



City Council, Redevelopment Agency and Public Financing Authority

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL, REDEVELOPMENT AGENCY AND PUBLIC FINANCING AUTHORITY BOARD

FROM: CITY MANAGER - FINANCE

DATE: MARCH 2, 2010

ITEM NO: 2

WARD: 1

SUBJECT: JOINT PUBLIC HEARING – APPROVE THE EXECUTION, DELIVERY AND SALE OF NOT TO EXCEED \$20,660,000 OF CERTIFICATES OF PARTICIPATION, SERIES 2010 (COPs) AND THE EXECUTION AND DELIVERY OF A SITE AND FACILITIES LEASE, LEASE, TRUST AGREEMENT, CONTINUING DISCLOSURE CERTIFICATE, PURCHASE CONTRACT, AGENCY LOAN AGREEMENT, DEVELOPER LOAN AGREEMENT AND THE PREPARATION AND DELIVERY OF A PRELIMINARY OFFICIAL STATEMENT RELATED TO THE DEVELOPMENT OF A HYATT PLACE HOTEL AND POSSIBLY A PORTION OF THE FOX PARKING STRUCTURE – RESOLUTION AND SUPPLEMENTAL APPROPRIATION

ISSUE:

The issue before the City Council, the Redevelopment Agency (“RDA”) and the Public Financing Authority (“PFA”) is whether or not to approve the sale and delivery of COPs and other financial agreements, described below, related to the development of a Hyatt Place Hotel project and possibly a portion of the Fox Parking Structure in the Merged Downtown/Airport Industrial and Hunter Park/Northside Redevelopment Project Area (the “RDA Project Area”).

RECOMMENDATIONS:

That the City Council:

1. Hold a Public Hearing and consider adopting the attached resolution authorizing the issuance of City of Riverside Certificates of Participation, Series 2010, the execution and delivery of a site and facilities lease, lease, trust agreement, continuing disclosure certificate, purchase contract, agency loan agreement, Developer loan agreement, and the preparation and delivery of a preliminary official statement related to the development of the Hyatt Place Hotel project and possibly a portion of the Fox Parking Structure, and allocation of \$20,660,000 of Recovery Zone Facility Bond (“RZFB”) volume cap to the project.

2. Approve the attached Agency Loan Agreement between the City and RDA in the amount of \$20,660,000 for construction of the Hyatt Place Hotel and possibly a portion of the Fox Parking Structure.
3. Authorize an increase in estimated revenues and supplemental appropriations to the COP Capital Projects Fund (401) accounts associated with the loan between the City and the Agency in the amount of \$20,660,000 for construction of the Hyatt Place Hotel and possibly a portion of the Fox Parking Structure.
4. Authorize the City Manager, or his designee, to execute all documents and instruments including making minor, non-substantive changes necessary to complete the proposed sale of COPs and implement the Agency Loan Agreement.

That the Redevelopment Agency:

1. Approve the attached Agency Loan Agreement between the City and RDA in the amount of \$20,660,000 for construction of the Hyatt Place Hotel and possibly a portion of the Fox Parking Structure.
2. Approve the attached Developer Loan Agreement between the RDA and MetroRiverside, LLC. in the amount of \$20,660,000 with terms similar to those of the COP issue.
3. Authorize an increase in estimated revenue and a supplemental appropriation to the Downtown/Airport Capital Projects Fund (478) account number 9842600 – 440446 in the amount of \$16,479,253 reflecting the available project funds for construction of the Hyatt Place Hotel and possibly a portion of the Fox Parking Structure.
4. Authorize the Executive Director, or his designee, to execute all documents and instruments, including making minor, non-substantive changes necessary to implement and carry out the project and other related agreements.

That the Public Financing Authority:

1. Approve the attached resolution authorizing the execution, delivery and sale of City of Riverside Certificates of Participation, Series 2010 and the execution and delivery of a site lease, lease, trust agreement, assignment agreement and letter of representation associated with the development of the Hyatt Place Hotel project and possibly a portion of the Fox Parking Structure.

BACKGROUND:

The American Reinvestment and Recovery Act enacted by the Federal Government created the opportunity for cities with designated “Recovery Zones” to partner with a private third party to issue tax-exempt RZFBs for projects that would typically require taxable financing. This reduces the interest cost, enhancing the financial viability of a project that might not otherwise be feasible. The City was allocated a volume cap of \$20,662,000 for RZFB-eligible projects (\$20,660,000 being used for this transaction). This cap may only be used for private projects and the City must issue bonds by December 31, 2010 or the allocation is recaptured by the State of California. All such projects must have been identified by January 31, 2010.

The attached documents propose entering into an arrangement with MetroRiverside, LLC, a California limited liability corporation (“Developer”), to develop a 115 to 125 room Hyatt Place Hotel along Market Street from Fifth to Sixth Street. Proceeds from the COPs issue will be loaned to the RDA, who will then loan the funds to the Developer for purposes of designing, constructing, equipping and furnishing the Hotel. The Hotel is expected to break ground in summer of 2010 and is anticipated to be complete in early 2012. The project will create 100-250 construction jobs and 30 full-time equivalent jobs when it opens.

The City will be obligated to pay debt service on the COPs. The City intends to be reimbursed for such payments by the Developer with operating revenues generated by the Hotel. Should operating revenues generated by the Hotel not be sufficient to repay the full debt service on the COPs, the City will be reimbursed by the RDA from tax increment generated in the RDA Project Area.

The Developer has agreed to several terms designed to substantially mitigate the financial risks being taken by the City and RDA. They are:

- The COP issue and subsequent loan will include necessary interest during construction and a debt service reserve account in the amount of one (1) year’s debt service, to remain in place until the loan is repaid.
- The terms of the COP issue and loan reflect interest only payments for two years following the opening of the Hotel; thereafter it reflects principal and interest, being fully amortized at a level rate over the remaining 26 year term of the bonds.
- Developer will deposit \$250,000 into a Hotel operating reserve account at the close of escrow to address any negative cash flow during Hotel operations. An additional \$1,250,000 from the Hyatt Corporation provided to the Developer shall also be deposited into the reserve account upon opening of the Hyatt Place Hotel. A portion of this deposit will be returned to the Developer following satisfaction of certain operating revenue requirements by the Hyatt Place Hotel. However, \$500,000 will remain in place as a reserve through the maturity of the loan.
- While the loan is outstanding, all revenue from the operation of the Hotel will flow through a trust account controlled by the City. During normal operations, this revenue will transfer to the Hotel operating account each day. Upon any default, the City will immediately control all revenue.
- The Developer has committed to provide take-out financing by the end of seven (7) years. At the City’s sole discretion, the loan may be extended for an additional three (3) years (one year at a time) if the City believes a commercial loan is not available. The COPs are expected to be structured with a call provision that provides for no prepayment penalty after seven years.
- The COP proceeds will fund a Redevelopment Agency Construction Manager to approve the Guaranteed Maximum Contract and all change orders, as well as to approve all construction draws.
- The City will have a Deed of Trust on the Hotel giving it the right to take ownership of the property if the Developer fails to meet its obligations.

The COPs will be issued as a 30-year obligation, refundable at any debt service payment date after 7 years. They will be a fixed-rate, tax-exempt debt in an amount not to exceed \$20,660,000.

PKF Consulting, a respected firm in the Hotel Industry, prepared a report dated February 22, 2010 (attached) which concludes that 2009 was the bottom of the market and both hotel room rates and occupancy rates will begin to recover in 2010. PKF projects that the Hyatt will open at a 56% occupancy rate in 2012, increasing annually until stabilizing at 75% occupancy in 2016. These are

the occupancy rates used by the Developer in preparing projections. The Hyatt Place represents a level of hotel service that isn't currently provided in downtown and won't directly compete with the mid and high levels of service from Marriott and Mission Inn, respectively.

Because the City will not own the Hotel, alternative collateral is required to support the financing. Staff has identified four assets that together have sufficient value to support the financing structure. They are Fire Stations #13 and #14, the Casa Blanca Library and the Arlington Library. These assets will be leased to the PFA and assigned to the trustee for the length of time the COPs are outstanding.

The financing documents have been set up to direct any proceeds from the COPs not ultimately needed for the Hotel project, to be used for other RZFB-eligible projects supported by the City. The hearing notice identified the Fox Parking Garage as an eligible project for any funds that remain available after the Hotel is complete.

The financing team assisting with this transaction is Stone & Youngberg as underwriter, Kutak Rock as Special Counsel and Jones Hall as Underwriter's Counsel. They have worked with representatives from the City Manager's – Finance Division, the Development Department and the City Attorney's office to bring this item to the City Council, RDA and Financing Authority.

The attached Preliminary Official Statement ("POS") has been reviewed and approved for transmittal to the City Council by City staff and the financing team. The POS must include all facts that would be material to an investor in the COPs. Material information is any information for which there is a substantial likelihood that, if disclosed, would have actual significance in the deliberations of a reasonable investor when deciding whether to buy or sell the COPs. Members of the City Council may review the POS and/or inquire of staff and the financing team to be sure they are comfortable that it includes all material facts.

FISCAL IMPACT:

Approval of this item is expected to result in no cost to the General Fund. Further, it is anticipated that the Hotel will generate additional revenues for the City/RDA (transient occupancy tax, sales tax, tax increment, etc.) in an amount estimated to be \$525,000 in the first year of operations and increasing to \$660,000 by 2014.

If the Hotel underperforms, the Developer is required to fund any deficiencies. If the Developer defaults, the RDA will assume ownership of the Hotel and become responsible for its operation. The RDA has the capacity to make debt service payments due on the COPs.

Prepared by:	Paul C. Sundeen, Assistant City Manager/CFO/Treasurer
Approved by:	Paul C. Sundeen, Assistant City Manager/CFO/Treasurer for Bradley J. Hudson, City Manager
Approved as to form:	Gregory P. Priamos, City Attorney

Attachments:

- Resolution of the City Council Approving Execution, Delivery and Sale of Certificates of Participation, Series 2010, Other Financing Documents and a Loan Agreement
- Resolution of the Board of Directors of the Public Financing Authority Approving Execution and Delivery of Financing Documents Related to the Sale of Certificates of Participation, Series 2010
- Preliminary Official Statement
- Bond Purchase Agreement
- Trust Agreement
- Lease Agreement
- Site Lease Agreement
- Assignment Agreement
- Continuing Disclosure Certificate
- Agency Loan Agreement between the City and the RDA
- Developer Loan Agreement between the RDA and MetroRiverside, LLC
- PKF Consulting report dated February 22, 2010

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RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIVERSIDE, CALIFORNIA, AUTHORIZING AND APPROVING THE EXECUTION, DELIVERY AND SALE OF THE CITY'S CERTIFICATES OF PARTICIPATION SERIES 2010 (RECOVERY ZONE FACILITY HOTEL PROJECT), AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SITE AND FACILITIES LEASE, LEASE AND OPTION TO PURCHASE, TRUST AGREEMENT, CONTINUING DISCLOSURE CERTIFICATE, PURCHASE AGREEMENT, LOAN AGREEMENT, AND THE PREPARATION AND DELIVERY OF A PRELIMINARY OFFICIAL STATEMENT AND AN OFFICIAL STATEMENT, AND OTHER MATTERS RELATED THERETO.

WHEREAS, the City has now determined that it is in its best interest to authorize and approve the execution and delivery of Certificates of Participation, Series 2010 (Recovery Zone Facility Hotel Project) (the "Certificates") in an aggregate principal amount not to exceed \$20,660,000 and to loan a portion of the proceeds of the Certificates (the "Agency Loan") to the Redevelopment Agency of the City of Riverside (the "Agency") pursuant to a loan agreement with the Agency (the "Agency Loan Agreement"), fund a reserve fund for the Certificates, fund capitalized interest for the Certificates, and pay costs of issuance with respect to the Certificates; and

WHEREAS, the Agency shall use the proceeds of the Agency Loan to (i) make a loan to MetroRiverside, LLC, or a successor or related entity (the "Developer") to facilitate the design, development, construction and equipping of a new 115 to 125-room Hyatt Place Hotel in the downtown project area and (ii) to finance the development of a three-story parking structure consisting of approximately 400 parking spaces and approximately 12,000 square feet of street-level retail space, portions of which will be leased to and operated by operators selected by the City from time to time (collectively, the "Facilities"); and

WHEREAS, the Riverside Public Financing Authority (the "Authority") is a joint powers authority duly organized and existing under the laws of the State of California with the authority to assist in the financing of capital facilities on behalf of the City of Riverside, a California charter city and municipal corporation (the "City"); and

1 WHEREAS, in connection with the execution and delivery of the Certificates, the City and
2 the Authority propose to enter into: (i) a Site and Facilities Lease (as hereinafter defined) pursuant to
3 which the City will agree to lease to the Authority real property, buildings and improvements
4 (collectively, the “Leased Premises”), and (ii) a Lease and Option to Purchase (as hereinafter
5 defined), pursuant to which the Authority will agree to lease the Leased Premises back to the City in
6 consideration for which the City will agree to make base rental payments (“Base Rental”) and
7 additional rental payments; and

8 WHEREAS, the Authority proposes to assign and transfer to U.S. Bank National
9 Association, as trustee (the “Trustee”), pursuant to an Assignment Agreement (as hereinafter
10 defined), all of its rights, title and interests (excluding its rights to indemnification and payment or
11 reimbursement of its costs and expenses) in and to the Site and Facilities Lease and the Lease and
12 Option to Purchase, including the right to receive payments of Base Rental under the Lease and
13 Option to Purchase; and

14 WHEREAS, the Certificates will represent proportionate interests of the owners thereof in
15 rights under the Lease and Option to Purchase including, without limitation, the right to receive
16 payments of Base Rental thereunder; and

17 WHEREAS, the Authority, the City and the Trustee propose to enter into a Trust Agreement
18 (as hereinafter defined) to, among other things, fix and declare the terms and conditions upon which
19 the Certificates are to be executed, delivered, secured and accepted and to secure the payment thereof
20 and the interest with respect thereto; and

21 WHEREAS, the City desires to participate in the execution and delivery of the Certificates
22 pursuant to and in accordance with the Trust Agreement, and to approve all proper and necessary
23 documents and transactions in connection therewith; and

24 WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934
25 (“Rule 15c2-12”) requires that, in order to be able to purchase or sell the Certificates, an underwriter
26 must have reasonably determined that an obligated person has undertaken in a written agreement or
27 contract for the benefit of the holders of the Certificates to provide disclosure of certain financial
28 information and certain material events on an ongoing basis and, in order to cause such requirement to
be satisfied, the City proposes to execute and deliver a Continuing Disclosure Agreement

1 (the “Continuing Disclosure Certificate”) in connection with the execution and delivery of the
2 Certificates; and

3 WHEREAS, pursuant to Section 147(f) of the Internal Revenue Code of 1986 (the “Code”),
4 the execution and delivery of the Lease and Option to Purchase is required to be approved,
5 following a public hearing, by an elected representative of the City, as the governmental party to the
6 Lease and Option to Purchase, and an elected representative of the governmental unit having
7 jurisdiction over the area in which the Facilities are located; and

8 WHEREAS, the Facilities are located wholly within the territorial limits of the City; and

9 WHEREAS, the City anticipates that the development of the Facilities will encourage the
10 revitalization of vacant properties through a development consistent with the Downtown Specific
11 Plan, will encourage the establishment of a mix of uses that will serve the needs of both residents
12 and visitors and create a vibrant environment, and provide a catalyst for economic vitality and
13 revitalization in the City; and

14 WHEREAS, the tax-exempt financing of the Facilities is a significant factor in promoting
15 economic development within the jurisdiction of the City and is deemed to be necessary and proper
16 for City purposes and for the common benefit of the residents of the City; and

17 WHEREAS, the City has been allocated \$20,662,000 in recovery zone facility bond volume
18 cap (“RZFB Volume Cap”) pursuant to Section 1401 of the American Recovery and Reinvestment
19 Act of 2009 (“ARRA”) and Internal Revenue Notice 2009-50; and

20 WHEREAS, the City has designated the entire geographic region of the City as a recovery
21 zone (as required by ARRA), and the Facilities are located wholly within such recovery zone;

22 WHEREAS, the City has determined to assist in the financing of the Facilities and has
23 determined to allocate its entire RZFB Volume Cap to the Developer for purposes of financing of the
24 Facilities; and

25 WHEREAS, the City is authorized to undertake all of the above pursuant to the laws of the
26 State of California.

1 NOW, THEREFORE, the City Council of the City of Riverside does hereby resolve,
2 determine and order as follows:

3 Section 1. The proposed form of Site and Facilities Lease (the “Site and Facilities Lease”),
4 by and between the City and the Authority and in substantially the form presented at this meeting, is
5 hereby approved. The Mayor of the City, the City Manager, or his designee (the “City Manager”),
6 the Assistant City Manager, the Chief Financial Officer and the City Clerk (each an “Authorized
7 Representative” and, collectively, the “Authorized Representatives”) are, and each of them acting
8 alone is, hereby authorized and directed, for and in the name of and on behalf of the City, to execute,
9 acknowledge and deliver the Site and Facilities Lease in substantially the form presented at this
10 meeting, with such changes therein as such Authorized Representative executing, acknowledging and
11 delivering such document may require or approve, such requirement or approval to be conclusively
12 evidenced by the execution, acknowledgement and delivery thereof.

13 Section 2. The proposed form of Lease and Option to Purchase (the “Lease and Option to
14 Purchase”), by and between the City and the Authority and in substantially the form presented at this
15 meeting, is hereby approved. The Authorized Representatives are, and each of them acting alone is,
16 hereby authorized and directed, for and in the name of and on behalf of the City, to execute,
17 acknowledge and deliver the Lease and Option to Purchase substantially in the form presented at this
18 meeting, with such changes therein as the Authorized Representative executing, acknowledging and
19 delivering such document may require or approve, such requirement or approval to be conclusively
20 evidenced by the execution, acknowledgement and delivery thereof.

21 Section 3. The proposed form of Trust Agreement (the “Trust Agreement”), by and among
22 the City, the Authority and the Trustee and in substantially the form presented at this meeting, is
23 hereby approved. The Authorized Representatives are, and each of them acting alone is, hereby
24 authorized and directed, for and in the name of and on behalf of the City, to execute, acknowledge
25 and deliver the Trust Agreement in substantially the form presented at this meeting, with such
26 changes therein as such Authorized Representative executing, acknowledging and delivering such
27 document may require or approve, such requirement or approval to be conclusively evidenced by the
28 execution, acknowledgement and delivery thereof.

Section 4. The proposed form of Continuing Disclosure Certificate, in substantially the
form presented at this meeting, is hereby approved. The Authorized Representatives are, and each of

1 them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the City,
2 to execute and deliver the Continuing Disclosure Certificate in substantially the form presented at this
3 meeting and presented to and considered at this meeting, with such changes therein as the officer
4 executing the same on behalf of the City may approve, in his or her discretion, as being in the best
5 interest of the City, such approval to be conclusively evidenced by such officer's execution and
6 delivery thereof.

7 Section 5. The proposed form of Certificate Purchase Agreement (the "Purchase
8 Agreement"), by and between the City and Stone & Youngberg LLC (the "Underwriter"), and in
9 substantially the form presented at this meeting, is hereby approved. The Authorized Representatives
10 are, and each of them acting alone is, hereby authorized and directed to negotiate the final terms and
11 conditions of, and to execute, acknowledge and deliver to the Underwriter, the Purchase Agreement,
12 in substantially the form presented at this meeting with such changes as the officer executing,
13 acknowledging and delivering such document may require or approve, such requirement or approval
14 to be conclusively evidenced by the execution, acknowledgement and delivery thereof. In connection
15 with the negotiation, execution and delivery of the Purchase Agreement, the Authorized
16 Representatives are further authorized and directed to negotiate the price, interest rates, discount
17 provisions, dates, maturity dates, principal amounts and prepayment provisions with respect to the
18 Certificates, and are authorized to negotiate any and all other terms and agreements relating to the
19 execution and delivery of the Certificates, as an Authorized Representative shall determine to be in
20 the best interests of the City, all to be conclusively evidenced by the execution and delivery of the
21 Purchase Agreement; provided, however, that the interest rate with respect to the Certificates shall not
22 exceed six and a half percent (6.50%) per annum and provided further that the maximum aggregate
23 underwriter's discount (excluding original issue discount, if any) from the principal amount of the
24 Certificates shall not exceed one percent (1.0%) of the aggregate principal amount of the Certificates.
25 All other terms and conditions shall be consistent with and shall carry out the intention of this
26 Council's approval, as set forth herein.

27 All or any portion of the Certificates may be sold with such credit enhancement (such as, but
28 not limited to, a letter of credit or policy of municipal bond insurance) as an Authorized
Representative shall determine to be in the best interests of the City, such determination to be
conclusively evidenced by the execution and delivery on behalf of the City of any documents required
to be executed and delivered by or on behalf of the City relating to such credit enhancement. The

1 Authorized Representatives are hereby further authorized to purchase a surety bond, letter or line of
2 credit, or other form of guarantee to satisfy the Reserve Requirement established under the Trust
3 Agreement and to execute one or more financial guaranty agreements or other documents relating to
4 such guarantee. The Authorized Representatives are, and each of them is, hereby authorized and
5 directed to enter into negotiations with potential providers of such credit enhancements or guarantees
6 and further authorized and directed to enter into such agreements on behalf of the City as may be
7 necessary or advisable in connection with the foregoing arrangements.

8 Section 6. The proposed form of Agency Loan Agreement, in substantially the form
9 presented at this meeting, is hereby approved. The Authorized Representatives are, and each of them
10 acting alone is, hereby authorized and directed, for and in the name of and on behalf of the City, to
11 execute and deliver the Agency Loan Agreement in substantially the form presented at this meeting
12 and presented to and considered at this meeting, with such changes therein as the officer executing the
13 same on behalf of the City may approve, in his or her discretion, as being in the best interest of the
14 City, such approval to be conclusively evidenced by such officer's execution and delivery thereof.

15 Section 7. The City hereby approves the execution and delivery of the Certificates by the
16 Trustee in an amount not to exceed \$20,660,000 and the sale of the Certificates pursuant to the
17 Purchase Agreement.

18 Section 8. The proposed form of preliminary official statement with respect to the
19 Certificates (the "Preliminary Official Statement"), in substantially the form presented at this meeting,
20 is hereby approved. The Authorized Representatives are, and each of them acting alone is, hereby
21 authorized and directed, for and in the name of and on behalf of the City, to execute and deliver the
22 official statement with respect to the Certificates (the "Official Statement"), in substantially the form
23 of the Preliminary Official Statement, with such changes thereto as such Authorized Representative
24 executing and delivering such document may require or approve, such requirement or approval to be
25 conclusively evidenced by the execution and delivery thereof. The distribution of copies of the
26 Preliminary Official Statement and Official Statement to persons who may be interested in the
27 purchase of Certificates is hereby authorized and approved. The Authorized Representatives are, and
28 each of them acting alone is, hereby authorized to certify to the Underwriter on behalf of the City that
the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12
(except for the omission of certain information as permitted by such Rule).

1 Section 9. The City hereby allocates \$20,660,000 of its RZFB Volume Cap to the
2 Developer for purposes of financing of the Facilities.

3 Section 10. All actions heretofore taken by any officer of the City with respect to the
4 execution, delivery and sale of the Certificates or in connection with or related to any of the
5 agreements referred to herein, to the leasing or subleasing of the Leased Premises or to the financing
6 of the Facilities are hereby approved, confirmed and ratified.

7 Section 11. The Authorized Representatives are, and each of them acting alone is,
8 authorized and directed to take any and all such actions, and to execute any and all such documents,
9 including, without limitation, a tax certificate and arbitrage certificate with respect to the Certificate
10 and documents with respect to the loan of the proceeds of the Certificates to the Agency, as may be
11 necessary or desirable to effectuate the purposes of this Resolution.

12 Section 12. Pursuant to Section 147(f) of the Code, the City Council hereby approves the
13 execution and delivery of the Lease and Option to Purchase to provide financing for the Facilities.
14 It is the purpose and intent of the City Council that this Resolution constitute approval of the
15 execution and delivery of the Lease and Option to Purchase (and the execution and delivery of the
16 Certificates) by the applicable elected representative of the issuer and the applicable elected
17 representative of the governmental unit having jurisdiction over the area in which the Facilities are
18 located, in accordance with said Section 147(f).

19 Section 13. Kutak Rock LLP is hereby authorized to act as Special Counsel in connection
20 with the Certificates.

21 Section 14. The City Clerk shall certify to the passage of this Resolution, shall transmit a
22 copy hereof to the Authority, and shall cause the action of the City Council in adopting the same to be
23 entered in the official minutes of this City Council. In the event the Mayor of the City is unavailable
24 or unable to execute and deliver any of the above-referenced documents, any other member of the
25 City Council may validly execute and deliver such document, and, in the event the City Clerk is
26 unavailable or unable to execute and deliver any of the above-referenced documents, any depute clerk
27 may validly execute and deliver such document in her place.
28

1 ADOPTED by the City Council this ____ day of March, 2010.
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4 _____
5 Ronald O. Loveridge
6 Mayor of the City of Riverside

7 ATTEST:

8 _____
9 Colleen J. Nicol
10 City Clerk of the City of Riverside

11
12 I, Colleen J. Nicol, City Clerk of the City of Riverside, hereby certify that the foregoing
13 resolution was duly and regularly adopted at a meeting of the City Council of the City of Riverside at
14 its meeting held on March _____, 2010, by the following vote, to wit.

15 Ayes:

16 Nays:

17 Abstain:

18 Absent:

19
20 IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the
21 City of Riverside, California this ____ day of March, 2010.
22

23
24 _____
25 Colleen J. Nicol
26 City Clerk of the City of Riverside

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RESOLUTION NO.

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE RIVERSIDE PUBLIC FINANCING AUTHORITY PROVIDING FOR THE EXECUTION AND DELIVERY OF A SITE AND FACILITIES LEASE, A LEASE AND OPTION TO PURCHASE, A TRUST AGREEMENT, AN ASSIGNMENT AGREEMENT AND A LETTER OF REPRESENTATIONS AND CERTAIN OTHER MATTERS RELATED THERETO AND THE EXECUTION, DELIVERY AND SALE OF CITY OF RIVERSIDE CERTIFICATES OF PARTICIPATION, SERIES 2010 (RECOVERY ZONE FACILITY HOTEL PROJECT).

WHEREAS, the City of Riverside (the “City”) has determined that it is in its best interest to authorize and approve the execution and delivery of City of Riverside Certificates of Participation, Series 2010 (Recovery Zone Facility Hotel Project) (the “Certificates”); and

WHEREAS, in connection with the execution and delivery of the Certificates, the City and the Riverside Public Financing Authority (the “Authority”) propose to enter into a Site and Facilities Lease (as hereinafter defined), pursuant to which the City will agree to lease to the Authority certain real property, buildings and improvements (collectively, the “Leased Premises”); and

WHEREAS, the City and the Authority propose to enter into a Lease and Option to Purchase (as hereinafter defined), pursuant to which the Authority will agree to lease back the Leased Premises to the City in consideration for which the City agrees to make certain rental payments due thereunder (“Base Rental”); and

WHEREAS, the Authority proposes to assign and transfer to U.S. Bank National Association, as trustee (the “Trustee”), pursuant to an Assignment Agreement (as hereinafter defined), all of its rights, title and interests (excluding its rights to indemnification and payment or reimbursement of its costs and expenses) in and to the Site and Facilities Lease and the Lease and Option to Purchase, including the right to receive payments of Base Rental under the Lease and Option to Purchase; and

WHEREAS, the Authority, the City and the Trustee propose to enter into a Trust Agreement (as hereinafter defined) and one or more agreements supplemental thereto to, among

other things, fix and declare the terms and conditions upon which the Certificates are to be executed, delivered, secured and accepted and to secure the payment thereof and the interest with respect thereto; and

WHEREAS, the Authority desires to participate in the execution, delivery and sale of the Certificates pursuant to and in accordance with the Trust Agreement, as it may be supplemented from time to time in accordance with its terms, and to approve all proper and necessary documents and transactions in connection therewith; and

WHEREAS, the Authority is authorized to undertake all of the above pursuant to the laws of the State of California.

NOW, THEREFORE, the Board of Directors of the Riverside Public Financing Authority (the “Board of Directors”) does hereby resolve, determine and order as follows:

Section 1. The proposed form of Site and Facilities Lease (the “Site and Facilities Lease”), by and between the City and the Authority, substantially in the form on file with the Secretary of the Authority, is hereby approved. The Chairperson, Vice Chairperson, Executive Director and Treasurer of the Authority, and any other authorized officers of the Authority acting on their behalf (each an “Authorized Representative” and, collectively, the “Authorized Representatives”) are, and each of them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute and deliver the Site and Facilities Lease in substantially such form with such changes therein as the Authorized Representative executing and delivering such document may require or approve, such requirement or approval to be conclusively evidenced by the execution and delivery thereof.

Section 2. The proposed form of Lease and Option to Purchase (the “Lease and Option to Purchase”), by and between the City and the Authority, substantially in the form on file with the Secretary of the Authority, is hereby approved. The Authorized Representatives are, and each of them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute and deliver the Lease and Option to Purchase in substantially such form with such changes therein as the Authorized Representative executing and delivering

such document may require or approve, such requirement or approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The proposed form of Assignment Agreement (the “Assignment Agreement”), by and between the Authority and the Trustee, substantially in the form on file with the Secretary of the Authority, is hereby approved. The Authorized Representatives are, and each of them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the Authority to execute and deliver the Assignment Agreement in substantially such form with such changes therein as the Authorized Representative executing and delivering such document may require or approve, such requirement or approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The proposed form of Trust Agreement (the “Trust Agreement”), by and among the City, the Authority and the Trustee, substantially in the form on file with the Secretary of the Authority, is hereby approved. The Authorized Representatives are, and each of them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute and deliver the Trust Agreement in substantially such form with such changes therein as such Authorized Representative executing and delivering such document may require or approve, such requirement or approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. The proposed form of Letter of Representations of the Riverside Public Financing Authority (the “Letter of Representations”), to be delivered by the Authority and accepted and confirmed by Stone & Youngberg LLC (the “Underwriter”), substantially in the form on file with the Secretary of the Authority, is hereby approved. The Authorized Representatives are, and each of them acting alone is, hereby authorized and directed to negotiate the final terms and conditions of, and to execute and deliver to the Underwriter, the Letter of Representations, in substantially such form with such changes as such Authorized Representative may require or approve, such requirement or approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. All actions heretofore taken by any officer of the Authority with respect to the execution, delivery and sale of the Certificates or in connection with or related to any of the

agreements referred to herein, to the leasing or subleasing of the Leased Premises by the City are hereby approved, confirmed and ratified.

Section 7. The Authorized Representatives are, and each of them acting alone is, authorized and directed to take any and all such actions, and to execute any and all such documents as may be necessary or desirable to effectuate the purposes of this Resolution.

Section 8. The Secretary of the Authority shall certify to the passage of this Resolution, shall transmit a copy hereof to the City, and shall cause this action of the Board of Directors in adopting the same to be entered in the official minutes of the Board of Directors.

ADOPTED by the Public Financing Authority this _____day of March, 2010.

NANCY HART
Chair of the Riverside Public Financing
Authority

ATTEST:

COLLEEN J. NICOL, Secretary
Riverside Public Financing Authority

I, Colleen J. Nicol, Secretary of the Board of Directors of the Riverside Public Financing Authority, do hereby certify that the foregoing Resolution was duly and regularly introduced at a regular meeting of the Board of Directors duly held on the _____ day of March, 2010, and was duly passed and adopted by such Board of Directors, and signed and approved by the Chairman of such Board of Directors and that the foregoing Resolution was passed and adopted by the following vote:

Ayes:

Nays:

Absent:

Abstain:

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of March, 2010.

COLLEEN J. NICOL, Secretary
Riverside Public Financing Authority

[09-2235/2/23/10]

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 3, 2010

NEW ISSUE — BOOK-ENTRY ONLY

RATINGS: S&P: "A+"
Fitch: "AA-"

(See "CONCLUDING INFORMATION — Ratings" herein.)

In the opinion of Kutak Rock LLP, Special Counsel, based on existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain covenants, interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is exempt from current State of California personal income taxes, except that no opinion is expressed as to the exclusion from gross income of interest with respect to any Certificate during any period during which such Certificate is held by a person who is, within the meaning of Section 147(a) of the Internal Revenue Code of 1986, a "substantial user" of the facilities with respect to which the proceeds of the Certificates are used or is a "related person." Special Counsel expresses no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Certificates, although Special Counsel observes that interest with respect to the Certificates is not a specific preference item for purposes of calculating the federal individual and corporate alternative minimum taxable income. For a more complete description, see "CONCLUDING INFORMATION – Tax Matters."

\$20,660,000*
CITY OF RIVERSIDE
CERTIFICATES OF PARTICIPATION
SERIES 2010
(Recovery Zone Facility Hotel Project)

Dated: Date of Delivery

Due: March 1; see inside cover

The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases of the Certificates will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest payable with respect to the Certificates will be payable on March 1 and September 1 of each year, commencing September 1, 2010, and principal payable on the Certificates will be paid on March 1 in the years set forth on the maturity schedule on the inside cover of this Official Statement. Payments of principal of and interest with respect to the Certificates will be paid by U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

The Certificates are being executed and delivered to (i) provide funds for a loan by the City of Riverside (the "City") to the Redevelopment Agency of the City of Riverside (the "Agency"), (ii) finance construction of a portion of a public parking garage (including ground floor retail space), (iii) fund a reserve fund for the Certificates, (iv) capitalize a portion of the interest with respect to the Certificates, and (v) pay costs of executing and delivering the Certificates.

The Certificates are subject to optional, extraordinary and mandatory sinking fund prepayment prior to maturity. See "THE CERTIFICATES."

The Certificates evidence and represent undivided proportionate interests in the right to receive certain "Base Rental" payments (which are defined in this Official Statement to include principal and interest components equal to principal and interest with respect to the Certificates) to be made by the City for the right to the use of certain real property and improvements (the "Leased Premises") pursuant to that certain Lease and Option to Purchase, dated as of March 1, 2010 (the "Lease Agreement"), by and between the City, as lessee, and the Riverside Public Financing Authority (the "Authority"), as lessor. The City has covenanted in the Lease Agreement to make the Base Rental payments for the Leased Premises, to include all such Base Rental payments in each of its budgets and to make the necessary annual appropriations for all such Base Rental payments. The Base Rental payments are subject to abatement, however. See "SECURITY FOR THE CERTIFICATES" and "RISK FACTORS."

The City has solicited offers from municipal bond insurers to issue a policy insuring the payment when due of the principal of and interest with respect to the Certificates. If it receives any such offer, the City will determine whether to accept an offer at the time it prices the Certificates.

The obligation of the City to make Base Rental payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental payments constitutes an indebtedness of the City, the State or any of their political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SECTION ENTITLED "RISK FACTORS", FOR A DISCUSSION OF SPECIAL FACTORS WHICH SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH IN THIS OFFICIAL STATEMENT, IN CONSIDERING THE INVESTMENT QUALITY OF THE CERTIFICATES. CAPITALIZED TERMS USED ON THIS COVER PAGE AND NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH IN THIS OFFICIAL STATEMENT.

MATURITY SCHEDULE
(See inside cover page)

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by Kutak Rock LLP, Los Angeles, California, Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about March __, 2010.

Stone & Youngberg

Dated: March __, 2010

* Preliminary, subject to change.

MATURITY SCHEDULE*
(Base CUSIP:† _____)

<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
--	-----------------------------------	--------------------------------	--------------	--------------	---------------

\$ _____ % Term Certificates due March 1, _____, Price: _____% CUSIP:† _____
\$ _____ % Term Certificates due March 1, _____, Price: _____% CUSIP:† _____

† Copyright 2009, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

* Preliminary; subject to change.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Ronald O. Loveridge, *Mayor*
Mike Gardner, *Ward 1*
Andy Melendrez, *Ward 2*
Rusty Bailey, *Ward 3*
Paul Davis, *Ward 4*
Chris Mac Arthur, *Ward 5*
Nancy Hart, *Ward 5*
Steve Adams, *Ward 7*

CITY STAFF

Bradley J. Hudson, *City Manager*
Paul C. Sundeen, *Assistant City Manager, Chief Financial Officer*
Belinda J. Graham, *Assistant City Manager*
Tom DeSantis, *Assistant City Manager*
Colleen J. Nicol, *City Clerk*
Brent A. Mason, *Assistant Director of Finance*
Gregory P. Priamos, Esq., *City Attorney*

SPECIAL SERVICES

Special Counsel

Kutak Rock LLP
Los Angeles, California

Trustee

U.S. Bank National Association
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Certificates other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Certificates will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Certificates.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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

Document References and Summaries. All references to and summaries of the Trust Agreement, the Lease Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Certificates are Exempt from Securities Laws Registration. The issuance and sale of the Certificates have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. 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 INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

City Website. The City maintains a website. However, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

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[Insert Regional Map]

\$20,660,000*
CITY OF RIVERSIDE
CERTIFICATES OF PARTICIPATION
SERIES 2010
(Recovery Zone Facility Hotel Project)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement.

General

The purpose of this Official Statement (which includes the cover page and the Appendices) is to provide information concerning the execution and delivery of the captioned certificates of participation (the “**Certificates**”).

The City

The City of Riverside (the “**City**”) was incorporated in 1883 and operates under a charter originally adopted in 1907. The City operates under a council-manager form of government, and is governed by a seven-member City Council elected by wards with four-year staggered terms. The Mayor is elected at large for a four-year term. The positions of City Clerk, City Manager and City Attorney are filled by appointment of the City Council.

The City encompasses approximately 81.5 square miles in the western portion of Riverside County (the “**County**”), approximately 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. The City is the county seat of the County. The current population of the City as of January 1, 2009 is approximately 300,430. For other selected information concerning the City, see “APPENDIX A - City of Riverside General Demographic and Financial Information.”

Authority for the Certificates

The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of March 1, 2010 (the “**Trust Agreement**”), among the City, the Riverside Public Financing Authority (the “**Authority**”) and U.S. Bank National Association, as trustee (the “**Trustee**”).

Purpose

The proceeds of the sale of the Certificates will be used, together with other available moneys, to (i) provide funds to the City to make a loan (the “**Agency Loan**”) to the Redevelopment Agency of the City of Riverside (the “**Agency**”), which the Agency will use to make a loan (the “**Developer Loan**”) to MetroRiverside, LLC (the “**Developer**”), to facilitate the design, development, construction and equipping of a new 125-room hotel in the City’s

* Preliminary, subject to change.

downtown (the “**Facilities**”), (ii) finance the construction of a portion of a public parking garage (including ground floor retail space), (iii) fund a reserve fund for the Certificates, (iv) capitalize interest with respect to the Certificates through the earlier of (A) February 1, 2012, and (B) completion of the Facilities, and (v) pay costs of delivering the Certificates. See “THE FINANCING PLAN.”

Security for the Certificates

Base Rental Payments. The Certificates evidence and represent undivided proportionate interest in the right to receive certain lease payments (“**Base Rental**”) and prepayments to be made by the City to the Authority for the right to use and occupy certain real property and improvements (the “**Leased Premises**”) (see “THE LEASED PREMISES” below). The Leased Premises will be leased by the City to the Authority pursuant to a Site and Facilities Lease, dated as of March 1, 2010 (the “**Site Lease**”) and, then, sub-leased to the City by the Authority pursuant to a Lease and Option to Purchase, dated as of March 1, 2010 (the “**Lease Agreement**”), between the City, as lessee, and the Authority, as lessor.

In accordance with the Lease Agreement, the City is required to pay to the Trustee specified Base Rental payments for the Leased Premises which are designed to be sufficient to pay the principal and interest with respect to the Certificates. See “APPENDIX B - Summary of Principal Legal Documents.”

The City has covenanted in the Lease Agreement to take all such actions as may be necessary to include all Base Rental payments in each of its annual budgets for the General Fund during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Base Rental payments and Additional Rental. The covenants of the City constitute duties imposed by law. In addition, the City has covenanted to maintain, or cause to be maintained, insurance on the Leased Premises. See “SECURITY FOR THE CERTIFICATES – Insurance.” However, the Base Rental payments are subject to abatement in certain circumstances. See “ - Abatement” below.

Pursuant to the Trust Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Certificates its right to receive Base Rental payments from the City and its right to exercise certain remedies under the Lease Agreement.

Bond Insurance. The City has solicited offers from municipal bond insurers to issue a policy insuring the payment when due of the principal of and interest with respect to the Certificates. If it receives any such offer, the City will determine whether to accept an offer at the time it prices the Certificates.

Abatement

Except to the extent of (a) amounts held by the Trustee in the Certificate Fund or the Reserve Fund established under the Trust Agreement; (b) amounts received in respect of rental interruption insurance or title insurance; and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, Base Rental payments will be abated during any period in which, by reason of material damage, destruction, theft, condemnation or defects in title to the Leased Premises, there is substantial interference with the use or right of possession by the City of the Leased Premises. The amount of abatement will be such that the resulting Base Rental and Additional Rental represents fair rental value for the use and

possession of the portion of the Leased Premises of which the City has beneficial use and occupancy. See “RISK FACTORS – Abatement.”

Prepayment

The Certificates are subject to optional, extraordinary and mandatory prepayment as described herein.

Limited Obligations

The obligation of the City to make Base Rental payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental payments constitutes an indebtedness of the City, the State or any of their political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Summaries Not Definitive

The summaries and references of documents, statutes, reports and other instruments referred to in this Official Statement do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined in this Official Statement, indicates that such word is defined in a particular agreement or other document and, as used in this Official Statement, has the meaning given it in such agreement or document. See “APPENDIX B - Summary of Principal Legal Documents” for summaries of certain of such definitions.

Copies of the documents described in this Official Statement will be available at the Director of Finance’s office, City of Riverside, 3900 Main St. 4th Floor, Riverside, CA 92501.

Continuing Disclosure

The City has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City’s Fiscal Year (presently June 30) in each year commencing with its report for fiscal year 2009-10 (the “**Annual Report**”) and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is contained in “APPENDIX E - Form of Continuing Disclosure Certificate.”

Failure of the City to provide the required information at the required time may have a negative impact on the value of the Certificates in the secondary market.

The City has not failed to comply in any material respect with previous undertakings under the Rule in the past five years.

FINANCING PLAN

The Facilities

Agency Loan; Developer Loan. Proceeds of the Certificates will be used by the City to make the Agency Loan to the Agency. The Agency will use the proceeds of the Agency Loan to make the Developer Loan to the Developer. The Developer will use the proceeds of the Developer Loan to finance construction of the Facilities.

The Facilities are a 125-room Hyatt Place hotel project anchoring a mixed-use urban village known as Fox Plaza. Fox Plaza, which will be located at the corner of Fifth and Market in the City, directly across from the Riverside Convention Center and the Marriot Hotel, is expected to also include residences, street-front retail and a parking garage when completely developed. Fox Plaza is part of a City-wide, \$1.7 billion renovation effort, known as the "Riverside Renaissance Initiative," which includes a renovation of the historic Fox Theater.

The Facilities will be the first part of Fox Plaza to be built. Construction of the Facilities and 77 spaces of surface parking is scheduled to begin in the third quarter of calendar year 2010 and is scheduled to be complete in the first quarter of calendar year 2012. Subsequently, the surface parking lot will be developed with street-front retail, a small residential component and a mixed-use garage.

The Facilities are fully-entitled and are in the final stages of design.

Excess Proceeds. In the event the amount available to fund the Developer Loan is in excess of the amount needed to finance construction of the Facilities, the City will use the excess proceeds to finance a portion of the cost of construction of a three-story parking structure consisting of approximately 400 parking spaces and approximately 12,000 square feet of ground-floor retail space in a new City-owned public parking garage known as "Garage 7." The City currently estimates that the total cost of building Garage 7 will be approximately \$21 million. The City currently anticipates that 51 of the parking spaces will be leased in perpetuity to the Developer for use in connection with operation of the Facilities.

Security for the Base Rental Payments. None of the following are security for the Base Rental payments or the Certificates: (i) the Facilities, (ii) Garage 7 or any income received from the City as a result of the operation of Garage 7 or the related retail space, (iii) the Developer's payments to the Agency in repayment of the Developer Loan or (iv) the Agency's payments to the City in repayment of the Agency Loan.

Recovery Zone Facility Bonds

The Certificates are "recovery zone facility bonds," which is a new category of a tax-exempt exempt facility private activity bond. Under the federal tax law rules applicable to recovery zone facility bonds, at least 95% of the net proceeds of the Certificates must be used for "recovery zone property" (defined below); net proceeds are sale proceeds less amounts deposited in a reasonably required reserve fund. Up to 5% of net proceeds may be spent for costs (including costs of issuance) that are not for recovery zone property. In addition, the Certificates must receive an allocation of volume cap; the City allocated all of its recovery zone facility bond volume cap to the Certificates pursuant to a resolution adopted by the City Council on March 2, 2010.

“Recovery zone property” means depreciable capital property located in a **“recovery zone”** that meets the following requirements:

- The property is constructed, reconstructed, renovated or acquired by purchase by the taxpayer (the Developer in the case of the Hyatt Hotel and the 51 parking spaces in Garage 7; tenants in the case of the retail portion of Garage 7) after the date the recovery zone was designated,
- The original use of the property in the recovery zone commences with the taxpayer, and
- Substantially all of the use of the property is in the recovery zone and is in the active conduct of a qualified business by the taxpayer in the recovery zone.

The City has concluded that the Facilities and the portions of Garage 7 that could be financed with excess proceeds meet all of the requirements for “recovery zone property”

“Recovery zone” means any area (i) designated by the City as having significant poverty, unemployment, rate of home foreclosures or general distress, (ii) designated by the City as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990 or (iii) for which a designation as an empowerment zone or renewal community is in effect. The City designated the geographic area of the City as a recovery zone by Resolution No. 21903 adopted by the City Council on September 8, 2009.

As described in “CONCLUDING INFORMATION – Tax Matters,” the City, the Developer and the Agency must comply with certain federal tax law requirements in order for the interest with respect to the Certificates to be excluded from gross income for federal tax law purposes. Each of the City, the Developer and the Agency has covenanted to comply with those requirements.

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the Certificates are anticipated to be applied as follows:

SOURCES:

Principal Amount of Certificates
Plus Net Original Issue Premium

Total Sources

USES:

Agency Loan
Reserve Fund
Costs of Issuance ⁽¹⁾
Capitalized Interest ⁽²⁾
Administrative Expense Fund

Total Uses:

⁽¹⁾ Includes Underwriter's discount and other costs of issuing the Certificates.

⁽²⁾ Represents gross-funded capitalized interest on the Certificates through the earlier of (A) February 1, 2012, and (B) completion of the Facilities.

Schedule of Base Rental Payments

The table below shows the scheduled annual Base Rental payments established by the Lease Agreement.

Year Ending March 1	Principal	Interest	Annual Total
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
Total			

THE LEASED PREMISES

Leased Premises

“**Leased Premises**” is defined in the Lease Agreement as the following real property and improvements:

Arlington Branch Library: The Arlington Branch Library, constructed in 1909 and expanded in 2008, is a 13,000+ square foot library located at 9556 Magnolia Avenue in the Arlington Neighborhood. The 2008 expansion increased the size and functionality of the existing approximately 4,000 square foot library facility and incorporated an adjacent historic fire house building into the library.

The original 1909 Arlington Branch Library building now includes a community meeting room and expanded children’s library. Rehabilitation work included seismic retrofitting of the historical structures, re-roofing, new heating, ventilation, and air conditioning systems, upgraded restrooms, state of the art audio and visual systems, and a fire suppression system. The new wing provides space for the adult, periodicals, teen, and audio-visual collections as well as numerous computers. Patron parking has also been expanded to provide convenient parking for library users.

The Arlington Branch Library renovations were designed and implemented in accordance with the 2001 California Building Code (the “**CBC**”). The building is protected by a fire sprinkler and fire alarm systems. All systems are designed in accordance with the applicable requirements of the National Fire Prevention Association (“**NFPA**”) (1997), California Fire Code (2001 edition), and the U.S. Fire Administration’s National Fire Academy (“**NFA**”) (1999 edition). The building security features include alarm and surveillance camera systems.

Casa Blanca Branch Library: The Casa Blanca Branch Library, constructed in 2002 and extensively remodeled in 2009, is a 10,000+ square foot library located at 2985 Madison Street in the Casa Blanca Neighborhood. The remodeled Casa Blanca Library improved the functionality of the existing library facility through a redesign of the floor plan as well as the installation of new shelving, carpeting, signage, surveillance cameras, and electrical upgrades.

The remodeled Casa Blanca Library building now includes a family learning center with two times the former capacity for adult and children’s computers (18 for adults and 12 for children). The Casa Blanca Library was designed and constructed in accordance with the 2001 CBC. The building is protected by a fire sprinkler and fire alarm systems. All systems are designed in accordance with the applicable requirements of the NFPA (1997), California Fire Code (2001 edition), and the NFA (1999 edition). The building security features include alarm and surveillance camera systems.

Sycamore Canyon Fire Station (Number 13). The Sycamore Canyon Fire Station (Number 13) was constructed in 2007 and measures 7,161 square feet. The Fire Station is located in the Sycamore Canyon Industrial Park area of the City, which is one of the primary industrial areas of the City. The new state-of-the-art fire station includes a two-bay fire truck apparatus with workshop and storage area, an exercise and training room, a kitchen and eating facility, four large bedrooms to accommodate two per room, one captain room with personal lavatory, three bathrooms for the firefighting personnel, and one public restroom in the lobby for

public use. A large lobby and communication center, a washer and dryer room, and a television and conference room provide comfort and service. The Sycamore Canyon Fire Station was designed and constructed in accordance with the 2001 CBC.

The building is protected by a fire sprinkler and fire alarm systems, as well as a First-in Fire Station Alerting System in all rooms including the kitchen and lobby. All systems are designed in accordance with the applicable requirements of the NFPA (1997), California Fire Code (2001 edition), and the NFA (1999 edition). The building security features include a security metal gate at the rear of the building, a cobra lock door system to enter the building at the push of a button, and a sensor-monitored apparatus bay door operating system. The station is equipped with a fire alerting system that, when activated, turns off all operating systems (from televisions to kitchen stoves) and alerts all fire personal that an emergency call has been received.

Canyon Crest Fire Station (Number 14). The Canyon Crest Fire Station (Number 14) was constructed in 2007 and measures 7,161 square feet; it is identical in design and construction to the Sycamore Canyon Fire Station. The Fire Station is located in the Canyon Crest area of the City, which is an established residential and commercial area.

Release of Property; Substitution

Under the Lease Agreement, the City has the option to amend, modify, release, transfer, change or substitute other land, facilities or improvements for the Leased Premises, provided that the City satisfies all of the requirements set forth in the Lease Agreement and the Trust Agreement. See "APPENDIX B - Summary of Principal Legal Documents."

The City is not entitled to any reduction, diminution, extension or other modification of the Base Rental payments as a result of an amendment, modification, release, transfer, change or substitution.

THE CERTIFICATES

General

The Certificates will be delivered in the form of fully registered Certificates, without coupons, in denominations of \$5,000 or any integral multiple of \$5,000, and will be dated the date of delivery to the original purchaser. The Certificates will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement.

The Certificates, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments on the Certificates will be made directly to DTC, and disbursement of such payments to the DTC “Participants” (as defined in Appendix F) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined in Appendix F) will be the responsibility of the Participants, as more fully described in “Book-Entry Only System” below.

Interest with respect to the Certificates is payable on March 1 and September 1 of each year, commencing September 1, 2010, and continuing to and including the date of maturity or prepayment, whichever is earlier.

Principal represented by the Certificates is payable on March 1 in each of the years and in the amounts set forth on the inside front cover of this Official Statement.

Any Certificate may be transferred upon the registration books kept by the Trustee by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the Certificate for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Certificates may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee is not required to register the transfer or exchange of any Certificate during the period the Trustee is selecting Certificates for prepayment or any certificate selected for prepayment.

Prepayment of the Certificates

Optional Prepayment^{*}. The Certificates maturing on or after March 1, 2017, are subject to optional prepayment prior to maturity on or after March 1, 2016, at the option of the City, as a whole or in part on any date, from amounts deposited with the Trustee by the City in furtherance of the exercise of the City’s option to purchase the Authority’s interest in the Leased Premises or any Leased Component in accordance with the Lease Agreement and from any other available funds, at a prepayment price equal to the principal amount to be prepaid, without premium, plus accrued but unpaid interest to the prepayment date.

Mandatory Sinking Fund Prepayment. The Certificates with a maturity date of March 1, 20__ are subject to mandatory prepayment in part, by lot, prior to their maturity date on

^{*} Preliminary, subject to change.

March 1, 20__ and on each March 1 thereafter, to and including March 1, 20__ from sinking fund installments, at the principal amount to be prepaid, without premium, plus accrued interest to the prepayment date, in the principal amounts and on the dates set forth below:

Certificates Maturing March 1, 20__

Prepayment Date <u>(March 1)</u>	Principal Amount of Certificates <u>to be Prepaid</u>
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Certificates Maturing March 1, 20__

Prepayment Date <u>(March 1)</u>	Principal Amount of Certificates <u>to be Prepaid</u>
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Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all outstanding Certificates are to be prepaid, the Trustee will select Certificates for prepayment among maturities as directed by the City (which direction will be accompanied by a written certificate of a City Representative to the effect that: (a) the Base Rental payable under the Lease Agreement, as amended in connection with such prepayment, is sufficient to pay all principal of and interest with respect to the Outstanding Certificates as and when due following such prepayment; and (b) the Base Rental payable under the Lease Agreement, as amended in connection with such prepayment, is not in excess of the fair rental value of the Leased Premises in any Lease Year following such prepayment), and within a maturity by lot. Prepayment by lot will be in the manner determined by the Trustee.

Notice of Prepayment. When prepayment is authorized or required, the Trustee will give notice (“**Prepayment Notice**”) that specifies: (a) the date of prepayment; (b) the place or places where the prepayment will be made, including the name and address of any paying agent; (c) the prepayment price; (d) the CUSIP numbers, if any, assigned to the Certificates to be prepaid; (e) the numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificates to be prepaid in part only, the amount of such Certificates to be prepaid; (f) the interest rate and stated maturity date of each Certificate to be prepaid in whole or in part; (g) that on the specified date there will become due and payable upon each Certificate or portion of a Certificate being prepaid the prepayment price, together with interest accrued to the prepayment date, and that from and after the prepayment date interest with respect to the Certificate will cease to accrue and be payable.

At least 30 but not more than 60 days prior to the prepayment date, the Prepayment Notice will be given by the Trustee to the respective Owners of the Certificates designated for prepayment by first-class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee as of the close of business on the day before such Prepayment Notice is given. The failure of any Owner to receive such Prepayment Notice or any defect in such Prepayment Notice will not affect the validity of the prepayment of any Certificates. Any notice which is mailed as described above will be conclusively presumed to have been given, whether or not the Owner of any Certificates which are to be prepaid receives the notice. The notice of prepayment for any optional prepayment may contain a statement to the effect that the prepayment of the Certificates is conditioned upon the receipt by the Trustee of amounts equal to the prepayment price of the Certificates to be prepaid on or before the prepayment date, and such optional prepayment will be so conditioned.

Book-Entry System

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F – Book-Entry Provisions."

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Certificates paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.

SECURITY FOR THE CERTIFICATES

General

Base Rental Payments. In the Lease Agreement, the City agrees to pay the Base Rental payments to the Authority as rental for the use and occupancy of the Leased Premises. The Base Rental payments are denominated into components of principal and interest that correspond to the components of principal and interest with respect to the Certificates.

The City covenants in the Lease Agreement to take such action as may be necessary to include all Base Rental payments in its annual budgets and to make the necessary annual appropriations for all such Base Rental payments. However, the obligation of the City to make Base Rental payments (other than to the extent that funds to make Base Rental payments are available in the Certificate Fund or Reserve Fund, or otherwise available from an insurance or eminent domain award) may be abated in whole or in part if the City does not have use and possession of all or part of the Leased Premises.

Assignment of Rights to the Trustee. The Authority, pursuant to the Trust Agreement, has assigned its rights, including its right to receive Base Rental payments and its remedies under the Lease Agreement, to the Trustee for the benefit of the Owners of the Certificates.

Certificates. Each Certificate evidences and represents an undivided interest in the Base Rental payments due under the Lease Agreement on the payment date or prepayment date of such Certificate.

Base Rental Payments

Base Rental payments are required to be made by the City under the Lease Agreement on the fifteenth day of the month prior to each Interest Payment Date.

Base Rental payments are required to be deposited in the Base Rental Account maintained by the Trustee. Pursuant to the Trust Agreement, the Trustee will withdraw from the Base Rental Account the amount of the Base Rental then due and will apply such amounts to make principal and interest payments due with respect to the Certificates.

Appropriation; Use of Leased Premises

The City covenants in the Lease Agreement to take such action as may be necessary to include all Base Rental payments in its annual budgets and to make the necessary annual appropriations for all such Base Rental payments. The Lease Agreement provides that this covenant shall be deemed to be and shall be construed to be a duty imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the budget and appropriation covenant.

The obligation of the City to make Base Rental payments and Additional Rental payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental payments or Additional Rental payments constitutes an indebtedness of the City, the

State or any of their political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Reserve Fund

A Reserve Fund is established under the Trust Agreement, will initially be funded from proceeds of the Certificates (see “ESTIMATED SOURCES AND USES OF FUNDS”), and must be maintained in an amount (the “**Reserve Requirement**”) equal to the least of (i) 10% of the principal amount of the Outstanding Certificates, (ii) maximum Base Rental payments required to be paid in any Lease Year, or (iii) 125% of the average annual Base Rental with respect to Outstanding Certificates.

Amounts in the Reserve Fund are to be used only for the payment of Base Rental payments to the extent amounts in the Certificate Fund are insufficient or in the event of a full or partial defeasance of the Certificates.

See “APPENDIX B - Summary of Principal Legal Documents” for more information about the Reserve Fund.

Assignment; Recourse on Default

Pursuant to the Trust Agreement, the Authority assigns to the Trustee for the benefit of the Owners of the Certificates its rights and remedies under the Lease Agreement, including its rights to receive amounts payable by the City under the Lease Agreement.

If the City defaults on its obligations under the Lease Agreement, the Trustee, as assignee of the Authority, may exercise any and all remedies authorized by law or granted to the Authority pursuant to the Lease Agreement. The Lease Agreement expressly authorizes the Trustee, as assignee of the Authority, to re-enter the Leased Premises for the purpose of removing persons and personal property and of re-letting the Leased Premises and, at its option, to terminate the Lease Agreement. In the event the Trustee, as assignee of the Authority, does not elect to terminate the Lease Agreement, it may enforce the Lease Agreement and hold the City liable for all Base Rental payments and the performance of all conditions under the Lease Agreement. Any re-entry and re-letting will not effect a surrender of the Lease Agreement. The City, in the event of default, waives all rights to any rentals received by the Trustee through re-letting of the Lease Agreement. See “RISK FACTORS - Bankruptcy”; “- Limitation as Enforcement of Remedies” and “- No Acceleration” herein for a discussion of factors potentially limiting the available remedies in the event of a default. See also “APPENDIX B- Summary of Principal Legal Documents.”

Insurance

The Lease Agreement requires the City to maintain certain insurance with respect to the Leased Premises (see “APPENDIX B - Summary of Principal Legal Documents”), including the policies described in the following paragraphs.

General Liability. The City is obligated to maintain commercial general liability coverage against claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the Leased Premises. The insurance must afford protection with a combined single limit of not less than \$1,000,000 per occurrence with respect to bodily injury or death of each person in each accident or event and \$3,000,000 for personal injury or

death of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$250,000 on a per loss basis in any one year), or such greater amount as may from time-to-time be recommended by the City's risk management officer or an independent insurance consultant retained by the City for that purpose. The commercial general liability coverage may be maintained in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in the form of self-insurance or a risk pooling arrangement by the City.

Workers' Compensation. The Lease Agreement requires the City to maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under applicable law, or in lieu thereof, workers' compensation insurance to cover all persons employed by the City in connection with the Leased Premises and to cover full liability for compensation under applicable law. The City's workers' compensation insurance may be satisfied by self-insurance.

Property Insurance. The Lease Agreement obligates the City maintain a policy or policies of property insurance against loss or damage to the Leased Premises known as "all risk," **excluding** earthquake and flood. The City is obligated to maintain the property insurance with respect to the Leased Premises at any time in an amount not less than the aggregate principal amount of Outstanding Certificates. The property insurance may at any time include deductible clauses, on a per loss basis in any one year, not to exceed \$250,000. Flood and earthquake riders will be purchased by the City if the City, in its reasonable discretion, determines that coverage is available from reputable insurers at commercially reasonable rates.

Rental Interruption or Use and Occupancy Insurance. The Lease Agreement requires the City to maintain rental interruption insurance from a provider rated at least "A" by A.M. Best & Company to cover loss, total or partial, of the use of the Leased Premises as a result of any of the hazards covered by the property insurance described above in an amount sufficient at all times to pay the total rent payable under the Lease Agreement with respect to the Leased Premises for a period adequate to cover the period of repair or reconstruction; provided, however, that the amount payable under the policy must not be less than the amount equal to two years' maximum Base Rental. The City's rental interruption insurance obligation may not be satisfied by self insurance.

Rental interruption insurance will not cover interruption of Base Rental payments due to damage caused by earthquake or flood if the City does not maintain earthquake or flood insurance on the Leased Premises.

Title Insurance. Upon the execution and delivery of the Certificates the City will provide one or more CLTA leasehold title insurance policies in the aggregate amount of not less than the initial principal amount of the Certificates with respect to the City's leasehold interest in the Site.

Application of Insurance Proceeds. All insurance policy claims payments received under the property insurance, title insurance and rental interruption policies described above, will be deposited with the Trustee for application pursuant to the Trust Agreement. All proceeds of general liability and workers' compensation insurance, other than self-insurance, will be deposited with the City.

No assurance can be given that insurance proceeds will be adequate to avoid an interruption of Base Rental payments. Under such a situation, an abatement of Base Rental payments is likely to occur. See "RISK FACTORS – Abatement" below.

Additional Rental

The City is responsible for all improvement, repair and maintenance of the Leased Premises, for the payment of all utility services supplied to the Leased Premises, and for the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof.

The City will also pay all taxes and assessments of any type or nature payable during the Term of the Lease Agreement.

The City has also agreed in the Lease Agreement to pay all amounts required to restore amounts on deposit in the Reserve Fund to the Reserve Requirement, although this payment obligation is also subject to abatement. See "RISK FACTORS – Abatement" below.

Loan Payments and the Facilities Are Not Available as Security

None of the following, as described in "FINANCING PLAN – The Facilities," are security for the Base Rental payments or the Certificates: (i) the Facilities, (ii) the Developer's payments to the Agency in repayment of the Developer Loan or (iii) the Agency's payments to the City in repayment of the Agency Loan.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Certificates. However, the following is not an exhaustive listing of risk factors and other considerations which may be relevant to an investment in the Certificates. There can be no assurance that other risk factors will not become evident at any future time.

General Considerations – Security for the Certificates

The obligation of the City to make the Base Rental payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated, subject to abatement, under the Lease Agreement to pay the Base Rental payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all rental payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such rental payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Base Rental payments.

The City's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the City to pay the Base Rental payments when due. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Covenant to Budget and Appropriate

Under the Lease Agreement, the City has covenanted to take such actions as are necessary to include the Base Rental payments and the estimated Additional Rental in its annual budgets and to make the necessary annual appropriations for all Base Rental payments. Such covenant is deemed to be a duty imposed by law, and it is the duty of the public officials of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable such entity to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenant. Upon execution and delivery of the Certificates, Special Counsel will render its opinion (substantially in the form of Appendix D) to the effect that, subject to certain limitations and qualifications, the Lease Agreement constitutes a valid and binding obligation of the City.

See, however, "- Abatement" below.

Additional Obligations of the City

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental payments may be decreased. If the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental payments and other payments due under the Lease Agreement.

Eminent Domain

If the Leased Premises is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Leased Premises is taken permanently, or if the Leased Premises or any part thereof is taken temporarily, under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (2) there will be a partial abatement of Base Rental payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Base Rental payments, in an amount to be agreed upon by the City and the Authority such that the resulting Base Rental payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Premises. The City covenants in the Lease Agreement to contest any eminent domain award which is insufficient to either: (i) redeem the Certificates in whole, if all of the Leased Premises is condemned; or (ii) redeem a pro rata share of Certificates, in the event that less than all of the Leased Premises is condemned.

Abatement

The Leased Premises is currently operational as two public libraries and two City fire stations. The Lease Agreement provides that the amount of Base Rental payments will be subject to abatement during any period in which by reason of damage or destruction there is

substantial interference with the use and occupancy by the City of the Leased Premises. The amount of such abatement will be agreed upon by the City and the Authority such that the resulting Base Rental payments represent fair consideration for the use and occupancy of the portions of the Leased Premises not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City, in the Lease Agreement, waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

However, there will be no abatement of Base Rental payments to the extent that the proceeds of an eminent domain or insurance award (including proceeds of rental interruption insurance maintained by the City under the Lease Agreement) are available to pay Base Rental payments, or to the extent that moneys are available in the Base Rental Fund or the Reserve Fund, it being declared in the Lease Agreement that such proceeds and amounts constitute special funds for the payment of the Base Rental payments.

Following the period for which funds are available from the Reserve Fund or other funds and accounts established under the Trust Agreement for payment of Base Rental payments, or in the event that casualty or rental interruption insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Leased Premises or prepayment of the Certificates, there could be insufficient funds to make payments to Owners in full.

Limited Recourse on Default; No Acceleration

If the City defaults on its obligation to make Base Rental payments, there is no available remedy of acceleration of the total Base Rental payments due over the term of the Lease Agreement. The City will only be liable for Base Rental payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's rental payments.

Due to the specialized nature of the Leased Premises, no assurance can be given that the Trustee will be able to re-let any portion of the Leased Premises so as to provide rental income sufficient to make principal and interest payments with respect to the Notes in a timely manner, and the Trustee is not empowered to sell the Leased Premises for the benefit of the owners of the Certificates. In addition, due to the governmental function of the Leased Premises, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against local agencies in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such re-letting will not adversely affect the exclusion of interest on the Certificates from federal or state income taxation.

Substitution or Release of Leased Premises

As described above (see "THE LEASED PREMISES - Release of Property; Substitution"), the Lease Agreement permits the City to substitute additional real property and/or improvements for existing Leased Premises upon compliance with certain conditions set forth in the Lease Agreement. It is presently the City's intention to release roughly ___ acres of land from the leased asset that includes the Casa Blanca Library.

In the case of both substitution and release of Leased Premises, the Lease Agreement requires with respect to the value of the remaining Leased Premises that its value is at least equal to the Base Rental payable under the Lease Agreement after the release or substitution. Consequently, a portion of the Leased Premises could be replaced with less valuable property, or could be released altogether. Such replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Base Rental payments were to occur subsequent to such substitution or release.

Proposition 218

See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218,” for information about certain risks to the City’s general fund revenues under Articles XIIC and Article XIID of the California Constitution.

Geologic, Topographic and Climatic Conditions

General. The value of the Leased Premises, and the financial stability of the City, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods), climatic conditions (such as droughts) and fires.

Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including improvements of the Leased Premises. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the City. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the Leased Premises, as well as public and private improvements within the City in general, may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

Seismic. The area encompassed by the City, like that in much of California, may be subject to unpredictable seismic activity. The City is located within a regional network of several active and potentially active faults. The San Jacinto Fault, the Glen Helen Fault, the San Andreas Fault and the Lytle Creek Fault are all located within the vicinity of the City. Although the City believes that no active or inactive fault lines pass through the City, if there were to be an occurrence of severe seismic activity in the City, there could be an abatement or adverse impact on the City’s ability to pay the Base Rental payments.

The City is not obligated to maintain earthquake insurance with respect to the Leased Premises. The structural design of each of the Leased Premises complies with the 2001

California Building Code. The Arlington Branch Library is constructed using a masonry, structural steel and wood system. The Casa Blanca Branch Library is constructed using a masonry and steel system. The structural system of the two fire stations is a lateral force resisting system with light frame bearing walls composed of wood structural shear panel and sits on a concrete slab.

Flood. Southern California's unpredictable seasonal ranges of rainfall, coupled with geographic and geologic conditions, make the City particularly vulnerable to flooding, especially during winter months. Increasing conversion of natural areas to pavement and less pervious ground covers makes the effects of storms more intense and potentially damaging. Flash floods, mudslides and creek flooding have all occurred in the City, claiming lives and damaging property. The impacts of flooding can also damage the drinking water supply, create power outages and damage homes and their contents.

Portions of the City are located adjacent to the Santa Ana River in a 100-year flood plain. With respect to the Leased Premises, only Fire Station #14 is in a 100-year flood plain. However, Fire Station #14 was built above estimated flood levels to minimize potential damage.

Wildfire Hazard Area. None of the Leased Premises are located in a "fire severity zone" based on current mapping; the two fire stations may be located in fire severity zones under revised mapping that is currently under consideration. See "THE LEASED PREMISES" for information about the fire-related design of the two fire stations.

Hazardous Substances

Discovery of hazardous substances on parcels within the City could impact the City's ability to pay debt service with respect to the Certificates.

In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has any thing to do with creating or handling the hazardous substance.

The effect, therefore, should the Leased Premises or any substantial amount of property within the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction in the value of the Leased Premises could adversely impact the fair rental value of the Leased Premises and potentially result in abatement of the Base Rental payments. In addition, reduction in the value of property in the City as a whole could reduce property tax revenues received by the City and deposited in the general fund, which could significantly and adversely affect the ability of the City to make Base Rental payments.

Impact of State Budget

The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and state economic conditions and other factors over which the

City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. The State's 2008-09 and 2009-10 budgets contain a number of measures that impact the finances of local agencies.

Information on Current State Budget Difficulties. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets.

The State Legislative Analyst's Office the ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

2008-09 State Budget. On September 23, 2008, the Governor signed the 2008-09 State Budget into law (the "**2008-09 Budget**"). The 2008-09 Budget resolved the \$24.3 billion budget deficit identified in the May (2008) revision to the Governor's Proposed Budget. The 2008-09 Budget, as adopted, projected revenues of \$103.027 billion in fiscal year 2007-08 and \$101.991 billion in fiscal year 2008-09 (representing an increase of \$1.837 billion in fiscal year 2007-08 and a decrease of \$996 million in fiscal year 2008-09, compared with the May Revision), provided a modest reserve of \$1.7 billion, but projected a deficit of \$1.0 billion in fiscal year 2009-10.

Special Session - Revisions to 2008-09 Budget; 2009-10 Adopted State Budget. Through a series of legislative actions that occurred from November 5, 2008 through February 20, 2009, the State legislature and the Governor enacted a budget package addressing the 2008-09 Budget deficit, and adopting a budget for fiscal year 2009-10.

On March 13, 2009, the LAO updated its revenue forecast and projected that revenues would fall short of the assumptions in the 2009-10 Budget by \$8 billion and that number of the adopted solutions—revenue increases and spending reductions—are of a short-term duration. Thus, without corrective actions, the State's huge operating shortfalls will reappear in future years—growing from \$12.6 billion in 2010–11 to \$26 billion in 2013.

On May 7, 2009, the LAO reported that, as result of the budget and cash pressures of recent months, the General Fund's "cash cushion"—the monies available to pay State bills at any given time—currently is projected to end fiscal year 2008•09 at a much lower level than normal. Without additional legislative measures to address the State's fiscal difficulties or

unprecedented amounts of borrowing from the short-term credit markets, the State will not be able to pay many of its bills on time for much of fiscal year 2009•10.

May 14, 2009 Budget Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts. On May 14, 2009, the Governor released the May Revision, which included two alternative proposals to revise the State budget to address the State's increasing deficit. The specific proposal to be considered depended, in part, on the result of certain statewide ballot measures decided by the voters on the May 19, 2009 special election ballot.

Because State voters rejected the three propositions on the special election ballot that would have helped balance the State's budget, the Governor estimates a budget shortfall of \$21 billion in 2009-10.

Governor Declares Fiscal Emergency. The Governor announced on July 1 that the budget deficit had grown by \$2 billion to \$26.3 billion due to the failure of State lawmakers to adopt immediate education cuts and money-shifting plans by the June 30 fiscal year end. He declared a fiscal emergency and ordered a Proposition 58 special session of the Legislature to solve the State's deficit. To address the State's cash crisis, on July 2 the State began issuing registered warrants, or IOUs, to several classes of creditors, including certain local governments.

2009-10 State Budget Amendments; Proposition 1A Borrowing. On July 24, 2009, the California legislature approved amendments to the 2009-10 Budget involving 30 separate pieces of legislation to close the \$26.3 billion shortfall. The Governor signed the budget plan on July 28, 2009. Total general fund spending in fiscal year 2009-10 will be more than \$84 billion, down from nearly \$91.7 billion in fiscal year 2008-09 and nearly \$103 billion in fiscal year 2007-08. The budget amendments combine deep spending cuts, borrowing from local governments and accounting maneuvers.

The approved amendments include borrowing from local governments and various accounting maneuvers to generate additional revenues in the 2009-10, including (among many others) \$2 billion borrowed from cities' and counties' property tax collections under provisions of Proposition 1A (approved by the voters in 2004), but the State must repay the borrowing with interest within three years.

The accounting shifts rely on the assumption that an economic recovery will be well underway in the next fiscal year and some economists believe that they produce a significant budget shortfall next year. Additionally, borrowing revenues from local governments is likely to result in litigation.

Impact of Proposition 1A Borrowing. The declaration by the State of California of a fiscal emergency under Proposition 1A and a subsequent take-away of the equivalent of 8% of fiscal year 2008-09 property related tax revenues from cities will have an impact of approximately \$4,688,343 on the City. These tax revenues must be paid back by the State with interest within three years. The City does not believe any amendments to its fiscal year 2009-10 budget is required in response to the Proposition 1A take-away. The City participated in the Proposition 1A securitization program, pursuant to which it will receive the amount borrowed by the State in two payments (the first received in January 2010 and the second is expected to arrive in May 2010).

Governor's Proposed 2010-11 Budget. The Governor submitted his proposed fiscal year 2010-11 Budget (the "2010-11 Proposed Budget") to the State Legislature on January 8, 2010. The 2010-11 Proposed Budget assumes that, without corrective action, the State will face a deficit of \$19.9 billion, comprised of a shortfall of \$6.6 billion from fiscal year 2009-10, a fiscal year 2010-11 shortfall of \$12.3 billion and a proposed reserve of \$1 billion. The 2010-11 Proposed Budget proposes initial spending reductions of \$8.5 billion. Proposed reductions include program eliminations, further reductions to various health and human services programs, a \$2.4 billion reduction to the anticipated level of funding for Proposition 98 (over a two-year period), substantial changes to employee compensation, and reductions to the Department of Corrections and Rehabilitation. In addition, the 2010-11 Proposed Budget relies on \$6.9 billion in additional federal funding and proposes an additional \$4.6 billion in spending reductions if the federal funding is not received. The 2010-11 Proposed Budget also includes \$2.4 billion in increased revenues and requires external borrowing to meet cash needs during the fiscal year.

The Governor has called the Legislature to a special session to adopt \$8.9 billion of the proposed \$19.9 billion in budget solutions and to put measures on the June 2010 ballot to facilitate \$1 billion in general fund budget relief from Proposition 10 early childhood development funds and Proposition 63 mental health funds.

LAO Report. On January 12, 2010, the LAO commented on the 2010-11 Proposed Budget, stating that the Governor's estimate of a \$18.9 billion budget problem is reasonable but \$3.1 billion lower than the LAO estimates and may be exacerbated by various lawsuits. The LAO also noted that the Governor's plan relies heavily on federal relief, which the state is unlikely to receive in the amounts requested. The LAO concluded that the Legislature needs to assume that the federal relief will total billions less than the Governor budgets and that it needs to make many key decisions by the end of March in order to implement them for the next fiscal year.

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the City's ability to pay Base Rental payments.

Vehicle License Fees

Vehicle license fees ("VLF") imposed for the operation of vehicles on state highways are collected by the State Department of Motor Vehicles. VLFs were historically assessed in the amount of two percent of a vehicle's depreciated market value for the privilege of operating a vehicle on the State's public highways. Beginning in 1999, the VLF paid by vehicle owners was offset (or reduced) to the effective rate of 0.65 percent.

In connection with the offset of the VLF, the State Legislature authorized appropriations from the State General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient State General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced

proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be underfunded.

In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient State General Fund moneys would be available for this purpose, and, beginning in October 2003, the VLF paid by vehicle owners were restored to the two percent level. However, the offset suspension was rescinded by the Governor on November 17, 2003, and State offset payments to local governments resumed.

As part of the 2004 Budget Act negotiations, an agreement was made between the State and local government officials (the “**State-local agreement**”) under which the VLF rate was permanently reduced from two percent to 0.65 percent. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax they receive. Under the State-local agreement, for Fiscal Years 2004-05 and 2005-06 only, the replacement property taxes that cities and counties receive were reduced by \$700 million. Commencing in Fiscal Year 2004-05, local governments began to receive their full share of replacement property taxes, and those replacement property taxes now enjoy constitutional protection against certain transfers by the State due to the approval of Proposition IA at the November 2004 election.

In fiscal year 2007-08, the City received \$1,359,000 in VLF revenues and \$23,755,000 in replacement property taxes from the State. In fiscal year 2008-09, the City received \$1,088,000 in VLF revenues and \$24,347,000 in replacement property taxes from the State. In fiscal year 2009-10, the City expects to received \$1,550,000 in VLF revenues and \$21,912,000 in replacement property taxes from the State.

Impact of Sales and Use Tax Redirection

As described in “APPENDIX A - City of Riverside General Demographic and Financial Information,” the State will temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its “economic recovery” bonds; the State will increase local governments’ share of local property tax by a corresponding amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Base Rental payments. First, there may be a timing issue associated with the “backfill” of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, the County would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City’s cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Base Rental payments, the City may not know the exact amount of revenue available to pay Base Rental payments

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

The opinions of counsel, including Special Counsel, delivered in connection with the execution and delivery of the Certificates will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

In addition, failure by large property owners to pay property taxes when due may have an adverse impact on revenues available to pay Base Rental payments.

State Law Limitations on Appropriations

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIII B of the State Constitution" below.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State, or that the City Council (with voter approval) will not enact amendments to the City's Charter, in a manner that could result in a reduction of the City's revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII C and Article XIII D of the State Constitution."

Loss of Tax Exemption

As discussed under "FINANCING PLAN – Recovery Zone Facility Bonds" and "CONCLUDING INFORMATION - Tax Matters," the interest component of the Base Rental payments represented by the Certificates could become includable in gross income for

purposes of federal income taxation retroactive to the date the Certificates were delivered as a result of future acts or omissions of the City, the Agency or the Developer in violation of their covenants. Should such an event of taxability occur, the Certificates are not subject to early prepayment and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

Secondary Market

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that any Certificates can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Certificates will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Certificates for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Certificates or obligations that present similar tax issues as the Certificates.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978 and has been amended on occasions, including most recently on November 7, 2000 to reduce the voting percentage required for the passage of school bonds. Section I(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section I(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on any (1) indebtedness approved by the voters prior to July 1, 1978, (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition and (3) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition.

Section 2 of Article XIII A defines “**full cash value**” to mean the county assessor’s valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. See “Litigation Relating to Two Percent Limitation” below. Legislation implementing Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service

on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value.

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

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the State Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “**appropriations limit**” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in July 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “**proceeds of taxes,**” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years.

For Fiscal Year 2008-09 the City's appropriations limit was \$234,666,210, and its actual appropriations in Fiscal Year 2008-09 were approximately \$154,947,932. The City's appropriations limit for Fiscal Year 2009-10 is approximately \$238,984,562. The City is subject to and is operating in conformity with Article XIII B.

Article XIII C and XIII D of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Risks Relating to Certain Special Assessments. With the exception of assessments levied in Street Lighting District No. 1 of the City (see "APPENDIX A – City of Riverside General Demographic and Financial Information – Special Assessments") and the water-related revenue transfer described below, none of the property-related fees or assessments currently collected by the City are deposited in the General Fund. If the City is unable to continue to collect these assessments, the services and programs funded with these assessments would have to be curtailed and/or the City General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Water Utility Revenue Transfer Under the City Charter. In relevant part, Article XIII D declares that revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge.

In Howard Jarvis Taxpayers Association v. City of Fresno (March 23, 2005), the California Court of Appeal, Fifth District, was asked to consider a requirement by the City of Fresno that each municipal utility pay to the city, in lieu of property and other taxes normally placed upon private business, an amount designated by the City Council, i.e., an “in-lieu fee.” The trial court declared invalid the City of Fresno municipal code insofar as it authorized the in-lieu fee for water, sewer, and solid waste utilities, and enjoined Fresno from collecting the in-lieu fee. The Court of Appeal affirmed the judgment, concluding that the in-lieu fee was invalid under Article XIID on the basis that (i) water, sewer and trash fees are property-related fees subject to Proposition 218, (ii) although local agencies are entitled under Article XIID to recover all of their costs for utility services through user fees, the amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel and (iii) the City of Fresno did not establish that the in-lieu fee approximates the cost of services the City of Fresno provides to the utilities. The California Supreme Court denied the Authority of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

More recently, the California Supreme Court, in Bighorn-Desert View Water Agency v. Verjil (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge.

Section 1304 of the Riverside City Charter requires the City’s water enterprise (the “**Water Utility**”) to transfer, in monthly installments, an amount not to exceed 11.5% of the gross operating revenues of the Water Utility (“**Revenue Transfer**”). This requirement has been in the City Charter since 1907, when the City’s charter was approved and adopted by the electorate. Prior to 1968, the Water Utility was obligated to transfer, after all required expenditures had been made at the end of each fiscal year, all excess funds. In 1968, the electorate approved a change requiring a transfer of 11.5% of gross operating revenues. In 1977, the electorate approved a change to an amount “not to exceed” 11.5% of gross operating revenues.

The holdings in Bighorn and Fresno make it clear that the City’s water service charges are property-related fees or charges that must comply with Article XIID. This means that the revenues derived from these charges may not exceed the cost to the City of providing the related services. To the City’s knowledge, no California appellate court has considered whether payments like the Revenue Transfer are a cost of providing the related service. As of the date of this Official Statement, no claim has been filed with the City regarding the legality of including the Revenue Transfer as a cost of providing the related services and no litigation has been threatened. The statute of limitations for filing a claim is one year from the date that the City collected a Water Service Charge that was used to make the Revenue Transfer payments. Further, under the court’s holding in Ardon v City of Los Angeles, 174 Cal.App.4th 369 (2009) (under review), class claims are not permitted in local tax refund cases. The Court recognized the need for fiscal predictability and strict legislative control over refund claims at the local as well as State level and held that constitutional protections apply to general as well as specific claiming statutes, including the Government Claims Act, thus protecting tax refund claims asserted against local agencies.

If a court were to conclude that the Revenue Transfer is not a cost of providing the service of the Water Utility, then the Water Utility might be required to revise its rates and charges to eliminate the revenues needed to pay the Revenue Transfers, and the Water Utility could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Water Utility most likely would require the City to return the challenged Revenue Transfer and the Water Utility would be prohibited from making any future Revenue Transfers. In that situation, the City would prepare a cost study calculating the Water Utility's cost impact on the City, and the City would assess the Water Utility for such costs. It is unclear if such costs would equal the current Revenue Transfer.

In fiscal year 2008-09, the Revenue Transfer was in the amount of \$5,276,000, and the City has budgeted for a fiscal year 2009-10 Revenue Transfer of \$5,819,000.

Transfers from the City's Electric Enterprise. Although the City also makes a revenue transfer to the City's general fund from the City's electric utility, that transfer is not subject to Proposition 218, which expressly excludes electric rates from its scope. It is, however, subject to regulation under other provisions of State law. See " – Revenue Transfer from Electric Utility" below.

Reduction or Repeal of Taxes, Fees and Charges. Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's ability to pay Base Rental payments under the Project Lease could be adversely affected.

Revenue Transfer from Electric Utility

Effective December 1, 1977, transfers to the General Fund of the City of surplus funds of the City's electric utility (the "**Electric Utility**"), after payment of Operating and Maintenance Expenses and debt service, are limited by Article XII of the City Charter, as approved by the voters and adopted by the City Council on November 15, 1977. Such transfers are limited to 12 equal monthly installments during each fiscal year constituting a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor.

The transfers to the General Fund of the City for the fiscal year ending June 30, 2009 were \$29.6 million, equal to approximately 10.5% of the prior fiscal year's Gross Operating Revenues. The budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2010 is \$32.6 million, equal to approximately 11.5% of the prior fiscal year's Gross Operating Revenues.

In general, California law (Government Code §50076) provides that any fee that exceeds the reasonable cost of providing the service or regulatory activity for which the fee is charged and which is levied for general revenue purposes is a special tax. To the City's knowledge, no California appellate court has considered whether payments like the transfers to the General Fund are a cost of providing the related service. As of the date of this Official Statement, no claim has been filed with the City regarding the legality of including the General Fund transfer as a cost of providing the related services and no litigation has been threatened.

The statute of limitations for filing a claim is one year from the date that the City collected the electric revenues that were used to make the General Fund transfer. Further, under the court's holding in Ardon v City of Los Angeles, 174 Cal.App.4th 369 (2009) (under review), class claims are not permitted in local tax refund cases. The Court recognized the need for fiscal predictability and strict legislative control over refund claims at the local as well as State level and held that constitutional protections apply to general as well as specific claiming statutes, including the Government Claims Act, thus protecting tax refund claims asserted against local agencies.

If a court were to conclude that the General Fund transfer is not a cost of providing the service of the Electric Utility, then the Electric Utility might be required to revise its rates and charges to eliminate the revenues needed to pay the General Fund transfer, and the Electric Utility could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Electric Utility most likely would require the City to return the challenged General Fund transfer and the Electric Utility would be prohibited from making any future General Fund transfers.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's fiscal year 2004-05 Budget, approved by the voters in November 2004 and generally effective in fiscal year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in more stable City revenues, although the actual impact of Proposition 1A will depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

See the section entitled “RISK FACTORS – Impact of State Budget” in Appendix A for information about the State’s fiscal year 2009-10 budget and a shift of local property revenues under Proposition 1A (which must be repaid within three years).

Unitary Property

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

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

Future Initiatives

Article XIII A, Article XIII B, XIII C and XIII D were each adopted as measures that qualified for the ballot through California’s initiative process. From time to time other initiative measures could be adopted, further affecting the City’s revenues.

CONCLUDING INFORMATION

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at a purchase price of \$_____ (being the principal amount of the Certificates, less an Underwriter's discount in the amount of \$_____, plus a net original issue premium of \$_____). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Certificates if any Certificates are purchased. The Underwriter intends to offer the Certificates to the public initially at the prices and/or yields set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Certificates to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Certificates at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

Legal Opinion

Kutak Rock LLP, Los Angeles, California, Special Counsel, will render an opinion substantially in the form of Appendix D hereto with respect to the validity and enforceability of the City's obligations under the Lease Agreement and the validity of the Certificates. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement.

Certain matters will be passed upon for the City and the Authority by the City Attorney, and for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, California.

Fees payable to Special Counsel and Underwriter's Counsel are contingent upon execution and delivery of the Certificates.

Tax Matters

In the opinion of Kutak Rock LLP, Special Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain covenants, interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is exempt from present State of California personal income taxes, except that no opinion is expressed as to the exclusion from gross income of interest on any Certificate for any period during which such Certificate is held by a person who, within the meaning of Section 147(a) of the Internal Revenue Code of 1986 (the "Code"), is a "substantial user" of the facilities with respect to which the proceeds of the Certificates are used or is a "related person." A complete copy of the form of opinion of Special Counsel is set forth in Appendix D.

The opinion described in the preceding paragraph assumes compliance by the City, the Agency and the Developer with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Certificates. Failure to comply with such requirements could cause interest with respect to the Certificates to be included in gross income

for federal income tax purposes retroactive to the date of issuance of the Certificates. The City, the Agency and the Developer have covenanted to comply with such requirements. Special Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Certificates.

Special Counsel is further of the opinion that interest with respect to the Certificates is not a specific preference item for purposes of the federal alternative minimum tax.

Certain requirements, agreements and procedures contained or referred to in the Trust Agreement, the Lease Agreement, the Tax Regulatory Agreement, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any Certificate or the interest with respect thereto on or after any such change that occurs or action that is taken upon the advice or approval of Special Counsel other than Kutak Rock LLP.

The accrual or receipt of such interest may otherwise affect the federal income tax liability of the owners of the Certificates. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Special Counsel has expressed no opinion regarding any such consequences. Purchasers of the Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Certificates.

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to Certificates issued prior to enactment. Purchasers of the Certificates should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Special Counsel are based upon existing legislation as of the date of execution and delivery of the Certificates and Special Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

A copy of the proposed opinion of Special Counsel is set forth in APPENDIX D hereto.

Litigation

The City is not aware of any pending or threatened litigation concerning the validity of the Certificates or the Lease Agreement or challenging any action taken by the City or the Authority with respect to the Certificates or the Lease Agreement. Furthermore, the City is not aware of any pending or threatened litigation to restrain, enjoin, question or otherwise affect the Lease Agreement or the Trust Agreement or in any way contesting or affecting the validity or enforceability of any of the foregoing or any proceedings of the City taken with respect to any of the foregoing. Although there are a number of lawsuits and claims pending and threatened against the City, it is the opinion of the City that such litigation, claims and threatened litigation

will not materially affect the City's finances or impair its ability to make Base Rental payments or otherwise meet its obligations under the Lease Agreement.

Ratings

Fitch Ratings ("**Fitch**") has assigned its municipal bond rating of "AA-" to the Certificates and Standard & Poor's, a Division of McGraw-Hill Companies ("**S&P**"), has assigned its municipal bond rating of "A+" to the Certificates.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Certificates may have an adverse effect on the market price or marketability of the Certificates.

Miscellaneous

All of the descriptions of applicable law, the Lease Agreement, the Trust Agreement, the Leased Premises, the City, the Authority, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Certificates. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will realize.

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

CITY OF RIVERSIDE, CALIFORNIA

By: _____
City Manager

APPENDIX A

CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

General

The City is the county seat of Riverside County (the “**County**”) and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino Primary Metropolitan Statistical Area (the “**PMSA**”). The PMSA represents an important economic area of the State and of Southern California. It lays to the west and south, respectively, of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

Riverside and San Bernardino Counties cover 27,400 square miles, a land area larger than the State of Virginia. As of January 1, 2009, Riverside County had a population of approximately 2,107,653 and San Bernardino County had a population of approximately 2,060,950. With a population of over 4.1 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“**MSAs**”) in the United States. Riverside County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties’ population.

Municipal Government

The City was incorporated in 1883 and covers 81.5 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council.

Functions of the City government are carried out by approximately 2,700 full and part-time personnel. The City operates and maintains a sewer, water and electrical system. Other City services include diversified recreation programs, police, fire, airport, parks, a museum and libraries

Services and Facilities

Public Safety and Welfare. The City provides law enforcement and fire protection services. The Police Department currently employs 403 sworn officers and the Fire Department employs 231 sworn fire fighters operating out of 14 fire stations. Other services provided by the City include emergency medical aid, traffic safety maintenance, and building safety regulation and inspection.

Public Services. The City provides electric, water, sewer, refuse and transportation service to the City residents through municipal enterprises. The City also owns and operates a general aviation airport.

Public Works. Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning and development administration, environmental review, code enforcement and street tree maintenance.

Leisure and Community Services. Among the City’s cultural institutions and activities are a convention center, the Riverside Art Museum, a metropolitan museum, a number of libraries, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente.

Population

As of January 1, 2009 the population of the City was estimated to be 300,430, an increase of approximately 1.4% percent over the estimated population of the City in 2008. The following table presents population data for both the City and County.

**Table 1
POPULATION**

Year	City of Riverside	Riverside County
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2001	262,264	1,590,186
2002	270,944	1,653,847
2003	277,459	1,726,321
2004	281,775	1,807,624
2005	286,239	1,882,812
2006	288,933	1,962,801
2007	291,611	2,034,840
2008	296,191	2,078,601
2009	300,430	2,107,653

Sources: 1950-2000 U.S. Census; 2001-2009 California Department of Finance (Demographic Research Unit)

Accounting Policies and Financial Reporting

The accounts of the City are organized into separate funds to account for different activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The City’s general fund and other governmental fund types use the modified accrual basis of accounting. All of the City’s other funds, including proprietary fund types and fiduciary fund types, use the accrual basis of accounting. The basis

of accounting for all funds is more fully explained in the “Notes to the Basic Financial Statements” contained in APPENDIX C hereto.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

The City’s current auditor (the “**Auditor**”) is the firm of Mayer Hoffman McCann PC, Irvine California. The audited financial statements of the City for fiscal year 2008-09 are attached hereto as APPENDIX C. *The City’s financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit of the financial condition of the City.*

The City General Fund finances the legally authorized activities of the City not provided for in other restricted funds. General fund revenues are derived from such sources as taxes; licenses and permits, fines, forfeits and penalties; use of money and property; aid from other governmental agencies; charges for current services; and other revenue. General Fund expenditures are classified by the functions of general government, public safety, highways and streets, culture and recreation and community development.

City Financial Data

The following tables provide a five-year history of the City's Comparative Balance Sheet, General Fund revenues, expenditures, transfers, and ending fund balances.

Table 2
CITY OF RIVERSIDE
GENERAL FUND BALANCE SHEET (As of June 30)
(Amounts Expressed in Thousands)

	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09
ASSETS:					
Cash and Investments ⁽¹⁾	\$ 78,366	\$ 92,004	\$ 82,012	\$ 64,347	\$ 48,202
Cash and investments at fiscal agent ⁽²⁾	63,165	38,271	15,778	13,042	12,355
Receivables (net)					
Interest	922	1,080	955	526	255
Property taxes	8,436	9,714	9,480 ⁽³⁾	8,316 ⁽³⁾	5,389
Sales taxes	9,103	10,664	10,221	8,032	6,295
Utilities billed	552	582	706	885	764
Accounts	3,110	3,611	4,140	5,323	7,803
Intergovernmental	5,066	4,012	6,585	4,576	3,803
Notes	70	70	70	246	277
Prepaid items	176	265	691	512	293
Due from other funds	6,921	8,266	7,435	5,911	15,981
Advances to other funds ⁽²⁾	33,715	33,494	31,626	27,946	27,465
Land & Improvements held for resale	--	2,593	2,593	2,593	--
Total Assets	209,602	204,626	172,292	142,255	128,882
LIABILITIES:					
Accounts Payable	4,234	7,507	8,064	10,334	11,400
Accrued payroll	7,908	9,609	11,457	13,829	12,060
Retainage payable	382	303	164	647	44
Intergovernmental	138	155	163	146	140
Deferred revenue	12,427	8,543	8,608 ⁽³⁾	6,094 ⁽³⁾	3,580 ⁽³⁾
Deposits ⁽¹⁾	28,564	33,226	30,727	20,367	24,062
Due to other funds	50	50	50	50	--
Advances from other funds ⁽¹⁾	2,146	13,743	18,293 ⁽⁴⁾	9,571	217
Total Liabilities	55,849	73,136	77,526	61,038	51,503
FUND BALANCE:					
Reserved ⁽⁵⁾	44,487	62,523	50,631	36,025	41,400
Unreserved, designated for economic contingencies ⁽⁶⁾	27,000	30,000	34,000	34,000	30,000
Unreserved, designated for future operations	59,593 ⁽⁷⁾	35,487	7,288	10,253	2,888
Unreserved, designated for insurance	6,400				
Unreserved, undesignated	16,273	3,480	2,847	939	3,091
Total fund balances	153,753	131,490	94,766	81,217	77,379
Total Liabilities and Fund Balances	\$209,602	\$204,626	\$172,292	\$142,255	\$128,882

(1) The reduction in "Cash and Investments" in fiscal years 2006-07 and 2007-08 and reductions in "Deposits" and "Advances from other funds" reflect efforts by the City to use money in its funds and accounts to repay interfund advances and repay City customers related to completed public works projects.

(2) Balance in fiscal year 2004-05 is attributable to the issuance of a pension obligation bond on behalf of Miscellaneous employees. The portion of the proceeds that was not applicable to the General Fund was treated as advanced to other City funds, which will repay the advance in connection with payment of debt service on the pension obligation bonds.

(3) In fiscal years 2006-07 and 2007-08, Property taxes receivable and Deferred revenue, which partially represents deferred property taxes, have been restated to reflect a presentation consistent with the current year presentation.

(4) The increase in advances from other funds in fiscal year 2006-07 is attributable to new borrowing to finance an expansion of the City's fiber optic network, repaving of the parking lot at the City's Corporation Yard, and acquisition of a parking lot for the City's Homeless Shelter. All such amounts have been paid.

- (5) Reserved for encumbrances, long-term receivables, interest expense and advances to other funds.
 - (6) The City's policy is to maintain this fund in an amount equal to 15% of the next fiscal year's expenditures; moneys in the fund are available for use at the City Council's discretion.
 - (7) Proceeds of outstanding certificates of participation that are designated for specific purposes. See "-Long-Term Obligations".
- Source: City Audited Financial Statements (except as noted).*

Table 3
CITY OF RIVERSIDE
STATEMENT OF GENERAL FUND
REVENUES, EXPENDITURES AND FUND BALANCES
(Fiscal Year Ending June 30)
(Amounts Expressed in Thousands)

	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09
Revenues:					
Taxes	\$ 116,018	\$ 129,824	\$135,390	\$135,991	\$126,838
Licenses and permits	7,374	8,370	7,821	7,144	6,381
Intergovernmental ⁽¹⁾	15,366	14,315	12,069	10,628	10,802
Charges for services	11,291	11,526	11,903	11,325	9,003
Fines and forfeitures	1,783	1,908	2,559	4,573	4,649
Special assessments	4,118	3,969	3,963	4,110	4,235
Rental and Investment Income	4,251	5,528	6,827	5,787	3,635
Miscellaneous ⁽²⁾	4,749	1,732	3,184	11,316	5,857
Total Revenues	164,950	177,172	183,716	190,874	171,400
Expenditures					
Current:					
General Government ⁽³⁾	14,351	15,525	20,563	7,764 ⁽⁵⁾	8,148 ⁽⁵⁾
Public safety ⁽³⁾	117,268	126,007	139,739	151,773	145,802
Highways and streets ⁽³⁾	11,695	11,281	19,722	25,209	18,452
Culture and recreation ⁽³⁾	20,957	22,065	21,680	30,483	26,646
Capital Outlay ⁽³⁾	15,760	31,413 ⁽⁴⁾	32,255 ⁽⁴⁾	19,798	4,836
Debt service; principal	3,522	4,895	5,826	5,683	5,369
Debt service; interest	8,337	11,282	11,786	12,118	9,060
Bond issuance costs	487	--	--	160	259
Total Expenditures	192,377	222,468	251,571	252,988	218,572
Revenues over (under) expenditures	(27,427)	(45,296)	(67,855)	(62,114)	(47,172)
Other Financing Sources (Uses)					
Transfers in	22,846	26,232	32,656	33,526	50,650
Transfers out	(8,076)	(3,304)	(1,922)		(7,776)
Proceeds from issuance of long-term debt ⁽⁶⁾	60,000			36,108	30,425
Payment to escrow account for advance refunding				(30,000) ⁽⁸⁾	(30,200)
Sales of capital assets	92	105	397	8,931	235
Total other financing sources (uses)	74,862	23,033	31,131	48,565	43,334
Special item-pension contribution ⁽⁷⁾	(28,213)				
Net change in fund balances	19,222	(22,263)	(36,724)	(13,549)	(3,838)
Fund balances, July 1	134,527	153,753	131,490	94,766	81,217
Fund balances, June 30	\$153,749	\$131,490	\$94,766	\$81,217	\$77,379

- (1) Reflects revenue received from grants and motor vehicle in-lieu fees.
- (2) Increase in fiscal year 2007-08 reflects one-time receipts associated with the reimbursement of funds previously expended related to completed public works projects and one-time contributions by a City utility fund for a public works project, the cost of which will be recovered from collection of fees and charges.
- (3) Prior to fiscal year 2008-09, Capital outlay expenditures were classified with the related functional expenditures in the audited financial statements. Beginning in fiscal year 2008-09, Capital outlay expenditures have been segregated from their functional categories. Prior year capital outlay expenditures have been reclassified to the table above to enhance comparability.
- (4) Increase in fiscal years 2004-05 through 2006-07 reflects expenditure of a portion of proceeds of City bonds/certificates of participation. Proceeds of the City's 2004 Measure G Fire Facilities General Obligation bonds were spent on fire stations and a new Emergency Operation Center. 2003 certificates of participation were executed and delivered to finance a parking garage (lease payments are charged to the General Fund), a project for the Agency (lease payments are charged to the Agency) and several General Fund projects, including the Arlington Branch Library, the City Hall remodeling project, the Magnolia Police Station and the Airport Fire Station.
- (5) Reductions in fiscal years 2007-08 and 2008-09 reflect substantially reduced technology expenditures.

- (6) Proceeds of outstanding certificates of participation, general obligation bonds and pension obligation bonds that are designated for specific purposes. See “- Long-Term Obligations.”
 - (7) City’s pension bonds deposited with CalPERS. See “-Long-Term Obligations”.
 - (8) City refunded \$30,000 (000s omitted) of variable rate pension bonds in 2008.
- Source: Annual City Audits (except as noted).*

Budgetary Process and Administration

The City uses the following procedures when establishing the budgetary data reflected in its financial statements:

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget which includes a summary of proposed revenue and expenditures and historical data for the two preceding fiscal years. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. Budgets for the funds are adopted on a basis consistent with generally accepted accounting principles.

Table 4 summarizes the final budget and actual results of the General Fund of the City for fiscal year 2008-09.

Table 4
CITY OF RIVERSIDE
GENERAL FUND BUDGET
(Fiscal Year 2008-09)
(000's Omitted)

	<u>2008-09</u> <u>Final Budget</u>	<u>2008-09</u> <u>Actual</u>	<u>Variance</u>
Revenues			
Taxes ⁽¹⁾	\$142,724	\$126,838	(\$15,886)
Licenses and permits	7,733	6,381	(1,352)
Intergovernmental	13,731	10,802	(2,929)
Charges for services	11,228	9,003	(2,225)
Fines and forfeitures	4,710	4,649	(61)
Special assessments	3,543	4,235	692
Rental and investment income	3,009	3,635	626
Miscellaneous	6,497	5,857	(640)
Total revenues	193,175	171,400	(21,775)
Expenditures			
General government	69,235	55,136	(14,099)
Allocated expenditures	(59,966)	(46,988)	12,978
Public Safety	164,764	145,802	(18,962)
Highways and streets	24,068	18,452	(5,616)
Culture and recreation	31,646	26,646	(5,000)
Capital Outlay	8,380	4,836	(3,544)
Debt service: Principal	5,442	5,369	(73)
Debt service: Interest	9,164	9,060	(104)
Bond issuance costs	197	259	62
Total expenditures	252,930	218,572	(34,358)
Deficiency of revenue under expenditures			
Other financing sources (uses):			
Transfers in ⁽²⁾	34,559	50,650	15,791
Transfers out	--	(7,776)	(7,776)
Proceeds from issuance of long-term debt ⁽³⁾	--	30,425	30,425
Payment to Escrow Account for Advance Refunding ⁽³⁾	--	(30,200)	(30,200)
Sales of capital assets	2,195	235	(1,960)
Total other financing sources (uses)	37,054	43,334	6,280
Net change in fund balances	(22,701)	(3,838)	18,863
Fund balance, beginning	81,217	81,217	--
Fund balance, ending	\$58,516	\$77,379	\$18,863

(1) The variance between budgeted and actual revenues is attributable to the fact that sales and property revenues did not increase as anticipated.

(2) The variance between budgeted and actual transfers reflects (a) the portion of the sale price above book value of property sold to the Water Fund, (b) three transfers from the Certificates of Participation Debt Service Fund to the General Fund: (1) reimbursement from capitalized interest proceeds for interest costs paid by the General Fund, (2) a transfer of excess funds not needed for debt service, and (3) correction of an erroneous transfer, and (c) reclassification of interest earnings on funds held by the City's bond trustee to be used for debt service on City obligations in future years..

(3) Proceeds of the City's 2009 Pension Obligation Notes (see – "Short Term Obligations" below), the proceeds of which were used to refund outstanding Pension Obligation Notes.

Source: City of Riverside.

Fiscal Year 2008-09 Budget. The budget for fiscal year 2008-09 was adopted in June 2008 as balanced at approximately \$215 million in revenue and expenditures, a 5% reduction from the prior year. As fiscal year 2008-09 began, it became apparent that revenue would be lower than budgeted, primarily due to a 15% reduction in sales taxes, a reduction in property taxes and a significant reduction in development-related revenues. City management reduced General Fund expenditures during the year (to approximately \$197 million) with the goal of ending with a balanced budget using approximately \$2 million of reserves.

City management reassigned General Fund employees to non-General Fund departments as opportunities arose. Vacancies, other than for sworn police and fire personnel, were not filled except in extreme circumstances. Policies which create efficiencies in human resources for the City, together with intensive review of all expenditures, have allowed the City to make necessary expenditure reductions, while avoiding dramatic negative impacts to service levels. City staff advised the City Council on multiple occasions about the expected impact of economic conditions, but no budget amendment was required. Instead, as described above, the City took mid-year steps to reduce expenditures to balance revenues and expenditures.

Fiscal Year 2009-10 Budget. In connection with adoption of the City's fiscal year 2009-10 budget, the City continues to take similar efforts to those described above to balance revenues and expenditures. The following table summarizes the fiscal year 2009-10 budget.

**Table 5
CITY OF RIVERSIDE
SUMMARY OF GENERAL FUND BUDGET
(Fiscal Year 2009-10)**

	<u>2009-10</u>
Revenues:	
Sales & Use Taxes	\$42,185,000
Property Taxes	45,640,000
Utilities Users Tax	28,028,000
Charges for Services	9,542,530
Other Taxes	8,101,000
Licenses and Permits	6,959,002
Fines and Forfeitures	4,057,000
Special Assessments	4,127,200
Intergovernmental Revenues ⁽¹⁾	2,683,000
Other	5,867,700
Interfund Transfers ⁽²⁾	38,410,800
<i>Total Revenues</i>	195,601,232
Expenditures:	
City Clerk ⁽³⁾	1,029,653
City Council ⁽³⁾	854,603
City Manager ⁽³⁾	13,978,596
Community Development ⁽³⁾	6,680,116
Development	5,342,173
Fire	44,559,895
General Services	5,949,032
Human Resources ⁽³⁾	2,582,404
Information Technology ⁽³⁾	9,638,896
Library	6,249,552
Mayor	774,303
Museum	1,129,453
Office of the City Attorney ⁽³⁾	3,537,641
Parks, Recreation & Comm Svcs	14,078,516
Police	86,549,860
Public Works	16,077,559
Adj. Operations Budget	219,012,252
Net Cost Allocation	(17,212,632)
Managed Savings	(4,028,515)
<i>Total Expenditures</i>	\$197,771,105
Opening Reserves	40,091,000
Ending Reserves	\$37,830,127

(1) The City does not initially budget for intergovernmental revenues (grants) except for a limited number of "guaranteed" grants. The budget is amended during the fiscal year when grants are awarded.

(2) Interfund Transfers are composed of the transfers to the General Fund from the Water Utility and the Electric Utility described in "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIIIC and XIID of the State Constitution" and "- Revenue Transfer from Electric Utility," respectively.

(3) The "General Government" expenditure line item in Table 4 is not shown in Table 5 because the budgeted "General Government" expenditures are detailed in the line items "City Clerk", "City Council", "City Manager", "Community Development", "Human Resources", "Information Technology", and "Office of the City Attorney".

Source: City of Riverside.

General Fund Reserves

The following chart illustrates the general fund reserves of the City for fiscal years 1999-00 through 2008-09.

Table 6
CITY OF RIVERSIDE
GENERAL FUND RESERVES
(As of June 30)

<u>Fiscal Year</u>	(000's Omitted) <u>Ending Fund Balance</u>	<u>Percent Change</u>
1999-00	\$24,130	--
2000-01	32,469	34.5%
2001-02	45,170	39.1
2002-03	53,700	18.9
2003-04	50,503	(6.0)
2004-05	55,650	10.2
2005-06	46,626	(16.2)
2006-07	46,239	(0.8)
2007-08	44,671	(3.4)
2008-09	40,091 ⁽¹⁾	(10.5)

(1) The available fund balance of \$40,091 at June 30, 2009 includes the following: "Unreserved, designated for economic contingencies" (\$30,000), "Reserved (for Interest Expense)" (\$7,000) and "Unreserved: General Fund" (\$3,091). Moneys in these funds, except moneys in the "Reserved for Interest Expense Fund", are available at the City Council's discretion.

Source: City of Riverside annual budgets.

Taxes and Other Revenue

The General Fund receives the following local taxes and revenue. In the following sections, each of these sources of local tax revenue is described in greater detail.

Table 7
CITY OF RIVERSIDE
GENERAL FUND TAX REVENUES BY SOURCE

	Fiscal Year				
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Property Taxes	\$ 31,492,000	\$ 39,051,000	\$ 44,163,000	\$ 50,432,000	\$ 50,936,000
Sales & Use Tax	54,486,000	58,830,000	57,233,000	50,526,000	41,881,000
Utility Users Tax	22,135,000	23,502,000	25,384,000	26,265,000	25,964,000
Other Taxes ⁽¹⁾	7,905,000	8,441,000	8,610,000	8,768,000	8,057,000
Total Taxes	<u>116,018,000</u>	<u>129,824,000</u>	<u>135,390,000</u>	<u>135,991,000</u>	<u>126,838,000</u>

(1) Other Tax includes Property Transfer Tax, Street Light Excise Tax, Transient Occupancy Tax, and Special Assessments Levied.

Source: City of Riverside Annual Financial Reports.

Sales Taxes

Sales and use taxes represent the largest source of general fund revenue to the City. This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State. However, the State budget situation has resulted in a temporary redirection of sales tax revenues from the City to the State (see “ – Impact of State Budget” below).

Sales Tax Rates. The City’s sales tax revenue represents the City’s share of the sales and use tax imposed on taxable transactions occurring within the City’s boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax Law (the “**Sales Tax Law**”).

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City’s share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

**Table 8
CITY OF RIVERSIDE
Sales Tax Rates
Effective April 1, 2009**

State General Fund (1)	7.25%
City	1.00
Riverside County Transportation Commission	<u>0.50</u>
Total	8.75%

(1) Effective April 1, 2009, the combined State-wide sales tax rate has been temporarily increased to 8.25% which includes the 1.00% City share. See “State Budget and Its Impact on the City” above.

Source: California State Board of Equalization.

The State’s actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State, of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and

- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's May 2003 publication entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at <http://www.boe.ca.gov/>. See also "RISK FACTORS – Sales Taxes."

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the Board first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Impact of State Budget. The State will temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its "economic recovery" bonds; the State will increase local governments' share of local property tax by a like amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Base Rental payments. First, there may be a

timing issue associated with the “backfill” of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, the County would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City’s cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Base Rental payments, the City may not know the exact amount of revenue available to pay Base Rental payments

History of Taxable Transactions. A summary of historic taxable sales within the City for calendar years 2003 through 2007 is shown in the following table. Total taxable sales during the first three quarters of calendar year 2008 in the County were reported to be \$3,140,594,000, a 12.44% decrease from the total taxable sales of \$3,586,680,000 reported during the first three quarters of calendar year 2007. Annual figures for 2008 are not yet available.

**Table 9
CITY OF RIVERSIDE
TAXABLE TRANSACTIONS
For Calendar Years 2003 Through 2007
(Dollars in thousands)**

	2003	2004	2005	2006	2007
Apparel stores	\$ 124,223	\$ 145,023	\$ 160,138	\$ 174,662	\$ 171,743
General merchandise stores	536,795	597,030	625,500	606,351	568,120
Food stores	145,308	154,562	168,015	176,052	180,993
Eating & drinking places	276,757	300,858	330,249	350,911	374,528
Home furnishings & appliances	93,977	102,243	108,873	119,217	107,072
Building materials & farm implements	395,175	517,865	584,760	573,736	334,342
Auto dealers and auto supplies	987,372	1,172,792	1,245,340	1,219,784	1,170,184
Service stations	222,575	266,658	306,008	342,810	402,574
Other retail stores	427,978	461,968	491,080	519,454	578,695
Retail Stores Totals	3,210,160	3,718,999	4,019,963	4,082,977	3,888,251
All other outlets	764,423	884,770	930,291	951,095	901,303
Total all outlets	\$3,974,583	\$4,603,769	\$4,950,254	\$5,034,072	\$4,789,554

Source: California State Board of Equalization.