Obligations:

(1) No Event of Default shall have occurred and then be continuing (or the issuance of such Parity Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the City to that effect;

(2) The City shall deliver to the Trustee a Certificate of the City, which shall also set forth the computations upon which such Certificate is based, certifying one of the following:

(a) Such Parity Obligations are being issued or incurred for purposes of refunding as described in the Indenture, and the City has determined that the Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance or incurrence of such Parity Obligations is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance or incurrence of such Parity Obligations.

(b) The requirements listed under paragraph (D) of “Issuance of Additional Bonds” have been satisfied with respect to such Parity Obligations; provided, however that if the Parity Obligation being issued or incurred consists of an Interest Rate Swap Agreement that relates to a Series of Bonds or Parity Obligations (excluding fees and expenses and termination payments on such Interest Rate Swap Agreement), the City shall be deemed to have complied with the requirements of the Indenture as described in this section, with respect to such Interest

Rate Swap Agreement to the extent that the Series of Bonds or Parity Obligations to which the Interest Rate Swap Agreement relates (i) satisfies the requirements of the Indenture after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into concurrently with, or subsequent to, the issuance of such Bonds or Parity Obligations); or (ii) is expected to satisfy the requirements of the Indenture after taking into account the adjustment of Debt Service on such Series of Bonds or Parity Obligations to reflect the impact of the Interest Rate Swap Agreement (in the case of Interest Rate Swap Agreements entered into in advance of the issuance of such Bonds or Parity Obligations).

(c) Such Parity Obligations consist of Reimbursement Obligations relating to Bonds or Parity Obligations.

(3) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations.

(D) Subordinate Obligations, provided that both of the following conditions to issuance or incurrence of such Subordinate Obligations are satisfied on or as of the date on which the City issues or incurs such Subordinate Obligations:

(1) No Event of Default shall have occurred and then be continuing (or the issuance of such Subordinate Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the City to that effect,

(2) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Subordinate Obligations.

(E) Fee and Expense Obligations.

Nothing in the Indenture limits the ability of the City to issue or incur obligations payable from the Trust Estate or any portion thereof on a basis that is subordinate in both payment and lien priority to the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations.

Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations.  
The Maximum Annual Debt Service with respect to Bonds shall be determined no later than the date of delivery of such Bonds, and no earlier than the date of pricing or sale of such Bonds, utilizing the assumptions set forth in the definition of Debt Service. The Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service.

### **Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations**

The City shall designate additional Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations in a Supplemental Indenture, a Certificate of the City delivered to the Trustee, or in the instrument providing for the issuance or incurrence of such Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations, in each case concurrently with the issuance or incurrence of such Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations.



## **Certain Covenants of the City**

Punctual Payments. The City will punctually pay or cause to be paid the principal, purchase price, or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of the Trust Estate as provided in the Indenture. The City will punctually pay or cause to be paid all Parity Obligations, Subordinate Obligations and Fee and Expense Obligations.

Extension of Payment of Bonds. The City will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing described in this paragraph shall be deemed to limit the right of the City to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The City will not create any pledge, lien, or charge upon the Trust Estate or any portion thereof (including the System Net Revenues) having priority over or having parity with the lien the Indenture.

### Amount of Rates, Fees and Charges; Rate Stabilization Fund.

The City will at all times during each Fiscal Year fix, prescribe and collect rates, fees, and charges for the Water Service that are reasonably estimated to yield System Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. In fixing and prescribing such rates, fees, and charges, the City may make reasonable assumptions concerning contingencies that may affect System Revenues and the timing and amount of payments on Bonds, Parity Obligations, Subordinate Obligations, and any other obligations of the City that may become due and payable from System Revenues in such Fiscal Year. The City may make adjustments from time to time in such rates, fees, and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the System Net Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the requirements of the Indenture described in this paragraph.

The City may establish and maintain on the City's books a fund to be known as the "Rate Stabilization Fund." On the date of issuance of the Series 2013 Bonds, the City shall allocate \$3,250,000.00 of amounts then accounted for in the Water Fund to the Rate Stabilization Fund. As long as no Event of Default has occurred and is continuing and the City is in compliance with the provisions of the Indenture described in the immediately preceding paragraph, from time to time thereafter, the City may allocate to the Rate Stabilization Fund from current System Revenues such amounts as the City shall reasonably determine, and the amount of available current System Revenues shall be reduced by the amount so allocated. The City may only allocate amounts accounted for in the Rate Stabilization Fund to the Water Fund for inclusion in System Revenues for any Fiscal Year. Allocations to or from the Rate Stabilization Fund for each Fiscal Year shall be made before the end of the ninth month after the close of each Fiscal Year. All interest or other earnings upon amounts allocated to the Rate Stabilization Fund may be allocated to the Water Fund and accounted for as System Revenues.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the City to comply with the provisions of any Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least 25% aggregate principal amount of the applicable Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including reasonable fees and expenses of its attorneys), or any Holder or beneficial owner 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 the Indenture.

Maintenance and Operation of the Water System. The City will cause the Water System to be maintained in good repair, working order, and condition at all times and will continuously operate the Water System in an efficient and economical manner so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the City shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Water System. The City further covenants and agrees that it will at all times maintain and comply with all necessary permits and licenses issued by governmental authorities having jurisdiction unless the lawful requirement thereof is being contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Water System.

Payment of Taxes and Charges. The City will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments, or other governmental charges lawfully imposed upon the Water System or upon any part of its operations, or upon the System Revenues, when the same shall become due, as well as any lawful claim for labor, materials, or supplies which, if unpaid, might by law become a lien or charge upon the Water System or the System Revenues, or which might impair the security of the Bonds or any Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations. Notwithstanding the foregoing, the City need not pay or discharge any tax, assessment, or other governmental charge, or any claim for labor, material, or supplies, if and so long as the City shall contest the validity or application thereof in good faith.

Insurance. The City shall procure or provide and maintain, at all times while any of the Bonds remain Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid, insurance or self-insurance against such risks as are usually insured against by other providers of water services similar to those provided by the City through the Water System. Such insurance or self-insurance shall be in an adequate amount as to the risk insured against as determined by the City.

Any self-insurance shall be established in accordance with applicable law and shall include reserves or reinsurance in amounts the City determines to be adequate to protect against risks assumed under such self-insurance including any potential retained liability in the event of the termination of such self-insurance.

Sale of Water System. The Water System shall not be sold or otherwise disposed of as a whole or substantially as a whole.

Eminent Domain and Insurance Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds (excluding any rental interruption insurance) resulting from a casualty loss to the Water System, the net proceeds of any eminent domain award or insurance proceeds (excluding any rental interruption insurance) after paying all expenses (including attorney's fees) incurred in the collection of such award or proceeds shall, at the option of the City, be applied either to (A) in the following order of priority, the prepayment of (1) Outstanding Bonds and outstanding Parity Obligations in accordance with their respective terms (2) outstanding Subordinate Obligations, and (3) outstanding Fee and Expense Obligations or (B) to acquire and construct additions, betterments or improvements to the Water System.

Separate Utility Systems. The City may create, acquire, construct, finance, own, and operate one or more additional systems not constituting any part of the then-existing Water System for water service or other commodity or service, and the revenues of that separate utility system shall not be included in the System Revenues and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand such separate utility system. The System Net Revenues shall not be pledged by the City to the payment of any obligations of a separate utility system except in accordance with the other provisions of the Indenture.

Interest Rate Swap Agreements. Except for the obligation of the City to make regularly scheduled net swap payments under any Interest Rate Swap Agreement relating to Bonds or Parity Obligations, the City shall not secure any obligations of the City under any Interest Rate Swap Agreement as Parity Obligations, including any obligations of the City to make termination payments or to post collateral under any Interest Rate Swap Agreement.

Use of System Net Revenues for General Fund Lease Obligations. For so long as any Bonds remain Outstanding or any Parity Obligations, Subordinate Obligations, or Fee and Expense Obligations remain outstanding, the City shall not use System Net Revenues to pay, or reimburse the City's General Fund for the payment of, any existing or future General Fund lease obligation of the City unless (1) (a) no Event of Default has occurred and is continuing, (b) all Maintenance and Operation Costs are being and have been paid and are then current, and (c) all payments then due and payable with respect to the Outstanding Bonds and outstanding Parity Obligations, Subordinate Obligations and Fee and Expense Obligations have been paid; or (2) such payment or reimbursement has been secured as a Parity Obligation, Subordinate Obligation or Fee and Expense Obligation after compliance with the conditions of the Indenture.

Encumbrance of Water System Components By General Fund Lease Obligations. The City shall not encumber any components of the Water System under a City General Fund lease except for the components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease; provided, that nothing contained in this paragraph prohibits the City from (1) improving, making additions to, rehabilitating or replacing components of the Water System that are, as of the date of issuance of the Series 2013 Bonds, encumbered by a City General Fund lease; or (2) incurring additional obligations under any City General Fund lease that, as of the date of issuance of the Series 2013 Bonds, encumbers components of the Water System.

## Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration, or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the City shall fail to observe or perform any covenant, condition, agreement, or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (A) or (B) of this section, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such 60-day period and if the City has taken all action reasonably possible to remedy such failure within such 60-day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations, and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the City files a voluntary bankruptcy or commences any similar proceeding under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment, or decree declaring the City insolvent, or adjudging it bankrupt, or ordering relief under any applicable bankruptcy or insolvency law, or appointing a trustee or receiver of the City, or approving a bankruptcy petition filed against the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the System Revenues, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control; or

(H) any Event of Default designated as such in a Supplemental Indenture.

Application of the System Net Revenues and Other Funds After Default; No Acceleration. If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all System Net Revenues, Swap Revenues, and Subsidy Payments held by it, and the Trustee shall apply all System Net Revenues, Swap Revenues, Subsidy Payments, and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund, any Letter of Credit Fund, and any Purchase Fund, and except as otherwise provided in the Indenture) as follows and in the following order:

(1) first, to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) second, to the payment of the whole amount of Bond Obligation then due on the Bonds and amounts then due on Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and all amounts then due on Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and amounts then due on Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) or other amounts due on such date to the persons entitled thereto, without any discrimination or preference;

(3) third, to the payment of Subordinate Obligations, provided that if the amount available shall not be sufficient to pay in full all Subordinate Obligations due on any date, then to the payment thereof ratably, according to the amounts due on such date to the persons entitled thereto, without any discrimination or preference;

(4) fourth, to the payment of Fee and Expense Obligations, provided that, if the amount available shall not be sufficient to pay in full all Fee and Expense Obligations due on any date, then to the payment thereof ratably, according to the amounts due on such date to the persons entitled thereto, without any discrimination or preference; and

(5) fifth, to the payment of all other obligations payable under the Indenture.

Notwithstanding anything to the contrary in the Indenture, in no event are the Bonds subject to acceleration if an Event of Default occurs and is continuing except that Liquidity Facility Bonds are subject to acceleration as set forth in the Liquidity Facility.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may proceed, and upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus, or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture or by law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a

receiver of the Trust Estate, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, and unless otherwise provided in the applicable Supplemental Indenture, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action, or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Notwithstanding anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in the Indenture as described below), the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided (A) that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, (B) that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and (C) that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture and any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that, to the extent provided in the applicable Supplemental Indenture, the written consent of a Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb, or prejudice the security of the Indenture or the rights of any other Holders of Bonds or to enforce any right under the Indenture and any applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had, and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Credit Enhancement Provider Directs Remedies Upon Event of Default. To the extent provided in the applicable Supplemental Indenture, upon the occurrence and continuance of an Event of Default as defined in the Indenture, the Credit Enhancement Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted

to the Holders of the Bonds enhanced by such Credit Enhancement, provided that the Credit Enhancement Provider's consent shall not be required as otherwise provided herein if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

### **Modification or Amendment to the Indenture**

Amendments Permitted With Consent of Holders. The Indenture and the rights and obligations of the City, the Holders of the Bonds, and the Trustee may be amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into when the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding. To the extent provided in the applicable Supplemental Indenture, the Credit Enhancement Provider for a Series of Bonds shall be deemed to be the Holder of such Series for all purposes of the Indenture except the payment of principal of and interest on such Series of the Bonds. The written consent of the Holders of a Series of Bonds may be effected (a) through a consent by the underwriter of such Series of Bonds at the time of the issuance of such Series of Bonds and (b) through a provision of a Supplemental Indenture that deems any Holders purchasing such Series of Bonds to consent for purposes of the provisions described in this subsection by virtue of its purchase of such Series of Bonds.

No such amendment shall (a) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected; or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such amendment, or permit the creation of any lien on the Trust Estate prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on the Trust Estate (except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the City and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Holders of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the City, of the Trustee, and of the Holders of the Bonds may also be amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter without the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency, or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by that act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of the Indenture;

(5) to provide for the issuance or incurrence, as applicable, of Interest Subsidy Bonds, Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations, Fee and Expense Obligations, or Variable Rate Indebtedness with such interest rate, payment, maturity and other terms as the City may deem desirable, subject to the provisions of the Indenture relating to the Issuance of Additional Bonds or Issuance of Refunding Bonds, but only if doing so does not materially and adversely affect the interests of the Holders of the Bonds;

(6) to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to accommodate Credit Enhancements, Liquidity Facilities, and Reserve Facilities, which shall not materially and adversely affect the interests of the Holders of the Bonds;

(8) to provide for the appointment of a remarketing agent, a tender agent, or a paying agent in connection with any Series of Bonds;

(9) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(10) to provide for the issuance of Bonds in book-entry form or bearer form or to modify or eliminate the book-entry registration system for any Series of Bonds;

(11) to amend the Indenture in any other respect, including amendments that would otherwise be described above under the caption "Amendments Permitted With Consent of Holders," if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture or if notice of the proposed amendments is given to Holders of the affected Bonds at least 30 days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture; and

(12) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the Indenture as described in this section shall be deemed not to materially adversely affect the interest of the Holders, to the extent provided in the Supplemental Indenture providing for the issuance of such Bonds, so long as (1) all affected Bonds are secured by a Credit Enhancement and (2) each Credit Enhancement Provider for such Bonds shall have given its written consent to such Supplemental Indenture.



## **Defeasance**

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when they become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture as described below under the caption “Deposit of Money or Securities”) to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable and to be payable under the Indenture and under any Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations by the City, then and in that case, at the election of the City (evidenced by a Request of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and other obligations and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Trust Estate made under the Indenture and all covenants, agreements, and other obligations of the City under the Indenture shall cease, terminate, become void, and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign, or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture that are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, as evidenced by a verification report, upon which the Trustee may conclusively rely, from an independent certified public accountant, a firm of independent certified public accountants, or other independent consulting firm.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture as described in the next section) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), all liability of the City in respect of such Bond shall cease, terminate, and be completely discharged, provided (1) that if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (2) that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, and such money and securities shall be pledged to such payment.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Notwithstanding anything to the contrary, if the principal of or interest on a Series of Bonds shall be paid by a Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Series of Bonds, the obligations of the City shall not be deemed to be satisfied or considered paid by the City by virtue of such payments, and the right, title, and interest of the City in the Indenture and the

obligations of the City under the Indenture shall not be discharged and shall continue to exist and to run to the benefit of such Credit Enhancement Provider, and, to the extent of such payment, such Credit Enhancement Provider shall be subrogated to the rights of the Holders of the Bonds of such Series.

Deposit of Money or Securities. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be either or both of the following, provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the maximum rate payable thereon for periods for which the actual interest rate on such Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date (based on an assumed interest rate equal to the maximum rate payable thereon for periods for which the actual interest rate on such Bonds cannot be determined); or

(B) Investment Securities described in clause (A) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant, a firm of independent certified public accountants, or independent consulting firm delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity or to the redemption date, as the case may be, on the Bonds to be paid or redeemed (based on an assumed interest rate equal to the maximum rate payable thereon for periods for which the actual interest rate on such Bonds cannot be determined), as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture (or provision satisfactory to the Trustee shall have been made for the giving of such notice).

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or one year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall, subject to any law regarding unclaimed moneys, be repaid to the City free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof, and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than

the City) for interest earned on, moneys so held. Any interest earned thereon shall belong to the City and shall be deposited upon receipt by the Trustee into the Revenue Fund.

### **Disqualified Bonds**

In determining whether the Holders of the requisite aggregate Bond Obligation of Bonds have concurred in any demand, request, direction, consent, or waiver under the Indenture, Bonds that are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee shall establish to the satisfaction of the Trustee that the pledgee has the right to vote such Bonds and that the pledgee is not a person directly or indirectly controlled by, or under direct or indirect common control with, the City. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the City shall specify in a Certificate to the Trustee those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

### **Money Held for Particular Bonds.**

The money held by the Trustee for the payment of the interest, principal, Redemption Price, or purchase price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of the Indenture.

### **Waiver of Personal Liability**

No member of the City Council of the City or officer, agent, or employee of the City or the Trustee shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture shall relieve any such member of the City Council of the City or officer, agent, or employee of the City or the Trustee from the performance of any official duty provided by law or by the Indenture.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX E**  
**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the CITY OF SACRAMENTO (the “City”) in connection with the issuance of its Water Revenue Bonds, Series 2013 (the “Series 2013 Bonds”). The Series 2013 Bonds are being issued pursuant to an Indenture, dated as of March 1, 2013, as supplemented by the First Supplemental Indenture dated as of March 1, 2013 (as supplemented, the “Indenture”), between the City and U.S. Bank National Association, as trustee. In connection therewith the City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. The Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Series 2013 Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (“SEC”).

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

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

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries).

“EMMA System” means the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Listed Event” means any of the events listed in Section 5(a) of the Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriters” means underwriters of the Series 2013 Bonds listed on the cover page of the Official Statement required to comply with the Rule in connection with offering of the Series 2013 Bonds.

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

“State” means the State of California.

SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than the end of the ninth month following the end of the City’s Fiscal Year (presently June 30), commencing with the report for the 2012-13 Fiscal Year, provide to the MSRB through the EMMA System (in an electronic format and accompanied by identifying information all as prescribed by the MSRB) an Annual Report that is consistent with the requirements of Section 4 of the Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents composing a package and may cross-reference other

information as provided in Section 4 of the Disclosure Certificate, except 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 they are not available by that date. If the City's Fiscal Year changes, then the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in Section 3(a), the City shall send to the MSRB a notice in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain the CUSIP numbers of the Series 2013 Bonds and include by reference the following:

(a) The audited financial statements of the City for the prior Fiscal Year, 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, however, the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), then 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) An annual report updating the following tables contained in the Official Statement for the Series 2013 Bonds, dated March 20, 2013, to reflect actual results of the most recently completed fiscal year (projections need not be updated):

(1) Table 2 – Average Water Production for Fiscal Years 2008-09 to 2011-12 (to be updated to show value for most recently completed fiscal year; the average over multiple years need not be calculated)

(2) Table 4 – Number of Connections by User Type

(3) Table 5 – Largest Users by Service Charge Revenues

(4) Table 7 – Selected Monthly Rates

(5) Table 8 – Uncollected Water System Charges

(6) Table 11 – Summary of Projected Operating Results (to be updated to show actual results of most recently completed fiscal year; projections of future fiscal years do not have to be updated or included in Annual Report)

Any or all of the items listed above may be included by specific reference to other documents, including the audited financial statements or the official statements of debt issues of the City, that have been submitted to the MSRB or the Securities and Exchange Commission, subject to the following: if any document included by reference is a final official statement, then it must be available from the MSRB, and 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 Series 2013 Bonds in a timely manner not more than 10 business days after the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Issuance by the Internal Revenue Service (the "IRS") of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes; or
- (9) Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds, if material:

- (1) Unless described in Section 5(a)(5), adverse tax opinions or other material notices or determinations by the IRS with respect to the tax status of the Series 2013 Bonds or other material events affecting the tax status of the Series 2013 Bonds;
- (2) Modifications to rights of holders of the Series 2013 Bonds;
- (3) Optional, unscheduled or contingent bond calls;
- (4) Release, substitution, or sale of property securing repayment of the Series 2013 Bonds;

(5) Non-payment related defaults;

(6) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall as soon as possible determine if such event would be material under applicable federal securities laws. If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than 10 business days after the event.

SECTION 6. Termination of Reporting Obligation. The City's obligations under the Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption, or payment in full of all of the Series 2013 Bonds; or (b) if, in the opinion of nationally recognized bond counsel, the City ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Series 2013 Bonds, or the Series 2013 Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Series 2013 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, if all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Series 2013 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 2013 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 (1) is approved by the Holders of the Series 2013 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders or (2) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2013 Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, 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, then the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and the Annual Report for the year in which the change is made must 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 8. Additional Information. Nothing in the Disclosure Certificate prevents the City (a) from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication; or (b) from including any other information in any Annual Report or notice of occurrence of a Listed Event in addition to that required by the Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that specifically required by the Disclosure Certificate, the City shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the City to comply with any provision of the Disclosure Certificate, any Participating Underwriter or any Holder or Beneficial Owner of the Series 2013 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 the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance hereunder.

SECTION 10. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriters, and the Holders and Beneficial Owners from time to time of the Series 2013 Bonds, and it creates no rights in any other person or entity.

CITY OF SACRAMENTO, CALIFORNIA

By: \_\_\_\_\_  
Russell T. Fehr, City Treasurer  
Dated: March 28, 2013

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Sacramento, California

Name of Issue: \$215,195,000 Water Revenue Bonds, Series 2013 (the "Series 2013 Bonds")

Date of Issuance: March 28, 2013

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture, dated as of March 1, 2013, as supplemented by the First Supplemental Indenture dated as of March 1, 2013 (the "Indenture"), between the City and U.S. Bank National Association, as trustee. The City anticipates that the Annual Report will be filed by

\_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

CITY OF SACRAMENTO, CALIFORNIA

By: \_\_\_\_\_  
City Treasurer

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX F**  
**PROPOSED FORM OF BOND COUNSEL OPINION**

[THIS PAGE INTENTIONALLY LEFT BLANK]



## APPENDIX F

### FORM OF BOND COUNSEL OPINION

March 28, 2013

City of Sacramento  
Sacramento, California

City of Sacramento  
Water Revenue Bonds, Series 2013  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Sacramento (the “City”) in connection with the issuance of \$215,195,000 aggregate principal amount of City of Sacramento Water Revenue Bonds, Series 2013 (the “Bonds”), issued pursuant to an Indenture, dated as of March 1, 2013 (the “Original Indenture”), as supplemented by a First Supplemental Indenture, dated as of March 1, 2013 (the “First Supplemental Indenture” and collectively with the Original Indenture, the “Indenture”), each between the City and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture; the Tax Certificate, dated the date hereof (the “Tax Certificate”), executed by the City; opinions of counsel to the City and the Trustee; certificates of 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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution

and delivery thereof by, and validity against, any parties other than the 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 and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated March 20, 2013 or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the City.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Trust Estate subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the 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 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it 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 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX G BOOK-ENTRY ONLY SYSTEM

The information in this section regarding DTC and its book-entry system has been obtained from DTC's website, for use in securities offering documents, and the City and the Underwriters take no responsibility for the accuracy or completeness thereof or for the absence of material changes in such information after the date hereof.

The Depository Trust Company ("**DTC**"), New York, New York, acts as securities depository for the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Series 2013 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013 Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series

2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 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 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2013 Bond documents. For example, Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

While the Series 2013 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2013 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2013 Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2013 Bonds will be printed and delivered to DTC.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the City and the City believes to be reliable, but the City and the Underwriters do not take any responsibility for the accuracy thereof.

[THIS PAGE INTENTIONALLY LEFT BLANK]



[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



