

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 4, 2015

NEW ISSUE—FULL BOOK-ENTRY
BANK QUALIFIED

RATING:
S&P: “AA”
(See “RATING” herein)

In the opinion of Quint & Thimmig LLP, Larkspur, California, Special Counsel, subject to compliance by the City with certain covenants, interest with respect to the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Special Counsel that the Lease Agreement is a “qualified tax-exempt obligation” under section 265(b)(3) of the Internal Revenue Code of 1986. In addition, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS” herein.



\$ _____ *
CERTIFICATES OF PARTICIPATION
(2016 Financing Project)
Evidencing the Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments to be Made by the
CITY OF SAUSALITO
(Marin County, California)
As the Rental for Certain Property Pursuant to a
Lease Agreement with the Sausalito Financing Authority

Dated: Date of Delivery

Due: May 1, as shown on the inside cover

The \$ _____ * Certificates of Participation (2016 Financing Project) (the “Certificates”), are being sold to provide funds to (a) finance capital improvements to the MLK campus and Robin Sweeny, Southview and Dunphy Park in the City of Sausalito (the “City”), as described herein (the “Project”), and (b) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates. The Certificates will be executed and delivered under and pursuant to a Trust Agreement, dated as of January 1, 2016 (the “Trust Agreement”), by and among the City, the Sausalito Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the “Trustee”). The Certificates evidence direct, undivided fractional interests of the owners thereof in Lease Payments (as defined herein) to be made by the City to the Authority for the use and occupancy of the Property (as defined herein) under and pursuant to a Lease Agreement, dated as of January 1, 2016, by and between the City and the Authority (the “Lease Agreement”). The Authority will assign its right to receive Lease Payments from the City under the Lease Agreement and its right to enforce payment of the Lease Payments when due or otherwise protect its interest in the event of a default by the City thereunder to the Trustee for the benefit of the registered owners of the Certificates. *A reserve fund will not be funded for the Certificates.*

The Certificates will be executed and delivered in book-entry form only, and will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (referred to herein as “DTC”). Purchasers of the Certificates (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from their date of delivery, and is payable semiannually by check mailed on each May 1 and November 1, commencing May 1, 2016. The Certificates may be executed and delivered in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. See “THE CERTIFICATES—Book-Entry-Only System” herein.

The Certificates are subject to redemption, as described herein. See “THE CERTIFICATES—Redemption” herein.

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OR INDEBTEDNESS OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS OR RESTRICTION OR AN OBLIGATION 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.

MATURITY SCHEDULE

SEE THE INSIDE FRONT COVER

The following firm, serving as municipal advisor to the City, has structured this issue:



The cover page contains certain information for general reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “RISK FACTORS” herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if delivered and received by the Underwriter subject to approval by Quint & Thimmig LLP, Larkspur, California, as Special Counsel. Certain matters will be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and by Mary Anne Wagner, Esq., City Attorney, and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Certificates will be available for delivery to DTC in New York, New York, on or about January 7, 2016.



Dated: December ____, 2015

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$ _____ *

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Evidencing the Direct, Undivided Fractional Interests
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(Marin County, California)
As the Rental for Certain Property Pursuant to a
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CUSIP Prefix: _____ †

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				

*Preliminary, subject to change.

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For purposes of compliance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), this Preliminary Official Statement constitutes an “official statement” of the City with respect to the Certificates that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been obtained from the City and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease, or other documents are made subject to the provisions of such documents 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 Manager for further information. See “INTRODUCTION—Other Information.”

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.

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, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements 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. No assurance is given that actual results will meet the City’s forecasts in any way. Neither the City nor the Authority is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

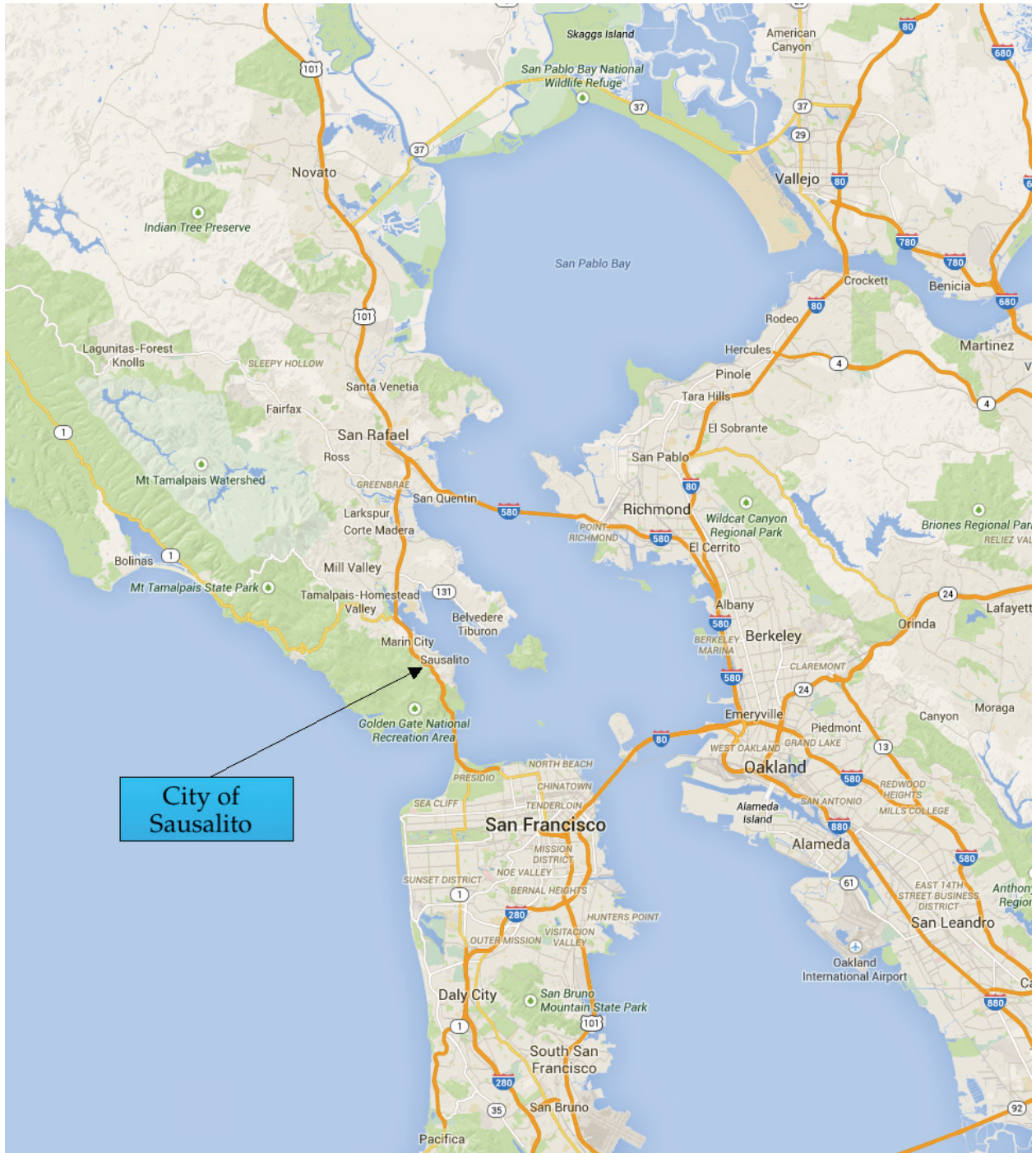
The execution, sale and delivery of the Certificates has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Certificates.

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CITY OF SAUSALITO LOCATION MAP



CITY OF SAUSALITO

City of Sausalito
420 Litho Street
Sausalito CA 94965
(415) 508-2110
<http://www.ci.sausalito.ca.us/>

City Council

Thomas Theodores, *Mayor*
Jill James Hoffman, *Vice Mayor*
Linda Pfeifer, *Council Member*
Herb Weiner, *Council Member*
Ray Withy, *Council Member*

City Staff

Adam W. Politzer, *City Manager*
Brian Moura, *Interim Administrative Services Director/Treasurer*
Lilly Whalen, *City Clerk*
Mary Anne Wagner, *City Attorney*

SPECIAL SERVICES

Special Counsel and Disclosure Counsel

Quint & Thimmig LLP
Larkspur, California

Financial Advisor

NHA Advisors, LLC
San Rafael, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

\$ _____ *

CERTIFICATES OF PARTICIPATION
(2016 Financing Project)
Evidencing Direct, Undivided Fractional Interests of the
Owners Thereof in Lease Payments to be Made by the
CITY OF SAUSALITO
as the Rental for Certain Property
Pursuant to a Lease Agreement with the
Sausalito Financing Authority

INTRODUCTION

This introduction does not purport to be complete and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the captioned Certificates. Potential investors are encouraged to read this entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement and in APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS.

General

This Official Statement, including the cover page, the inside cover page and appendices hereto, is provided to furnish information in connection with the execution, sale and delivery of \$ _____* aggregate principal amount of Certificates of Participation (2016 Financing Project) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2016 (the “Trust Agreement”), by and among the City of Sausalito (the “City”), the Sausalito Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

Proceeds of the Certificates will be used to (a) finance capital improvements to the City’s MLK campus and Robin Sweeny, Southview and Dunphy Parks, including, but not limited to, site improvements, roofing, exterior enclosure, plumbing, electrical systems and equipment upgrades (collectively, the “Project”) and (b) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates. See “THE PROJECT.”

The City will lease its existing MLK campus property (collectively, the “Property”) to the Authority pursuant to a Site and Facility Lease, dated as of January 1, 2016 (the “Site and Facility Lease”). The Authority will lease the Property back to the City pursuant to a Lease Agreement, dated as of January 1, 2016 (the “Lease Agreement”). The Certificates are payable solely from and secured by certain lease payments (“Lease Payments”) to be made by the City to the Authority pursuant to the Lease Agreement. See “SOURCE OF PAYMENT FOR THE CERTIFICATES” and “THE PROPERTY.”

Interest with respect to the Certificates is payable on May 1 and November 1 of each year, commencing May 1, 2016. The Certificates will mature in the amounts and on the dates and be payable at the interest rates shown on the inside cover of this Official Statement. See “THE CERTIFICATES.”

* Preliminary, subject to change.

The Certificates will be delivered in fully registered form only, in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”). DTC will act as the depository for the Certificates and all payments due with respect to the Certificates will be made to Cede & Co. Ownership interests in the Certificates may be purchased only in book-entry form. See “THE CERTIFICATES—Book-Entry Only System” and APPENDIX F—DTC’S BOOK-ENTRY ONLY SYSTEM.

Source of Payment for the Certificates

The Certificates represent direct, undivided fractional interests of the Owners thereof in the Lease Payments to be paid by the City to the Authority pursuant to the Lease Agreement. Lease Payments are calculated to be sufficient to permit the payment of the principal and interest with respect to the Certificates when due. The Lease Payments are payable by the City from its general fund for the right to use and possess the Property. The Lease Payments are subject to abatement during any period in which by reason of damage or destruction or condemnation or eminent domain there is substantial interference with the use and occupancy by the City of the Property or any portion thereof. The City will covenant under the Lease Agreement to take such action as necessary to include the Lease Payments in its annual budget and to make all necessary appropriations therefor (subject to abatement under certain circumstances described in the Lease Agreement). Pursuant to an Assignment Agreement, dated as of January 1, 2016 (the “Assignment Agreement”), by and between the Authority and the Trustee, the Authority will assign to the Trustee, for the benefit of the Owners of the Certificates, certain of its rights under the Lease Agreement, including its right to receive Lease Payments from the City for the purpose of securing the payment of principal and interest with respect to the Certificates. See “SOURCE OF PAYMENT FOR THE CERTIFICATES” and “RISK FACTORS.”

A reserve fund will not be funded for the Certificates.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT 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 LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Revenues from MLK Campus

The City leases units in the buildings on the Property to various tenants, the larger two of which are 501(c)(3) nonprofit corporations, under operating leases with terms ranging from one to five years, with various options to renew. The lease activities on the Property are accounted for in a City enterprise fund.

While the source of payment for the Certificates will be the City’s general fund and while the Property lease revenues are not pledged to the payment of Lease Payments, the City anticipates applying the net revenues from the Property leases to make the Lease Payments. The primary leases contributing to the net operating income are with the three anchor tenants (Lycee Francais, New Village School and Sophia Collier). These leases are 5 year leases, with three five year options to renew by the tenants. The ten-

ants requested long-term leases because the tenants have invested substantial tenant improvements. There are more than 15 years on each of the renewals. All leases have annual rent inflators.

Based upon projected annual net revenue from the leases of approximately \$1,000,000, and estimated annual Lease Payments of \$650,000, the net revenue of the Property leases provides estimated debt service coverage of approximately 1.54 times.

The City

The City was incorporated under California law as a general law city on September 4, 1893. It is located on San Francisco Bay, north of San Francisco on the Marin County (the “County”) side of the Golden Gate Bridge. The City operates under a Council/Manager form of government. Policy-making and legislative authority are vested in a City Council consisting of mayor and four other members, all elected on a non-partisan, at large basis. The City Council appoints the City Manager who, in turn, appoints the heads of the various departments. Council members serve overlapping four-year terms. The mayor is appointed by the City Council on rotating one-year terms. See “THE CITY,” “CITY FINANCIAL INFORMATION” and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY.

The Authority

The Authority is a California joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of November 21, 2014, by and between the City and the California Municipal Finance Authority to provide for the financing of public capital improvements by the City. See “THE AUTHORITY.”

Continuing Disclosure

The City will covenant, pursuant to a continuing disclosure certificate (the “Continuing Disclosure Certificate”) to be executed on the date of delivery of the Certificates, for the benefit of owners and beneficial owners of the Certificates, to provide certain financial information and operating data related to the City by not later than March 31 following the end of the City’s Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure Certificate is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The covenants of the City in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Summaries of Documents

This Official Statement contains descriptions of the Certificates, the Trust Agreement, the Site and Facility Lease, the Lease Agreement, the Assignment Agreement and various other agreements and documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’

rights generally. Copies of the various documents described herein are available for inspection during business hours at the corporate trust office of the Trustee at 400 South Hope Street, Suite 400, Los Angeles, CA 90071.

Other Information

This Official Statement speaks only as of its date as set forth on the cover hereof, the information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

Unless otherwise expressly noted, all references to internet websites in this Official Statement, including without limitation, the City’s website, are shown for reference and convenience only and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the City and the City makes no representation regarding the accuracy or completeness of the information therein.

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of the proceeds from the sale of the Certificates and other moneys:

Sources	
Par Amount of the Certificates	
Plus: Original Issue Premium	
Total Sources	_____
	=====
Uses	
Deposit to Project Fund ⁽¹⁾	
Deposit to Delivery Costs Fund ⁽²⁾	
Total Uses	_____
	=====

⁽¹⁾ Amounts deposited in the Project Fund will be used to finance the Project. See THE PROJECT.
⁽²⁾ Delivery Costs include the Underwriter’s discount, fees and expenses of the financial advisor, special counsel, disclosure counsel and the Trustee, printing expenses, rating fees, title insurance and other costs relating to the Certificates.

THE PROJECT

Proceeds of the Certificates will be used to (a) finance the costs of the Project (estimated to total \$ _____) and (b) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates.

The Project includes all public capital improvements relating to the City owned “MLK Campus” located at 100 Ebbtide Avenue and three (3) City of Sausalito Public Parks: Robin Sweeny, Southview and Dunphy Park. Such public capital improvements include, but are not limited to: Site Improvements, Roofing, Exterior Enclosure, Plumbing, Electrical Systems and Equipment Upgrades as well as compliance with current ADA Code.

1.) MLK Campus Improvements and Repair

Background: The MLK Campus is a City owned facility that consists of Six (6) buildings, currently leased to various tenants including artists, small cottage industries and two (2) Schools. There are five (5) additional buildings that include a Gymnasium, two (2) Transformer Buildings, a Field House and an abandoned Boiler Room Building. The remainder of the property is dedicated to recreational purposes. The property is host to basketball and tennis courts, soccer and baseball fields, a running track and gymnasium.

Summary: A Comprehensive Facility Condition Assessment was completed on April 28, 2015 which analyzed the current condition of the facilities, identified physical or operational deficiencies and provided cost estimates and prioritized schedules of repair work. The study established that there is a total of \$3,038,045 required to upgrade and maintain the MLK facilities in a good condition. There is an immediate capital need of \$1,244,605 with \$1,793,440 being required during the next two to ten years.

Distribution of Capital Needs by Building System:

	2015	2016- 2018	Total
A10 - Foundations	\$ 9,000.00	\$ 2,000.00	\$ 11,000.00
A20 - Basement Construction	4,500.00	—	4,500.00
B10 - SuperStructure	28,526.50	26,267.50	54,794.00
B20 - Exterior Enclosure	35,097.25	313,160.00	348,257.25
B30 - Roofing	371,502.90	330,819.83	702,322.73
C10 - Interior Construction	25,400.00	7,810.50	33,210.50
C20 - Stairs	600.00	—	600.00
C30 - Interior Finishes	84,744.21	365,929.27	450,673.48
D20 - Plumbing	18,248.35	41,834.76	60,083.11
D30 - HVAC	54,120.00	259,253.13	313,373.13
D50 - Electrical Systems	222,139.32	68,504.50	290,643.82
G20 - Site Improvements	390,726.03	377,860.81	768,586.84
Total	<u>\$1,244,604.56</u>	<u>\$1,793,440.30</u>	<u>\$3,038,044.86</u>

2.) Robin Sweeny Park Improvements and Repair

Background: Robin Sweeny Park is a City owned facility that consists of a children’s play area, lawn, basketball court, and pathways. It is located directly in front of City Hall and is used by residents and visitors for park activities and special events.

Summary: In 2010 the City contracted with landscape architects Carducci and Associates to come up with plans to bring the park up to today’s codes and standards. The plan established that there is a total of \$1,150,000 needed to make the necessary changes. The Plan has been approved by the City Council and is set to go to the Planning Commission in July 2015.

Distribution of Capital Needs by Building Park Area:

ADA Code Improvements	\$ 250,000
Play Area Code Updates	500,000
Turf and Planting Renovations	150,000
Additional Hardscape Improvements	250,000
Total	<u>\$1,150,000</u>

3.) Dunphy Park Improvements and Repair

Background: Dunphy Park is a City owned facility that consists of a large lawn area, 2 bocce ball courts, sand volleyball court, gazebo, beach, wetlands, and parking. It is located on Richardson’s Bay off Bridgeway and is used by residents and visitors for park activities and special events.

Summary: The Friends of Dunphy Park are working on a Schematic Master Plan which conceptualizes a fully accessible pathway system, restrooms, improvements to the wetlands, natural areas and beach, paved parking, and retention of the sand volleyball court and bocce courts.

A full budget has not been developed yet but it is estimated that the project will cost \$1,855,333.

4.) Southview Park Improvements and Repair

Background: Southview Park is a City owned facility that consists of a small lawn area, children’s playground, basketball court, and tennis court. It is located between 3rd and 4th streets at North Street. at the intersection of Second and Bay and is used by residents and visitors for park activities.

Summary: That the retaining walls will need to be reinforced, the tennis and basketball courts will need to be redone, and the play equipment will need to be replaced.

A full budget has not been developed yet but it is estimated that the project will cost \$1,150,000.

THE PROPERTY

Pursuant to the Site and Facility Lease, the City will lease the Property to the Authority. Pursuant to the Lease Agreement, the Authority will, in turn, lease the Property back to the City. See APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Site and Facility Lease and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement.

The Property consists of the City’s MLK campus, consisting of six buildings currently leased to various tenants including artists, small cottage industries and two private, nonprofit schools. There are five additional buildings that include a gymnasium, two transformer buildings, a field house and an abandoned boiler room building. The remainder of the property is dedicated to recreational uses including basketball and tennis courts, soccer and baseball fields and a running track. The total current insured value of

the Property, including the value of the land, exceeds \$10,000,000.

On December 18, 1997, the City Council of the City adopted Ordinance No. 1128 (the “Ordinance”) which, among other things, regulates the sale, lease or disposition of the MLK campus. A community member has threatened to bring an action challenging (i) the City’s ability to enter into the lease-leaseback financing transaction contemplated for the Certificates as being in violation of the lease restrictions in the Ordinance and (ii) the application of the net revenues derived from the Property leases for the payment of the Lease Payments to the extent they apply to projects other than on the MLK campus. In the opinion of the City Attorney, the provisions of the Ordinance do not apply to the lease-leaseback financing transaction contemplated for the Certificates and do not limit the application of the Property lease revenues.

Based on certain questions that were raised in the community as to the validity of City Council approval provided on June 30, 2015, an advisory measure, known as Measure F, was placed on the November 3, 2015, ballot asking the voters of the City to provide their approval or disapproval of the financing plan. The financing plan was approved by 62.71% of the voters on November 3, 2015 (a simple majority was required for approval);

For a description of certain terms of the Lease Agreement see “SOURCE OF PAYMENT FOR THE CERTIFICATES” and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

Pursuant to the Lease Agreement, the City may substitute the Property, in whole or in part, by other properties, upon the satisfaction of certain conditions. For more information regarding the substitution of property see “SOURCE OF PAYMENT FOR THE CERTIFICATES—Substitution or Release of Site or Facility” and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement.

The City has not granted any security interest in the Property for the benefit of the Certificates and there is no remedy of foreclosure on the Property upon the occurrence of an Event of Default under the Lease Agreement. For a discussion of remedies upon an Event of Default under the Lease Agreement, see “RISK FACTORS—Limitations on Remedies.”

DEBT SERVICE SCHEDULE

The following table shows the scheduled semi-annual debt service for the Certificates:

Interest Payment Date (1)	Principal (2)	Interest	Total
5/1/16			
11/1/16			
5/1/17			
11/1/17			
5/1/18			
11/1/18			
5/1/19			
11/1/19			
5/1/20			
11/1/20			
5/1/21			
11/1/21			
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5/1/26			
11/1/26			
5/1/27			
11/1/27			
5/1/28			
11/1/28			
5/1/29			
11/1/29			
5/1/30			
11/1/30			
5/1/31			
TOTAL	_____	_____	_____
	=====	=====	=====

- (1) Principal and interest payments with respect to the Certificates on each May 1 and November 1 are derived from Lease Payments made by the City on the preceding April 15 and October 15.
- (2) Principal payments including sinking fund installment with respect to the term Certificates. See “THE CERTIFICATES—Redemption—Mandatory Sinking Fund Redemption.”

THE CERTIFICATES

General

The Certificates will be executed and delivered in the aggregate principal amount and will mature on the dates, and interest with respect thereto will be payable at the rates per annum, as set forth on the inside cover of this Official Statement. The Certificates will be delivered in the form of fully registered Certificates without coupons in the denomination of \$5,000 or any integral multiple thereof. Interest with respect to the Certificates will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on May 1 and November 1 of each year, commencing May 1, 2016 (each an “Interest Payment Date”), until maturity or earlier redemption thereof. The Certificates will be initially executed, delivered and registered in the name of “Cede & Co.” as nominee of DTC and will be evidenced by one Certificate maturing on each of the maturity dates in a denomination corresponding to the total principal therein designated to mature on such date. See “THE CERTIFICATES—Book-Entry Only System.”

Interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of an Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (ii) it is executed after a Regular Record Date (i.e., the close of business on the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a Business Day) and before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (iii) it is executed on or before April 15, 2016, in which event interest with respect thereto will be payable from its dated date; *provided, however*, that if, as of the date of execution of any Certificate, interest is in default with respect to any Outstanding Certificates, interest represented by such Certificate shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Certificates. Payment of defaulted interest shall be paid by check mailed to the Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which shall be given to the Owners not less than ten (10) days prior to such special record date.

Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request shall remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

Redemption

Optional Redemption. The Certificates maturing on and before May 1, _____, are not subject to optional redemption prior to maturity. The Certificates maturing on and after May 1, _____, are subject to optional redemption prior to maturity in whole or in part on any date in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of redemption, in *pro rata* among maturities) and by lot within a maturity, on or after May 1, _____, at a redemption price equal to the prin-

principal amount of the Certificates to be redeemed, together with accrued interest, without premium, to the date fixed for redemption, from the proceeds of the optional prepayment of Lease Payments made by the City pursuant to the Lease Agreement.

Mandatory Sinking Fund Redemption. The Certificates maturing on May 1, _____, are subject to mandatory redemption in part on May 1, _____, and on each May 1 thereafter, to and including May 1, _____, from the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such redemption date (subject to abatement, as set forth in the Lease Agreement), at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (May 1)	Principal Amount of Certificates to be Redeemed
-----------------	--

†Maturity.

Extraordinary Redemption from Net Proceeds of Insurance, Title Insurance, Condemnation or Eminent Domain Award. The Certificates are subject to extraordinary redemption in whole on any date or in part on any Interest Payment Date from the Net Proceeds of an insurance, title insurance, condemnation or eminent domain award relating to all or a portion of the Property, to the extent credited towards the prepayment of the Lease Payments by the City pursuant to the Lease Agreement, pro rata, in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of redemption, in *pro rata* among maturities) and by lot within a maturity, at a redemption price equal to the principal amount of the Certificates to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Selection of Certificates for Redemption. Whenever provision is made in the Trust Agreement for the redemption of Certificates and less than all of the Outstanding Certificates are to be redeemed, the Trustee will select Certificates for redemption from the Outstanding Certificates not previously called for redemption in such order of maturity as will be designated by the City (and, in lieu of such designation, *pro rata* among maturities) and by lot within a maturity. The Trustee will select Certificates for redemption within a maturity by lot in any manner which the Trustee will, in its sole discretion, deems appropriate. For purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions and any such portion may be separately redeemed. The Trustee will promptly notify the City in writing of the Certificates so selected for redemption. Selection by the Trustee of Certificates for redemption will be final and conclusive.

Notice of Redemption. Unless waived in writing by any Owner of a Certificate to be redeemed, notice of any such redemption will be given by the Trustee on behalf and at the expense of the City, by mailing a copy of a redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption, to such Owner of the Certificate or Certificates to be redeemed at the address shown on the Registration Books or at such other address as is furnished in writing

by such Owner to the Trustee; *provided, however*, that neither the failure to receive such notice nor any defect in any notice will affect the sufficiency of the proceedings for the redemption of the Certificates.

Notwithstanding the foregoing, in the case of any optional redemption of the Certificates, the notice of redemption shall state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Certificates on the scheduled redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Certificates have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the Certificates to be optionally redeemed, such event shall not constitute an Event of Default; the Trustee shall send written notice to the Owners, to the Securities Depositories and to one or more of the Information Services to the effect that the redemption did not occur as anticipated, and the Certificates for which notice of optional redemption was given shall remain Outstanding for all purposes of the Trust Agreement.

Effect of Redemption. If notice of redemption has been given as described above, the Certificates or portions of Certificates so to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date, interest with respect to such Certificates or portions of Certificates will cease to be payable.

Partial Redemption of Certificate. Upon surrender of any Certificate redeemed in part only, the Trustee will execute and deliver to the Owner thereof a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Certificate surrendered and of the same interest rate and the same maturity.

Transfer and Exchange of Certificates

The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his or her attorney duly authorized in writing upon surrender of such Certificate for cancellation at the Principal Corporate Trust Office, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The City shall pay any costs of the Trustee incurred in connection with such transfer, except that the Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Trustee shall not be required to transfer (i) any Certificates or portion thereof during the period between the date fifteen (15) days prior to the date of selection of Certificates for redemption and such date of selection, or (ii) any Certificates selected for redemption.

Certificates may be exchanged, upon surrender thereof, at the Principal Corporate Trust Office for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. Whenever any Certificate or Certificates shall be surrendered for exchange, the Trustee shall execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The City shall pay any costs of the Trustee incurred in connection with such exchange, except that 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 shall not be required to exchange (i) any Certificate or any portion thereof during the period between the date fifteen

(15) days prior to the date of selection of Certificates for redemption and such date of selection, or (ii) any Certificate selected for redemption.

Book-Entry Only System

The Certificates will be initially executed, delivered and registered as one fully registered certificate for each maturity, without coupons, in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive physical certificates representing their interest in the Certificates purchased. Principal and interest will be paid to DTC which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein. So long as DTC's book-entry system is in effect with respect to the Certificates, notices to Owners of the Certificates by the City or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Certificates, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See APPENDIX F —DTC'S BOOK-ENTRY ONLY SYSTEM.

In the event that such book-entry system is discontinued with respect to the Certificates, the City will cause the Trustee to execute and deliver replacements in the form of registered certificates and, thereafter, the Certificates will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement. In addition, the following provisions would then apply: Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request will remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided fractional interest in the Lease Payments. Pursuant to the Lease Agreement, the City will lease the Property from the Authority and agree to make Lease Payments. See "THE PROPERTY." Upon satisfaction of certain conditions set forth in the Lease Agreement, the City may substitute the Property with other properties or release a portion of the Property. See "Substitution or Release of Site or Facility" below.

As security for the Certificates, the Authority will assign to the Trustee for the payment of principal and interest with respect to the Certificates, the Authority's rights, title and interest in the Lease Agreement (with certain exceptions), including the right to receive Lease Payments to be made by the City under the Lease Agreement and the right to enforce remedies in the event of a default by the City.

The Lease Payments are designed to be sufficient, in both time and amount, to pay when due, the principal and interest with respect to the Certificates. The Lease Payments are payable by the City from any source of legally available funds.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT 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 LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Lease Payments; Covenant to Appropriate

Pursuant to the Lease Agreement, the City has agreed to make Lease Payments for the lease of the Property which are calculated to be sufficient to pay principal and interest due with respect to the Certificates. Lease Payments will be made by the City to the Trustee on April 15 and October 15 in each year, in advance of the corresponding May 1 and November 1 Interest Payment Dates. The City will also pay as additional payments (“Additional Payments”), amounts required for the payment of all costs and expenses incurred by the City to comply with the provisions of the Trust Agreement and the Lease Agreement or in connection with the execution and delivery of the Certificates. The City has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments in its annual budget and to make the necessary annual appropriations for all such payments. Under certain circumstances described under the Lease Agreement, however, Lease Payments are subject to abatement during periods of substantial interference with the City’s use and occupancy of the Property or any portion thereof. See “SOURCE OF PAYMENT FOR THE CERTIFICATES—Abatement.”

Insurance

The City is required to keep or cause to be kept casualty insurance against loss or damage by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, in an amount at least equal to one hundred percent (100%) of the replacement cost of the Property. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The City is not required by the Lease Agreement to maintain earthquake coverage with respect to the Property, and the City does not expect to purchase such coverage.

To insure against loss of rental income caused by perils mentioned above, the City is required to maintain, or cause to be maintained throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Property as a result of any of the hazards described above in an amount equal to two times the maximum annual Lease Payments.

Public liability and property damage insurance coverage is required in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed \$5,000) for damage to property resulting from each accident or event.

Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. The net proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

The City shall provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date, a CLTA title insurance policy in the amount of not less than the principal amount of the Certificates, insuring the Authority's leasehold interest in the Property and the City's subleasehold estate in the Property, subject only to Permitted Encumbrances.

See APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT—Insurance.

Abatement

Pursuant to the Lease Agreement, Lease Payments are 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 Property or any portion thereof (other than certain portions of the Property which have been modified by the City as described in the Lease Agreement) to the extent to be agreed upon by the City and the Authority and communicated by a City Representative to the Trustee. The parties agree that amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in an exhibit attached to the Lease Agreement, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed (giving due consideration to the factors identified related to fair rental value as discussed in the Lease Agreement), based upon ~~the opinion of an MAI appraiser with expertise in valuing such properties, or based upon any other~~ appropriate method of valuation, in which event the Lease Payments will be abated such that they represent said fair rental value. 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 as communicated by a City Representative to the Trustee. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there will be no abatement of Lease Payments under the Lease Agreement to the extent that (a) the proceeds of rental interruption insurance or (b) amounts in the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance," APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Insurance and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Abatement of Lease Payments in the Event of Damage or Destruction.

Pursuant to the Lease Agreement, if all of the Property 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 Property is taken permanently, or if all of the Property 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 the parties waive the benefit of any law to the contrary, and (2) there will be a partial

abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments under the Lease Agreement, in an amount to be agreed upon by the City and the Authority and communicated to the Trustee such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property, except to the extent of special funds. The Net Proceeds of such eminent domain award are required to be applied to the redemption of Certificates as provided in the Lease Agreement and the Trust Agreement.

No Reserve Fund

A reserve fund will not be funded for the Certificates.

Optional Prepayment

Pursuant to the Lease Agreement, the City has an option to prepay the principal components of the Lease Payments in full, by paying the aggregate unpaid principal components of the Lease Payments, or in part, in a prepayment amount equal to the principal amount of Lease Payments to be prepaid, together with accrued interest to the date fixed for prepayment, together with the premium set forth for the redemption of Certificates. See “THE CERTIFICATES—Redemption—Optional Redemption.”

Said option may be exercised with respect to Lease Payments due on and after April 15, _____, in whole or in part on any date, commencing April 15, _____. In the event of prepayment in part, the partial prepayment will be applied against Lease Payments in such order of payment date as will be selected by the City. Lease Payments due after any such partial prepayment will be in the amounts set forth in a revised Lease Payment schedule which will be provided by, or caused to be provided by, the City to the Trustee and which will represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment. The Trustee agrees to notify the Authority in the event of any prepayment of Lease Payments, as provided in the Trust Agreement.

Mandatory Prepayment from Net Proceeds of Insurance, Title Insurance or Eminent Domain

The City will be obligated to prepay the Lease Payments, in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance, title insurance or condemnation award with respect to the Property theretofore deposited in the Lease Payment Fund for such purpose pursuant to the Lease Agreement and the Trust Agreement. The City and the Authority agree that such Net Proceeds will be applied first to the payment of any delinquent Lease Payments, and thereafter will be credited towards the City’s obligations under the mandatory prepayment provisions of the Lease Agreement. Lease Payments due after any such partial prepayment will be in the amounts set forth in a revised Lease Payment schedule which will be provided by, or caused to be provided by, the City to the Trustee and which will represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment. See “THE CERTIFICATES—Redemption—Extraordinary Redemption from Net Proceeds of Insurance, Title Insurance, Condemnation or Eminent Domain Award.”

Substitution or Release of Site or Facility

Substitution of Site or Facility. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a “Substitute Site”)

and/or a substitute facility (a “Substitute Facility”) for the Site (the “Former Site”), or a portion thereof, and/or the Facility (the “Former Facility”), or a portion thereof, provided that the City shall satisfy all of the following requirements (to the extent applicable) which are hereby declared to be conditions precedent to such substitution:

(i) If a substitution of the Site, the City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(ii) If a substitution of the Site, the City shall file with the Authority and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(iii) If a substitution of the Facility, the City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(iv) If a substitution of the Facility, the City shall file with the Authority and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(v) The City shall certify in writing to the Authority and the Trustee that such Substitute Site and/or Substitute Facility serve the purposes of the City, constitutes property that is unencumbered, subject to Permitted Encumbrances, and constitutes property which the City is permitted to lease under the laws of the State;

(vi) The City delivers to the Authority and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property following such substitution is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee that the indemnification provided pursuant to the Trust Agreement applies with respect to the Substitute Site and/or Substitute Facility;

(vii) The Substitute Site and/or Substitute Facility shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Trust Agreement, as evidenced by an officer’s certificate delivered to the Trustee;

(viii) The City shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which adds thereto a description of the Substitute Site and deletes therefrom the description of the Former Site;

(ix) The City shall provide notice of the substitution to any rating agency then rating the Certificates which rating was provided at the request of the City or the Authority; and

(x) The City shall furnish the Authority and the Trustee with a written opinion of Bond Counsel, which shall be an Independent Counsel, stating that such substitution does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

Release of Site. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release:

(i) The City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which describes the Site, as revised by such release;

(ii) The City shall file with the Authority and the Trustee an amendment to the Lease Agreement which describes the Site, as revised by such release;

(iii) The City delivers to the Authority and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property, as revised by such release, is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee and the Authority that the indemnification provided pursuant to the Trust Agreement applies with respect to the Site, as revised by such release;

(iv) Such release shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Trust Agreement, as evidenced by an officer's certificate delivered to the Trustee; and

(vi) The City shall provide notice of the release to any rating agency then rating the Certificates which rating was provided at the request of the City or the Authority.

Release of Facility. The City shall have, and is hereby granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Facility, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release:

(i) The City shall file with the Authority and the Trustee an amendment to the Site and Facility Lease which describes the Facility, as revised by such release;

(ii) The City shall file with the Authority and the Trustee an amendment to the Lease Agreement which describes the Facility, as revised by such release;

(iii) The City delivers to the Authority and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property, as revised by such release, is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee and the Authority that the indemnification provided pursuant to the Trust Agreement applies with respect to the Facility, as revised by such release;

(iv) Such release shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Trust Agreement, as evidenced by an officer's certificate delivered to the Trustee; and

(v) The City shall provide notice of the release to any rating agency then rating the Certificates which rating was provided at the request of the City or the Authority.

Amendment of Lease Agreement

The Authority and the City may, at any time, amend or modify any of the provisions of the Lease Agreement, but only (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Certificates, or (b) without the consent of any of the Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved in the Lease Agreement to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Special Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners; or

(iii) to amend any provision thereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest with respect to the Certificates under the Code, in the opinion of Special Counsel.

THE CITY

Sausalito is a city in Marin County, California. Sausalito is 8 miles (13 km) south-southeast of San Rafael, at an elevation of 13 feet (4 m). The community is situated near the northern end of the Golden Gate Bridge, and prior to the building of that bridge served as a terminus for rail, car, and ferry traffic. Developed rapidly as a shipbuilding center in World War II, the city's industrial character gave way in post-war years to a reputation as a wealthy and artistic enclave, a picturesque residential community (incorporating large numbers of houseboats), and a tourist destination. It is adjacent to, and largely bounded by, the protected spaces of the Golden Gate National Recreation Area.

The City has operated under the council-manager form of government since 1955. Policy-making and legislative authority are vested in a City Council (the "Council") consisting of mayor and four other members, all elected on a non-partisan, at large basis. The Council appoints the government's manager, who in turn appoints the heads of the various departments. Council members serve overlapping four-year terms. The mayor is appointed by the Council on rotating one-year terms.

Members of the Council and key administrative personnel of the City are listed at the front of this Official Statement.

See APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for a general description of the City as well as certain demographic and statistical information.

CITY FINANCIAL INFORMATION

Financial Statements

The City's accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Audited Financial Statements. The City retained the firm of Maze & Associates, Pleasant Hill, California (the "City's Auditor"), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2014. The audited financial statements for fiscal year ended June 30, 2014, are included in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2014. *The City has not requested, and the City's Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.*

Budgetary Process

The City Council is required to adopt a final budget by no later than the close of the fiscal year. The annual budget serves as the foundation for the City financial planning and control. The budget is prepared by fund, and by department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the City Council.

A comprehensive mid-year budget review is done to update revenue and expenditure projections. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City's operating budget is the program area within each fund, and for the capital improvement budget it is each individual capital improvement project within each fund. For the operating budget, the City Manager has the authority to move appropriations between accounts (without dollar limitation) within a budget program and within the same fund as long as the transfers are within the same program area. For the capital improvement program, the City Manager has the authority to transfer appropriations (with no dollar limitation) between capital projects within the same fund. Appropriation increases, decreases or transfers between funds require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

Certain of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. See "STATE BUDGET INFORMATION."

~~There can be no assurances that, as a result of the current State financial stress, it will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. No prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. The City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on the City's finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.~~

The following table shows the City's audited actual results for general fund revenues and expenditures for fiscal years 2011-12, 2012-13 and 2013-14, unaudited actuals for 2014-15 and the adopted budget for fiscal year 2015-16.

CITY OF SAUSALITO
General Fund Budget Summary
Fiscal Years 2011-12 through 2015-16

	FY 2011-12 Audited Actuals	FY 2012-13 Audited Actuals	FY 2013-14 Audited Actuals	FY 2014-15 Unaudited Actuals	FY 2015-16 Budget
REVENUE:					
Property tax (1)	\$ 6,451,912	\$ 4,005,003	\$ 4,347,775	\$ 4,203,500	\$ 4,403,500
Sales tax	1,694,242	1,761,236	1,923,191	1,960,000	3,260,000
Other tax (2)	1,615,892	1,740,475	1,993,023	2,002,000	2,205,000
Licenses and permits	518,527	558,387	551,518	564,000	564,000
Fines and forfeitures	609,990	566,684	616,789	610,000	610,000
Use of money and property	484,277	562,302	586,444	590,000	599,000
Intergovernmental	122,682	-	15,547	-	-
Charges for services	1,320,267	1,241,094	1,343,387	1,145,800	1,173,800
Other revenue	102,023	125,109	177,491	27,833	18,350
TOTAL REVENUE	12,919,812	10,560,290	11,555,165	11,103,133	12,833,650
EXPENDITURES:					
General Government:					
Administration	1,155,959	1,205,117	1,351,034	1,984,057	1,544,825
Information technology	536,937	448,166	504,889	654,839	777,053
Non departmental	978,827	2,682,563	1,028,952	1,301,004	1,271,015
Library	199,882	774,108	787,548	822,004	858,344
Public safety - police	4,056,228	4,087,038	4,358,750	4,596,813	4,913,869
Public safety - fire	3,405,220	-	-	-	-
Community development	1,346,911	1,230,050	1,279,765	1,232,925	1,358,167
Public works	1,374,817	1,646,672	1,444,397	1,428,473	1,505,325
Parks & recreation	720,113	811,506	811,177	825,702	886,995
TOTAL EXPENDITURES	14,274,894	12,703,220	11,566,512	12,345,812	13,115,593
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,355,082)	(2,142,930)	(11,347)	(1,242,679)	(281,943)
OTHER SOURCES/(USES):					
Proceeds from sale of assets	99,282	-	-	-	-
Transfers in (3)	1,856,202	3,522,532	1,850,158	1,875,158	2,080,026
Transfers (out) (4)	(645,721)	(858,512)	(1,148,282)	(564,318)	(1,767,878)
TOTAL OTHER SOURCES/(USES)	1,309,763	2,664,020	701,876	1,310,840	312,148
NET CHANGE IN FUND BALANCE	(45,319)	521,090	690,529	68,161	30,205
BEGINNING FUND BALANCE	8,511,141	8,465,822	8,986,912	9,677,441	9,745,602
ENDING FUND BALANCE	8,465,822	8,986,912	9,677,441	9,745,602	9,775,807

Source: City of Sausalito 2012, 2013 and 2014 CAFRs, City of Sausalito Finance Department.

(1) Reduction in property tax revenue in fiscal year 2012-13 reflects the transfer of the fire department to the fire district.

(2) Represents transient occupancy tax and franchise taxes..

(3) Represents parking revenues.

(4) Includes payments to the fire district.

City Financial Management Policies

The City Council has adopted a comprehensive set of financial management policies including: (1) a general finance and budget policy; (2) a fund balance policy, establishing targeted general fund reserves; (3) an investment policy to ensure the prudent investment of City funds; (4) use of a long term debt policy; (5) investment policies; (6) a utility enterprise rate policy; and (7) a post-issuance compliance policy. The City's fiscal policies are reviewed at least annually, and are adopted or reaffirmed in conjunction with approval of the budget.

Reserves Policy. The City is required to maintain a general fund reserve of 15% of expenditures. For the fiscal year ended June 30, 2015, the City anticipates a general fund reserve of approximately 30% of expenditures.

Investment Policy. The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, most recently approved on June 16, 2015 (the "Investment Policy"), prepared by the Director of Administrative Services/Treasurer as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX C—CITY INVESTMENT POLICY.

Reliance on State Budget

Approximately 49% of the City's general fund revenues for fiscal year 2014-15 consisted of payments collected by the State and passed-through to local governments or collected by the County and allocated to local governments by State law. Approximately 53% of the City's general fund revenues for fiscal year 2015-16 are expected to come from such sources. There can be no assurance that future State budget difficulties will not adversely affect the City's revenues or its ability to make payments under the Lease Agreement. See "STATE BUDGET INFORMATION."

Property Taxes

Under Proposition 13, an amendment to the California Constitution adopted in 1978, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold, and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate

assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

Local agencies and schools will share the growth of “base” sources from the tax rate area. Each year’s growth allocation becomes part of each local agency’s allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

For assessment and tax collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as “utility” property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to any delinquent payment. Property on the secured roll, with respect to which taxes are delinquent, becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of one and one-half percent per month attaches to such taxes on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county clerk and county recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the delinquent taxpayer.

Assessed Valuations

The assessed valuation of property in the City is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are re-

ported at 100% of the “full value” of the property, as defined in Article XIII A of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. General ad valorem property tax levies are based upon the assessed valuation of the parcels of taxable property in the City. Property taxes allocated to the City are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both City and county taxing purposes. The valuation of secured property by the County Assessor is established as of January 1, and is subsequently equalized in September of each year.

The table below shows the assessed valuation in the City for the past five fiscal years.

**CITY OF SAUSALITO
Assessed Valuations**

Fiscal Year	Local Secured	Utility	Unsecured	Total Assessed Valuation
2011-12	\$2,468,779,678	\$0	\$135,843,280	\$2,604,622,958
2012-13	2,515,955,226	0	138,737,062	2,654,692,288
2013-14	2,585,743,658	0	138,411,426	2,724,155,084
2014-15	2,754,727,403	0	149,563,974	2,904,291,377
2015-16	2,912,804,482	0	152,324,979	3,065,129,461

Source: California Municipal Statistics, Inc.

As indicated above, assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the City’s control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for

such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

Risk of Decline in Property Values; ~~Earthquake Risk~~. Property values could be reduced by factors beyond the City's control, including earthquake, tsunami and a depressed real estate market due to general economic conditions in the County, the region and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the City in the future.

The following table shows the land use of parcels in the City, according to assessed valuation. As shown, the majority of land in the City is used for residential purposes.

CITY OF SAUSALITO
Assessed Valuation and Parcels by Land Use
Fiscal Year 2015-16

	2015-16 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial/Office	\$373,432,725	12.82%	168	4.95%
Vacant Commercial	4,179,798	.14	17	.50
Industrial	105,864,809	3.63	49	1.44
Vacant Industrial	2,713,360	.09	17	.50
Miscellaneous/Tax-Exempt	10,022,200	.34	164	4.83
Subtotal Non-Residential	<u>496,212,892</u>	<u>17.04</u>	<u>415</u>	<u>12.22</u>
Residential:				
Single Family Residence	\$1,438,444,822	49.38%	1,345	39.62%
Condominium/Townhouse	473,904,434	16.27	867	25.54
Multi-Family Residential	488,454,786	16.77	628	18.50
Vacant Residential	15,787,548	.54	140	4.12
Subtotal Residential	<u>2,416,591,590</u>	<u>82.96</u>	<u>2,980</u>	<u>87.78</u>
Total	<u>\$2,912,804,482</u>	<u>100.00%</u>	<u>3,395</u>	<u>100.00%</u>

Source: California Municipal Statistics, Inc.

(1) Local Secured Assessed Valuation, excluding tax-exempt property.

The following table focuses on single-family residential properties only, which comprise approximately 47% of the assessed value of taxable property in the City. The average assessed value per parcel is \$1,069,476.

CITY OF SAUSALITO
Per Parcel Fiscal Year 2015-16
Assessed Valuation of Single Family Homes

	No. of Parcels	2015-16 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	1,345	\$1,438,444,822	\$1,069,476	\$902,513

2015-16 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$99,999	33	2.454%	2.454%	\$ 2,616,685	.182%	.182%
\$100,000 - \$199,999	124	9.219	11.673	18,841,755	1.310	1.492
\$200,000 - \$299,999	96	7.138	18.810	23,502,488	1.634	3.126
\$300,000 - \$399,999	62	4.610	23.420	21,492,108	1.494	4.620
\$400,000 - \$499,999	55	4.089	27.509	24,446,891	1.700	6.319
\$500,000 - \$599,999	62	4.610	32.119	34,490,156	2.398	8.717
\$600,000 - \$699,999	81	6.022	38.141	52,638,626	3.659	12.376
\$700,000 - \$799,999	82	6.097	44.238	61,383,326	4.267	16.644
\$800,000 - \$899,999	76	5.651	49.888	64,309,724	4.471	21.115
\$900,000 - \$999,999	77	5.725	55.613	73,207,182	5.089	26.204
\$1,000,000 - \$1,099,999	62	4.610	60.223	64,952,608	4.515	30.719
\$1,100,000 - \$1,199,999	75	5.576	65.799	86,436,981	6.009	36.728
\$1,200,000 - \$1,299,999	53	3.941	69.740	65,937,969	4.584	41.312
\$1,300,000 - \$1,399,999	58	4.312	74.052	78,294,797	5.443	46.755
\$1,400,000 - \$1,499,999	50	3.717	77.770	72,300,067	5.026	51.782
\$1,500,000 - \$1,599,999	40	2.974	80.743	61,931,450	4.305	56.087
\$1,600,000 - \$1,699,999	31	2.305	83.048	50,924,780	3.540	59.627
\$1,700,000 - \$1,799,999	28	2.082	85.130	49,206,254	3.421	63.048
\$1,800,000 - \$1,899,999	24	1.784	86.914	44,529,332	3.096	66.144
\$1,900,000 - \$1,999,999	24	1.784	88.699	46,776,936	3.252	69.396
\$2,000,000 and greater	152	11.301	100.000	440,224,707	30.604	100.000
Total	1,345	100.000		1,438,444,822	100.000	

Source: California Municipal Statistics, Inc.

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Tax Levies and Delinquencies. Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each County.

The following table reflects the historical secured tax levy and year-end delinquencies for general obligation bonds of the City for the five most recent fiscal years.

SECURED TAX CHARGE AND DELINQUENCY
Fiscal Years 2010-11 to 2014-15

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Del. June 30	Percent Del. June 30
2010-11	\$452,741.56	11,780.40	2.60%
2011-12	507,397.20	8,419.50	1.66
2012-13	436,824.73	5,378.93	1.23
2013-14	466,985.26	4,077.36	.87
2014-15	451,267.48	3,494.63	.77

Source: California Municipal Statistics, Inc.

(1) Bond debt service levy.

Alternative Method of Tax Apportionment. The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The Teeter Plan is applicable to secured property tax levies. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts, special assessment districts, and benefit assessment districts.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

The City is not aware of any petitions for the discontinuance of the Teeter Plan in the County.

The following table sets forth the principal secured property taxpayers in the City as of fiscal year 2015-16, the most current information available.

CITY OF SAUSALITO
Largest Local Secured Property Tax Payers
Fiscal Year 2015-16

	Property Owner	Primary Land Use	2015-16 Assessed Valuation	% of Total ⁽¹⁾
1.	CA-One & Three Harbor Drive Office	Office Building	\$ 38,850,000	1.33%
2.	Casa Madrona Hotel & Spa LLC	Hotel	24,567,931	.84
3.	MCSSM LLC	Office Building	22,400,311	.77
4.	Walter G. Crump IV	Industrial/Restaurant	17,662,674	.61
5.	Tottenham Investments Inc.	Apartments	16,393,376	.56
6.	Mariners Landing LLC	Industrial	15,605,693	.54
7.	Harrison Holdings LLC	Office Building	13,885,562	.48
8.	Seagate Bridgeway Associates LP	Office Building	12,426,916	.43
9.	ICB Associates LLC	Industrial	9,130,588	.31
10.	Winblad Associates LP	Industrial	8,162,475	.28
11.	Clipper Yacht Company LLC	Industrial	7,611,053	.26
12.	Robert W. Matschullat	Residential	7,419,734	.25
13.	Professional Financial Investors	Industrial	7,369,355	.25
14.	Marterie Family Trust	Industrial	7,265,187	.25
15.	Richard G. Burge Family Trust	Office Building	7,236,652	.25
16.	Sausalito Alta Mira LLC	Medical/Treatment Center	7,097,760	.24
17.	Mulberry Tree LP	Apartments	6,752,972	.23
18.	Leana Investments Limited	Residential	6,723,027	.23
19.	4000 Bridgeway LLC	Office Building	6,688,438	.23
20.	Sausalito Yacht Harbor	Harbor/Marina	6,541,678	.22
	TOTAL		\$249,791,382	8.58%

Source: California Municipal Statistics, Inc.

(1) 2015-16 Local Secured Assessed Valuation: \$2,912,804,482

Motor Vehicle In-Lieu Tax. Vehicle license fees are assessed in the amount of 2% of a vehicle's depreciation market value for the privilege of operating a vehicle on California's public highways. A program to offset (or reduce) a portion of the vehicle license fees ("VLF") paid by vehicle owners was established by Chapter 322, Statutes of 1998. Beginning January 1, 1999, a permanent offset of 25% of the VLF paid by vehicle owners became operative. Various pieces of legislation increased the amount of the offset in subsequent years to the existing statutory level of 67.5% of 2% (resulting in the current effective rate of 0.65%). This level of offset was estimated to provide tax relief of \$3.95 billion Statewide in the fiscal year 2003-04.

~~In connection with the offset of the VLF, the Legislature authorized appropriations from the State general fund to "backfill" the offset so that the 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 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 disadvantaged. In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient general fund moneys would be available for this purpose, and, beginning in October 2003, VLF paid by vehicle owners~~

were restored to the 1998 level. However, the offset suspension was rescinded by the Governor on November 17, 2003, and offset payments to local governments resumed. Local governments received backfill payments totaling \$3.80 billion in fiscal year 2002-03. Backfill payments totaling \$2.65 billion were expected to be paid to local governments in fiscal year 2003-04. The State-local agreement also provided for the repayment in August 2006 of approximately \$1.2 billion in backfill that was not received by local governments during the time period between the suspension of the offsets and the implementation of higher fees. This repayment obligation was codified by Proposition 1A, which was approved by voters in the November 2004 general election and was repaid early by the State in August 2005. For a description of Proposition 1A, see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Proposition 1 A of 2004.”

Beginning in fiscal year 2004-05, the State-local agreement permanently reduced the VLF rate to 0.65% and replaced the backfill with a like amount of property taxes. Subsequent to fiscal year 2004-05, each City’s “property tax in-lieu of VLF” increased proportionally to increases in such city’s assessed valuation. However, in fiscal years 2004-05 and 2005-06, the State “shifted” \$700 million in city and county taxes to the State’s General Fund.

The following table sets forth the Motor Vehicle License Fees and Property Tax In-Lieu of VLF received by the City for the last five fiscal years.

CITY OF SAUSALITO
Property Tax In-Lieu of VLF

	Fiscal Year				
	2011-12	2012-13	2013-14	2014-15	2015-16 ⁽¹⁾
Motor Vehicle License Fees	\$ 3,758	\$(1,480)	\$ 3,223	—	—
Property Tax In-Lieu of VLF	550,080	560,660	575,330	\$580,000	\$615,000
Total	<u>\$553,838</u>	<u>\$559,180</u>	<u>\$578,553</u>	<u>\$580,000</u>	<u>\$615,000</u>

Source: City of Sausalito Finance Department.

(1) Budgeted.

Senate Bill 89 was signed into law as part of the State’s Fiscal Year 2011-12 Budget Act. SB 89 increases VLF by \$12. As a result of SB 89, \$300 million is transferred to a new Local Law Enforcement Services Account (“LLESA”) to fund law enforcement grants. In addition, beginning July 1, 2011, SB 89 transfers the remaining VLF revenue previously allocated to cities to the LLESA. Instead of cities receiving \$130 million in VLF revenues, under SB 89 they would receive only \$75 million in earmarked grants. This has the effect of reducing the City’s revenues by \$10,000 in FY 11-12. The City considers this revenue loss to be permanent.

Other Sources of General Fund Revenues

Sales Taxes. A sales tax is imposed on the privilege of consuming personal property in California. California does not tax services. The tax rate is established by the State Legislature and is presently 7.50% (after the passage of Proposition 30). In addition, many of California’s cities, counties, towns and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. These district taxes can vary up to 1%, and more than one district tax may be in effect for a particular location. The City’s share of sales tax is approximately 1% of the total City sales tax rate of 9%.

With the adoption of Resolution 5470 on July 22, 2014, the City placed a one-half percent sales tax measure on the November 4, 2014 ballot. On July 22, 2014, the City Council of the City also introduced Ordinance No. 1228 adding Chapter 3.06 to the City’s Municipal Code to impose the supplemental transactions and use tax subject to the outcome of the November 4, 2014 election. Measure O was approved by a majority of the City voters on November 4, 2014.

The City’s share of sales tax is approximately 1.5% of the total City sales tax rate of 9%.

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.

On March 2, 2004, voters approved a statewide bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the “Triple Flip.” The State issued \$11.3 billion of Economic Recovery Bonds prior to June 30, 2004, and the remainder of the authority in 2008. Under the “Triple Flip,” one-quarter of local governments’ one percent share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. ~~Because these property tax monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur during the State’s 2015-16 fiscal year.~~ See “STATE BUDGET INFORMATION.”

The following table shows the City’s sales tax revenues for Fiscal Years 2010-11 through 2014-15.

**CITY OF SAUSALITO
Sales Tax Revenues**

<u>Fiscal Year</u>	<u>Sales Tax Revenues</u>
2010-11	\$1,443,028
2011-12	\$1,694,242
2012-13	\$1,761,236
2013-14	\$1,923,191
2014-15	\$1,900,000

Source: City of Sausalito.

Other Taxes. The following table shows the City’s other tax revenues for Fiscal Years 2010-11 through 2014-15.

**CITY OF SAUSALITO
Other Tax Revenues**

<u>Fiscal Year</u>	<u>Other Tax Revenues</u>
2010-11	\$1,554,829
2011-12	\$1,615,892
2012-13	\$1,740,475
2013-14	\$1,993,023
2014-15	\$2,002,000

Source: City of Sausalito.

The following table shows the City’s general fund tax revenues by source for the most recent five fiscal years:

**CITY OF SAUSALITO
General Fund Tax Revenues by Source**

	<u>Fiscal Year</u>				
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Property Tax	\$6,522,465	\$6,451,912	\$4,005,003	\$4,347,775	\$4,203,500
Sales Tax	1,443,028	1,694,242	1,761,236	1,923,191	1,960,000
Other Tax	1,554,829	1,615,892	1,740,475	1,993,023	2,002,000
TOTAL TAX REVENUES	<u>\$9,520,322</u>	<u>\$9,762,046</u>	<u>\$7,506,714</u>	<u>\$8,263,989</u>	<u>\$8,165,500</u>

Source: City of Sausalito

In addition, the City receives the following general fund revenues:

Licenses and Permits. The City charges certain permits, licenses and fess for the cost recovery of providing current planning, building inspection, recreation and other municipal services. These revenues are seasonal and highly elastic in conjunction with the City’s economic climate.

Fines, Forfeitures and Penalties. These revenues include parking citations and other fines for municipal code violations.

Charges for Services. The City charges fees for plan checking, building inspection and a variety of other municipal services.

The following table illustrates other revenue sources:

**CITY OF SAUSALITO
Other Revenue Sources**

	Fiscal Year				
	2010-11	2011-12	2012-13	2013-14	2014-15
Licenses and Permits	\$ 474,868	\$ 518,527	\$ 558,387	\$ 551,518	\$ 564,000
Fines and Forfeitures	273,530	609,990	566,684	616,789	610,000
Use of Money and Property	434,855	484,277	562,302	586,444	590,000
Intergovernmental	93,798	122,682	—	15,547	—
Charges for Services	1,323,997	1,320,267	1,241,094	1,343,387	1,145,800
Other Revenues	415,038	102,023	125,109	177,491	27,833
TOTAL OTHER REVENUE SOURCES	\$3,016,086	\$3,157,766	\$3,053,576	\$3,291,176	\$2,937,633

Source: City of Sausalito Finance Department.

General Fund Revenues and Expenditures

The following two tables summarize the General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the City's general fund for the fiscal years 2011-12 through 2014-15.

CITY OF SAUSALITO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Years 2011-12 through 2014-15

	FY 2011-12 Audited	FY 2011-12 Audited	FY 2012-13 Audited	FY 2013-14 Audited	FY 2014-15 Unaudited
REVENUE:					
Property tax	\$ 6,522,465	\$ 6,451,912	\$ 4,005,003	\$ 4,347,775	\$ 4,203,500
Sales tax	1,443,028	1,694,242	1,761,236	1,923,191	1,960,000
Other tax	1,554,829	1,615,892	1,740,475	1,993,023	2,002,000
Licenses and permits	474,868	518,527	558,387	551,518	564,000
Fines and forfeitures	273,530	609,990	566,684	616,789	610,000
Use of money and property	434,855	848,277	562,302	586,444	590,000
Intergovernmental	93,798	122,682	—	15,547	—
Charges for services	1,323,997	1,320,267	1,214,094	1,343,387	1,145,800
Other revenue	415,038	102,023	125,109	177,491	27,833
TOTAL REVENUE	12,536,408	12,919,812	10,560,290	11,555,165	11,103,133
EXPENDITURES:					
General Government	2,412,922	2,671,723	4,335,846	2,884,875	3,592,893
Library	694,953	699,882	774,108	787,548	858,344
Public safety - police	3,874,004	4,056,228	4,087,038	4,358,750	4,913,869
Public safety - fire	3,140,578	3,405,220	—	—	—
Community development	1,115,397	1,346,911	1,230,050	1,279,765	1,358,167
Public works	1,246,192	1,374,817	1,464,672	1,444,397	1,505,325
Parks & recreation	662,833	720,113	811,506	811,177	886,995
TOTAL EXPENDITURES	13,146,879	14,274,894	12,703,220	11,566,512	13,115,593
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(610,471)	(1,355,082)	(2,142,930)	(11,347)	(281,943)
OTHER SOURCES/(USES):					
Proceeds from sale of assets	30	99,282	—	—	—
Transfers in	1,709,681	1,856,202	3,522,532	1,850,158	2,080,026
Transfers (out)	(885,414)	(645,721)	(858,512)	(1,148,282)	(1,767,878)
TOTAL OTHER SOURCES/(USES)	824,297	1,309,763	2,664,020	701,876	312,148
NET CHANGE IN FUND BALANCE	213,826	(45,319)	521,090	690,529	30,205
BEGINNING FUND BALANCE	8,701,451	8,511,141⁽¹⁾	8,465,822	8,986,912	9,745,602
ENDING FUND BALANCE	8,915,277	8,465,822	8,986,912	9,677,441	9,775,807

Source: City of Sausalito 2011-12 through 2013-14 CAFRs and City of Sausalito.

(1) Reflects a prior period adjustment of \$(404,136) to reflect a payroll accrual not recorded in the prior year.

CITY OF SAUSALITO
General Fund
Balance Sheet
Fiscal Years 2011-12 through 2014-15

	FY 2011-12	FY 2011-12	FY 2012-13	FY 2013-14
	<u>Audited</u>	<u>Audited</u>	<u>Audited</u>	<u>Audited</u>
ASSETS				
Cash and investments	\$2,736,461	\$2,783,171	\$2,994,524	\$3,192,644
Taxes receivable	80,000	310,816	455,125	472,959
Accounts receivable	525,073	517,557	195,676	347,009
Loans receivable	3,254	8,489	5,183	2,715
Due from other funds	193,306	61,755	121,355	85,686
Prepaid	20,568	14,993	22,574	17,016
Advances other funds	6,208,285	5,758,285	6,046,199	6,348,509
TOTAL ASSETS	<u>9,766,947</u>	<u>9,455,066</u>	<u>9,840,636</u>	<u>10,466,538</u>
LIABILITIES				
Accounts payable	599,308	671,628	550,994	443,529
Accrued salaries and benefits	-	83,859	71,041	6,365
Refundable deposits	218,165	192,061	188,652	287,772
Unearned revenue	34,197	41,696	43,037	51,431
TOTAL LIABILITIES	<u>851,670</u>	<u>989,244</u>	<u>853,724</u>	<u>789,097</u>
FUND BALANCES				
Nonspendable	6,232,107	5,781,767	6,073,956	6,368,240
Assigned	717,618	717,617	717,617	578,326
Unassigned	1,965,552	1,966,438	2,195,339	2,730,875
TOTAL FUND BALANCES	<u>8,915,277</u>	<u>8,465,822</u>	<u>8,986,912</u>	<u>9,677,441</u>
TOTAL LIABILITES AND FUND BALANCES	9,766,947	9,455,066	9,840,636	10,466,538

Source: City of Sausalito 2011-12 through 2013-14 CAFRs and City of Sausalito.

OTHER FINANCIAL INFORMATION

Labor Relations

Currently 50 of 71 permanent City employees are covered by negotiated agreements. The Remaining 10 confidential and 11 management employees have individual employment agreements with the City. The negotiated agreements have expired but the employees continue to work under existing terms while negotiations are ongoing.

CITY OF SAUSALITO Negotiated Employee Agreements

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>	<u>Number of Employees</u>
Sausalito Police	June 30, 2015	21
SEIU	June 30, 2015	29

Source: City of Sausalito

Risk Management

The City is exposed to various risks of loss related to workers' compensation and general liability. The City participates in joint powers agreements. On July 1, 1977, a Joint Powers was entered into between member cities and the Marin County Risk Management Authority for workers' compensation coverage (the City joined on October 1, 1982). In July 1978, the aforementioned Agreement was extended to include coverage for both auto and general liability exposures. On July 1, 1978, a new Joint Powers Agreement was established for the liability coverage, known as the Marin Cities Liability Management Authority (the City joined on October 1, 1986). Effective July 1, 1996, the City transferred its excess liability coverage to Bay Cities Joint Powers Insurance Authority. Effective July 1, 2003, the Marin County Risk Management Authority was dissolved and the City transferred its workers compensation coverage to the Bay Cities Joint Powers Insurance Authority.

The City reports all of the workers' compensation activities in an internal service fund. Claims expenditures and liabilities are reported in the internal service fund when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. All of the City's general and ERMA (Employment Risk Management Authority) liability risk management activities are reported in an internal service fund.

Workers' Compensation. Compensation Fund is self-insured for the first \$150,000 of loss per occurrence. Excess coverage is provided by an outside insurance carrier up to \$1,000,000 to statutory limits.

As defined by Government Accounting Standards Board Statement No. 10, the Bay Cities Joint Powers Insurance Authority is "a claims servicing or account pool." The Authority manages separate accounts for each pool member from which losses and expenses of that member are paid, up to the self-insured retention limit. The Authority purchases commercial excess insurance. The annual assessment of each member includes allocations for loss payments, expenses, and excess insurance premiums.

The Authority has a policy under which there is an annual evaluation of the assets of each pool member in comparison to future liabilities. The "financial risk position" of each member is determined by

subtracting case reserves, incurred but not reported (IBNR) amounts and claim development from the members' cash balances. If a negative risk position is found, a supplemental element is added to its annual assessment.

General Liability Coverage. The City participates with other public entities for the purpose of obtaining general liability coverage in the in the Bay Cities Joint Powers Insurance Authority (BCJPIA) for claims incurred on or after July 1, 1996.

The BCJPIA provides liability and errors and omissions coverage in excess of the City's \$50,000 self-insured retention, up to one million through a risk shared self insurance pool. BCJPIA obtains excess coverage through California Affiliated Risk Management Authorities (CARMA) a risk sharing joint powers authority. CARMA provides excess insurance coverage to \$28 million.

Employment Risk Management Authority, a risk sharing joint powers authority, arranges for pooled risk sharing related to employment practices liability. Coverage is provided up to \$2 million excess of \$1 million.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2014—Notes to Basic Financial Statements—NOTE 10.

Employee Retirement Plans

Plan Description. Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (Police) , Safety (Fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under all Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts.

Funding Policy. CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed, including inflation rate at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over

twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty-year period.

As required by new State law, effective July 1, 2005, the City's Miscellaneous and Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The balances of both the Miscellaneous Plan's Side Fund liability of \$413,515 and Fire Safety Plan's Side Fund liability of \$1,333,859 were both paid off during fiscal year ended June 30, 2013.

The latest available actuarial values of the City's share of the State-wide pools and funding progress are set forth as follows. Information relating to the State-wide pools as a whole, of which the City is one of the participating employers can be obtained directly from CALPERS.

Safety Police Plan					
<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Share of Pool's Market Value of Assets</u>	<u>Plan's Share of Pools Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
2011	\$26,805,471	\$19,119,098	\$7,686,373	71.3%	\$1,795,173
2012	\$27,965,232	\$18,995,373	\$8,969,859	67.9%	\$1,688,437
2013	\$28,502,173	\$20,734,007	\$7,768,166	72.7%	\$1,811,409

Safety Fire Plan					
<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Share of Pool's Market Value of Assets</u>	<u>Plan's Share of Pools Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
2011	\$19,578,156	\$14,608,838	\$4,969,318	74.6%	\$1,335,086
2012	\$20,023,555	\$14,145,465	\$5,878,090	70.6%	\$244,280
2013	\$20,874,936	\$16,822,760	\$4,052,176	80.6%	\$160,917

Miscellaneous Plan					
<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Share of Pool's Market Value of Assets</u>	<u>Plan's Share of Pools Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
2011	\$25,315,548	\$19,033,715	\$6,281,833	75.2%	\$3,701,320
2012	\$26,421,734	\$18,714,701	\$7,707,033	70.8%	\$3,873,898
2013	\$27,734,642	\$21,313,735	\$6,602,907	76.2%	\$3,785,310

Source: CALPERS Actuarial Office.

The City is required to contribute at an actuarially determined rate of annual covered payroll. The rates for each plan for the fiscal years ended June 30, 2012, through June 30, 2016, are as follows:

	City's Required Contribution Rate by Plan				
	Fiscal Year Ended,				
	2012	2013	2014	2015	2016
Miscellaneous	15.595%	16.119%	16.601%	16.601%	18.664%
Safety Police	38.533%	37.891%	42.005%	42.005%	46.875%
Safety Fire	31.548%	31.279%	0.000%	23.948%	128.569%

Source: CALPERS Actuarial Office and City of Sausalito 2012-14 CAFRs.

The City's contributions to the plans in the fiscal years ended June 30, 2012, 2013 and 2014, were as follows:

	City's Contribution by Plan		
	Fiscal Year Ended,		
	2012	2013	2014
Miscellaneous	16.12%	16.12%	14.01%
Safety Police	38.53%	37.89%	36.61%
Safety Fire	31.55%	31.28%	0.00%

Deferred Compensation Plan. City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Section 457 of the Internal Revenue Code of 1986, as amended (the "Code"). Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

For more information, including schedules of funding progress for the City's various pension plans, see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2014—Notes to Basic Financial Statements—NOTE 8.

Other Post Employment Benefits

Plan Description. By Council resolution and through agreements with its labor units, the city provides certain health care benefits for retired employees under third-party insurance plans. Four employee groups were included: police, fire, SEIU Local 1021, and unrepresented employees. As of June 30, 2014, 39 retired participants were receiving post employment health care benefits.

Effective July 1, 2012, fire employees were transferred by annexation agreements to the Southern Marin Fire Protection District (SMFPD). Except for five specific fire Department employees, all post employment benefit obligations for the remaining fire employees were transferred to the SMFPD. For the remaining five fire employees, and for the existing fire retirees, they are covered under a Marin County medical plan. The specific five fire employees now working for the SMFPD who retire after 20 years of service at or after the age 50 are eligible to receive total medical benefits up to the Kaiser single retiree premium.

Police, SEIU Local 1021 and unrepresented employees are covered under the CalPERS medical program. These three groups covered under CalPERS who retire at age 50 or over with at least 5 years of service receive benefits at least equal to the CalPERS minimum. Spouses of retirees can also be covered, but the retiree is required to pay the spousal premiums. However, upon death of a retiree covered under CalPERS, a surviving spouse continues to receive the CalPERS minimum at no cost.

Effective July 1, 2012, only existing Police, SEIU Local 1021 and unrepresented employees with three or more years of service as of June 30, 2012 who retire after 20 years of service at or after age 50 for police, and at or after age 55 for other employees, were eligible to receive total medical benefits up to the Kaiser single retiree premium (including the CalPERS minimum if applicable).

Effective July 1, 2012, employees with less than 3 years of service forfeited the defined post employment benefits in exchange for an annual defined contribution. Further, effective July 1, 2012, the City offered all employees with more than 3 years of service to exchange the defined benefit post employment benefit for annual defined contribution. Thirty-one out of 72 eligible employees that had 3 or more years of service chose to opt out of the defined benefit post employment plan in exchange for the defined contribution. As of June 30, 2014, 35 of the remaining Police, SEIU Local 1021 and unrepresented employees are eligible for the 20 year service benefit.

Effective July 1, 2012, all new Police, SEIU Local 1021 and unrepresented employees, covered under the CalPERS medical program, who retire at age 50 or over with at least 5 years of service receive only benefits at least equal to the CalPERS minimum program.

The City also pays for dental benefits for certain unrepresented retirees after retirement. No other future retirees will receive City paid dental benefits.

Funding Policy and Actuarial Assumptions. The annual required contribution (ARC) was determined as part of a July 1, 2012 actuarial valuation using the entry age normal actuarial cost method.

Certain plan changes occurred effective for the July 1, 2012 valuation. The City's fire department was annexed to Southern Marin Fire Protection District, and most of the liability for active firefighters was eliminated in the valuation. In addition, other active employees were permitted to opt out of the OPEB plan and elect a defined contribution plan. No future hires would be covered under this OPEB plan.

This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions include (a) investment rate of return on pay as you go basis of 5.0%, (b) 3.25% aggregate payroll increase, and (c) a healthcare trend of declining annual increases ranging from 7.3% in January 2012 to 5.5% starting January 2019. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a closed thirty-year amortization period.

The City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as presented below:

	Governmental Activities
Annual required contribution (ARC)	\$ 535,701
Interest on Net OPEB Obligation	112,722
Adjustment to annual required contribution	(115,050)
Annual OPEB cost	\$ 533,373
City's portion of current premiums paid	(170,504)
Change in Net OPEB Obligation	\$ 362,869
Net OPEB Obligation June 30, 2013	\$2,312,692
Net OPEB Obligation June 30, 2014	\$2,675,561

Source: City of Sausalito 2014 CAFR.

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$712,559	\$157,743	22%	\$1,957,795
2012-13	\$513,953	\$159,056	31%	\$2,312,692
2013-14	\$533,373	\$170,504	32%	\$2,675,561

Source: City of Sausalito 2014 CAFR.

For more information see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2014—Notes to Basic Financial Statements—NOTE 9.

Short-Term Obligations

The City currently has no outstanding short-term obligations.

General Fund Obligations

In September 2011, the City entered into annexation agreement with the Southern Marin Fire Protection District. The City agreed to pay Southern Marin Fire Protection District \$58,000 annually for 30 years, a total of \$1,740,000; representing the retiree medical costs of nine firefighters who worked for City. The City made the first payment during fiscal year 2013. The last payment is due in fiscal year 2042.

Other Long-Term Obligations

On December 6, 2006, the City issued its \$8,205,000 City of Sausalito (Marin County, California) General Obligation Bonds, 2006 (Fire Station and Police Building) (the “Bonds”), and its \$7,293,894.45 City of Sausalito (Marin County, California) General Obligation Bonds, 2006 Series B (Fire Station and Police Building) (the “Series B Bonds” and, with the Bonds, the “General Obligation Bonds”), to finance the demolition of an existing vacant police building and replacing it with a new, approximately 8,371 square foot two-story police building, and the demolition of an existing active fire station and replacing it with a new, approximately 11,703 square foot two-story fire station. On October 11, 2011, the City defeased \$1,805,000 of the outstanding General Obligation Bonds from General Obligation Bonds proceeds remaining after the projects were completed. As of December 1, 2015, the General Obligation Bonds are outstanding in the principal amount of \$. The General Obligation Bonds are secured by an ad valorem tax levied against property in the City. The City’s general fund is not obligated to make payments on the General Obligation Bonds.

On January 28, 2015, the Authority issued its \$6,750,000 Sausalito Financing Authority (Marin County, California) 2015 Sewer Revenue Bonds (the “Sewer Bonds”) to finance the costs of certain improvements to the City’s municipal sewer enterprise (the “Enterprise”). As of December 1, 2015, the Sewer Bonds are outstanding in the principal amount of \$6,675,000. The Sewer Bonds are secured by installment payments made by the City under an installment sale agreement which installment payments are secured by a pledge of and lien on the net revenues of the Enterprise. The City’s general fund is not obligated to make payments on the Sewer Bonds.

The City has certain other outstanding long term obligations that are not secured by its General Fund. see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2014—Notes to Basic Financial Statements—NOTE 8.

Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The City has not reviewed this table for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency which has outstanding debt as of November 1, 2015, and whose territory overlaps the City in whole or in part. The second column shows the percentage of each overlapping agency’s assessed value located within the boundaries of the City. This per-

centage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the City.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
As of November 1, 2015**

CITY OF SAUSALITO

2015-16 Assessed Valuation: \$3,065,129,461

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 11/1/15</u>
Marin Community College District	4.612%	\$ 9,943,399
Tamalpais Union High School District	7.805	9,891,421
Sausalito Marin City School District	87.190	14,085,623
Marin Municipal Water District Wolfbackridge Assessment District	100.000	305,000
City of Sausalito	100.000	<u>12,433,894</u>⁽¹⁾
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$46,659,337
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Marin County General Fund Obligations	4.604%	\$ 4,239,884
Marin County Pension Obligation Bonds	4.604	4,589,229
Marin County Transit District General Fund Obligations	4.604	6,055
Marin Municipal Water District General Fund Obligations	5.890	6,302
Marin Community College District General Fund Obligations	4.612	119,947
Sausalito Marin City School District General Fund Obligations	87.190	3,910,493
City of Sausalito General Fund Obligations	100.000	<u>315,404</u>⁽²⁾
Southern Marin Fire Protection District General Fund Obligations	33.942	62,796
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$13,250,110
COMBINED TOTAL DEBT		\$59,909,447⁽³⁾

Ratios to 2015-16 Assessed Valuation:

Direct Debt (\$12,433,894)	0.41%
Total Direct and Overlapping Tax and Assessment Debt	1.52%
Total Direct Debt (\$12,749,298)	0.42%
Combined Total Debt.....	1.95%

Source: California Municipal Statistics, Inc.

- (1) Excludes issue to be sold.
- (2) Share of Marin Emergency Radio Authority obligations.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated November 21, 2014 (the "JPA Agreement"), between the City and the California Municipal Finance Authority "CMFA"). CMFA itself is a joint exercise of powers authority created by certain California cities, counties, districts and other political subdivisions. It assists local governments, nonprofits and businesses with the issuance of taxable and tax-exempt financing. The JPA Agreement was entered into pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code.

The members of the governing board of the Authority consist of the members of the City Council of the City. The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the City and to provide financing for public capital improvements for lease to the City.

STATE BUDGET INFORMATION

State Budget

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the State Department of Finance (the "DOF"), <http://www.dof.ca.gov>, under the heading "California Budget." An impartial analysis of the budget is posted by the Legislative Analyst's Office (the "LAO") at <http://www.lao.ca.gov>. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, <http://www.treasurer.ca.gov>. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City can take no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these textual references to such Internet websites. In recent years, when there have been anticipated State budget shortfalls, the State Governor has proposed, and the State Legislature has approved, the shift of property tax revenues from cities, counties and special districts to schools. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS— Proposition 1A."

Budget for State Fiscal Year 2015-16

On June 24, 2015, the Governor signed into law the State budget for fiscal year 2015-16 (the "2015-16 Budget"). The following information is drawn from the DOF's summary of the 2015-16 Budget, as well as a summary prepared by the LAO. The City can take no responsibility for the accuracy, completeness or timeliness of information in such summaries.

For fiscal year 2014-15, the 2015-16 Budget projects total State general fund revenues of approximately \$111.3 billion and total State general fund expenditures of approximately \$114.5 billion. The 2015-16 Budget projects that the State will end fiscal year 2014-15 with a general fund ending balance of approximately \$2.4 billion and total reserves of approximately \$3 billion (including approximately \$1.5 billion in the traditional general reserve and approximately \$1.6 billion in the Budget Stabilization Account (the "BSA"), the State's basic reserve fund). For fiscal year 2015-16, the 2015-16 Budget projects total State general fund revenues of approximately \$115 billion and total expenditures of approximately \$115.4 billion, leaving the State with a year-end general fund balance of approximately \$2 billion. The 2015-16 Budget projects total year-end reserves of approximately \$4.6 billion, including approximately \$1.1 billion in the traditional general fund reserve and approximately \$3.5 billion in the BSA.

As a result of higher than anticipated State revenues, the 2015-16 Budget includes revised estimates to the Proposition 98 minimum funding guarantees for schools for fiscal years 2013-14 and 2014-15. The fiscal year 2013-14 minimum guarantee is revised upward to approximately \$58.9 billion, an increase of approximately \$612 million over the estimate included in the fiscal year 2014-15 State budget. For fiscal

year 2014-15, the 2015-16 Budget revises the minimum guarantee upward to approximately \$66.3 billion, an increase of approximately \$5.4 billion over the estimate included in the fiscal year 2014-15 State budget.

The 2015-16 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2015-16 at approximately \$68.4 billion, including approximately \$49.4 billion of support from the State general fund. This represents a year-to-year increase of approximately \$2.1 billion over the revised level for fiscal year 2014-15. For K-12 education, the 2015-16 Budget provides total Proposition 98 funding of approximately \$59.5 billion, including approximately \$43.2 billion from the State general fund. Under the 2015-16 Budget, K-12 per-pupil spending in fiscal year 2015-16 is \$9,942, an increase of \$1,011 (or approximately 11%) from the prior year.

Significant proposals or adjustments set forth in the 2015-16 Budget affecting public agencies in the State include the following:

- **Law Enforcement.** The 2015-16 Budget continues a \$40 million general fund allocation to “front line” law enforcement activities. The Board of State and Community Corrections allocates funds to individual cities acting as the fiduciary agent within each county receiving the funds.

- **Transportation.** The 2015-16 Budget includes total funding of approximately \$15.9 billion (approximately \$261 million from the general fund and \$15.7 billion from other funds) for all programs administered within the State Transportation Agency. In addition, the shared revenues budget allocates over \$1.4 billion in fuel excise tax to cities and counties for local streets and roads.

- **Elimination of Redevelopment Agencies.** The Proposed 2014-15 Budget anticipates that in State fiscal years 2014-15 and 2015-16 combined, cities will receive approximately \$580 million, counties approximately \$660 million, and special districts approximately \$200 million.

- **Property Taxes.** The 2015-16 Budget anticipates ongoing property tax revenues of more than \$900 million annually to be distributed to cities, counties, and special districts that can be used by local governments to fund police, fire, and other critical public services.

- **State Mandate Reimbursements.** The 2015-16 Budget continues the suspension of most mandates not related to law enforcement or property taxes. After satisfying the State Constitutional funding guarantee, additional revenues of up to \$800 million are proposed to pay down the remainder of the State’s pre-2004 mandate debt. The 2015-16 Budget estimates that a trigger mechanism will result in a \$533 million payment toward this mandate debt. These funds will provide counties, cities, and special districts with general purpose revenue.

- **Deferred Maintenance.** The 2015-16 Budget includes approximately \$478 million (approximately \$125 million from the general fund) for critical deferred maintenance at universities, community colleges and in State parks, prisons, State hospitals and other State facilities.

- **Education.** The 2015-16 Budget provides over \$1.2 billion in funding to support a coordinated framework for adult education, career technical education, workforce investment, and apprenticeships intended to provide training and education to workers in California.

- **Drought Response.** The State has experienced four consecutive years of below average rain and snow, and is currently facing severe drought conditions in all 58 counties. The 2015-16 Budget in-

cludes the amount of approximately \$1.8 billion (in addition to approximately \$1.9 billion that was previously appropriated) of one-time resources to continue the State's response to drought impacts. The funds will protect and expand local water supplies, conserve water and respond to emergency conditions.

The Governor's Budget Summary for the Proposed Budget (the "2015-16 Proposed Budget Summary"), which was released in January 2015, cautioned that, since 2000, the State's short periods of balanced budgets have been followed by massive budget shortfalls. The 2015-16 Proposed Budget Summary also noted that commitments made by the State in the past two years are already straining the State's finances. Under a projection of current policies, the 2015-16 Proposed Budget Summary anticipated that the State would begin to spend more than it receives in annual revenues by State fiscal year 2018-19, by an amount of approximately \$1 billion. The City cannot predict whether the State will take steps, in response to a future budget shortfall, which would reduce the amount of tax revenue available to the City. The State budget will be affected by national and State economic conditions and other factors over which the City will have no control. State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the City.

The 2015-16 Budget also includes an update of the trigger mechanism payment discussed in the bullet point "State Mandate Reimbursements." The 2015-16 Budget estimates that the trigger mechanism calculation will result in a \$765 million payment toward pre-2004 mandate debt (an increase of approximately \$232 million from the proposed fiscal year 2015-16 budget) owed by the State to cities, counties and special districts.

For additional information regarding the 2015-16 Budget, see the DOF website at www.dof.ca.gov. The information presented on such website is not incorporated herein by reference.

Future State Budgets. No prediction can be made by the City as to whether the State will encounter budgetary problems in future years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year,

or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and 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.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

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

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of the property damaged or destroyed in a disaster.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property.

Section 4 of Article XIII A also provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

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

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City’s option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The City’s appropriations limit for Fiscal Year 2015-16 has been established at \$12,736,766. Using the Fiscal Year 2015-16 Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) have been calculated to be \$9,818,890,

which is \$2,917,876 lower than the Gann Limit. The impact of the appropriations limit on the City's financial needs in the future is unknown.

Articles XIII C and XIII D (Proposition 218) of the California Constitution

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

Article XIII C

Section 2 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were either imposed, extended or increased prior to the effective date of Proposition 218 or in accordance with the requirements of Proposition 218. 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, such as the TOT, Proposition 172 revenues, or storm water fees which support the City's General Fund. TOT and other local taxes, assessments, fees and charges, could be subject to reduction or repeal by initiative under Proposition 218.

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

"Fees" and "charges" are not expressly defined in Article XIII C or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D ("SB 919"). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "Bighorn Decision") that charges for ongoing water delivery are fees and charges within the meaning Section 3 of Article XIII C. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIII C. The Bighorn Decision has been interpreted to mean that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIII D.

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

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution.

Article XIIC also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. “Assessments,” “fees” and “charges” are not defined in Article XIIC, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIC as for Article XIID described below. If not, the scope of the initiative power under Article XIIC potentially could include any General Fund local tax, assessment, or fee not received from or imposed by the federal or State government or derived from investment income.

If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City’s General Fund. Given the approval requirements imposed by Article XIID, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. If the City chose to fund any such programs from the General Fund instead, the General Fund budget would be affected.

Article XIID

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership” herein. Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. In the Bighorn Decision, the Supreme Court stated that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIID.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written pro-

tests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIIIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

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

Depending on the interpretation of what constitutes a “property-related fee” under Article XIIIID, there could be future restrictions on the ability of the City’s General Fund to charge its enterprise funds for various services provided. In the event that fees and charges of enterprise funds cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to supplement any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Both Articles XIIIIA and XIIIB, as well as Articles XIIIC and XIIIID described above, were adopted as measures that qualified for the ballot pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIIA of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court

held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. The county-wide sales tax at issue received an affirmative vote of only 54.1% and was found to be invalid.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Proposition 1A of 2004

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the VLF. The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State "mandates" a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has "suspended" mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "State-local agreement") in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

On November 3, 2004 the voters of the State approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property tax, sales tax, and VLF revenues as of November 3, 2004. Pursuant to Proposition 1A of 2004, the State is able to borrow up to 8% of local property tax revenues but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses

of the State Legislature approve the borrowing. Any amounts borrowed are required to be repaid within three years. Proposition 1A of 2004 also permits the State to borrow from local property tax revenues for no more than two fiscal years within a period of 10 fiscal years, and only if previous borrowings have been repaid. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Proposition 1A of 2004 generally prohibits the State from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates, and if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. Proposition 1A of 2004 also expanded the definition of what constitutes a mandate to encompass State action that transfers to cities, counties, and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Pursuant to statutory changes made in conjunction with amendments to the fiscal year 2008-09 State Budget Act, the fiscal year 2009-10 State Budget Act and related budget legislation adopted by the State Legislature and signed by the Governor in February 2012 (collectively, the “February 2012 Budget Package”), the VLF rate increased from 0.65% to 1.15% effective May 19, 2012. Of this 0.50% increase, 0.35% will flow to the State General Fund, and 0.15% will support various law enforcement programs previously funded by the State General Fund.

Proposition 22

Proposition 22 (“Proposition 22”), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See “ – Proposition 1 A of 2004” herein. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase schools’ and community college districts’ share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO states that Proposition 22 will prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipates that Proposition 22 will require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The City does not believe that the adoption of Proposition 22 will have a significant impact on its revenues and expenditures during Fiscal Year 2015-16.

Proposition 26

Proposition 26 (“Proposition 26”), which was approved by California voters on November 2, 2010, revises the California Constitution to expand the definition of “taxes.” Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments.

Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies. As of the date hereof, none of the City’s fees or charges has been challenged in a court of law in connection with the requirements of Proposition 26.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 generally are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of the affected property owners.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the minimum funding guarantee for school districts and community college districts contained in the State Constitution. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). By dedicating the Proposition 30 funds to education, other revenues in the State General Fund are freed up to fund other programs. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund realignment.

Proposition 2

On November 4, 2014, voters approved the Rainy Day Budget Stabilization Fund Act (also known as “Proposition 2”). Proposition 2 is a legislatively-referred constitutional amendment which makes certain changes to State budgeting practices, including substantially revising the conditions under which transfers are made to and from the State’s Budget Stabilization Account (the “BSA”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58).

Under Proposition 2, and beginning in fiscal year 2015-16 and each fiscal year thereafter, the State will generally be required to annually transfer to the BSA an amount equal to 1.5% of estimated State general fund revenues (the “Annual BSA Transfer”). Supplemental transfers to the BSA (a “Supplemental BSA Transfer”) are also required in any fiscal year in which the estimated State general fund revenues that are allocable to capital gains taxes exceed 8% of total estimated general fund tax revenues. Such excess capital gains taxes—net of any portion thereof owed to K-14 school districts pursuant to Proposition 98—will be transferred to the BSA. Proposition 2 also increases the maximum size of the BSA to an amount equal to 10% of estimated State general fund revenues for any given fiscal year. In any fiscal year in which a required transfer to the BSA would result in an amount in excess of the 10% threshold, Proposition 2 requires such excess to be expended on State infrastructure, including deferred maintenance.

For the first 15-year period ending with fiscal year 2029-30, Proposition 2 provides that half of any required transfer to the BSA, either annual or supplemental, must be appropriated to reduce certain State liabilities, including making certain payments owed to K-14 school districts, repaying State interfund bor-

rowing, reimbursing local governments for State mandated services, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. Following the initial 15-year period, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the BSA to the reduction of such State liabilities. Any amount not applied towards such reduction must be transferred to the BSA or applied to infrastructure, as described above.

Proposition 2 changes the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the BSA. The Governor does not retain unilateral discretion to suspend transfers the BSA, nor does the Legislature retain discretion to transfer funds from the BSA for any reason, as previously provided by law. Rather, the Governor must declare a “budget emergency,” defined as an emergency within the meaning of Article XIII B of the Constitution or a determination that estimated resources are inadequate to fund State general fund expenditures, for the current or ensuing fiscal year, at a level equal to the highest level of State spending within the three immediately preceding fiscal years. Any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the BSA are limited to the amount necessary to address the budget emergency, and no draw in any fiscal year may exceed 50% of funds on deposit in the BSA unless a budget emergency was declared in the preceding fiscal year.

Proposition 2 also requires the creation of the Public School System Stabilization Account (the “PSSSA”) into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would be otherwise paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is “Test 1,” (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be made is higher than the immediately preceding fiscal year, as adjusted for ADA growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year’s funding level, as adjusted for student growth and cost of living.

Future Initiatives

Article XIII A, XIII B, XIII C and XIII D, Propositions 62, 1A, 22, 26, 30 and 2 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City’s revenues or its ability to expend its revenues.

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Certificates. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Certificates, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Certificates are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Lease Payments Are Not Debt

The obligation of the City to make the Lease Payments under the Lease Agreement 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. The obligation of the City to make Lease Payments does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that, for so long as the Property is available for its use, it will make the necessary annual appropriations within its budget for the Lease 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 Lease Payments, or which the City, in its discretion, may determine to pay prior to the Lease Payments.

The City has the capacity to enter into other obligations payable from the City's general fund, without the consent of or prior notice to the Owners of the Certificates. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations, however, have never exceeded the limitations on appropriations under Article XIII B of the California Constitution. For information on the City's current limitations on appropriations, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Article XIII B of the California Constitution."

No Reserve Fund

A reserve fund will not be funded for the Certificates..

Valid and Binding Covenant to Budget and Appropriate

Pursuant to the Lease Agreement, the City covenants to take such action as may be necessary to include Lease Payments due in its annual budgets and to make necessary appropriations for all such payments. Such covenants are deemed to be duties imposed by law, and it is the duty of the public officials of

the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. Upon delivery of the Certificates, Special Counsel will render its opinion (substantially in the form of APPENDIX D-FORM OF OPINION OF SPECIAL COUNSEL) to the effect that, subject to the limitations and qualifications described therein, the Lease Agreement constitutes a valid and binding obligation of the City.

Abatement

In the event of loss or substantial interference in the use and possession by the City of all or any portion of the Property caused by material damage, title defect, destruction to or condemnation of the Property, Lease Payments will be subject to abatement. In the event that such component of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Lease Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Property or redemption of the Certificates, there could be insufficient funds to make payments to Owners in full. Reduction in Lease Payments due to abatement as provided in the Lease Agreement does not constitute a default thereunder.

It is not possible to predict the circumstances under which such an abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell a fee simple interest in the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Risk of Uninsured Loss

The City covenants under the Lease Agreement to maintain certain insurance policies on the Property. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance." These insurance policies do not cover all types of risk, and the City need not obtain insurance except as available on the open market from reputable insurers. For instance, the City does not covenant to maintain earthquake insurance. See "RISK FACTORS—Earthquakes." The Property could be damaged or destroyed due to earthquake or other casualty for which the Property is uninsured. Additionally, the Property could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City's liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no as-

surances that amounts received as proceeds from insurance or from condemnation of the Property will be sufficient to redeem the Certificates.

Under the Lease Agreement the City may obtain casualty insurance which provides for a deductible up to \$250,000. Should the City be required to meet such deductible expenses, the availability of general fund revenues to make Lease Payments may be correspondingly affected.

The City is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property. Depending on its severity, an earthquake could result in abatement of Lease Payments under the Lease Agreement. See “—Abatement.”

Eminent Domain

If the Property 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 Property is taken permanently, or if the Property or any part thereof is taken temporarily, under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (b) there will be a partial abatement of Lease Payments as a result of the application of net proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property. The City covenants in the Lease Agreement to contest any eminent domain award which is insufficient to either: (i) prepay the Lease Payments in whole, if all the Property is condemned; or (ii) prepay a pro rata share of Lease Payments, in the event that less than all of the Property is condemned.

Hazardous Substances

The existence or discovery of hazardous materials may limit the beneficial use of the Property. In general, the owners and lessees of the Property may be required by law to remedy conditions of such parcel relating to release 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 similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

Further it is possible that the beneficial use of the Property may be limited in the future resulting from the current existence on the Property of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Property of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Property.

The City is unaware of the existence of hazardous substances on the Property site which would materially interfere with the beneficial use thereof.

Earthquakes

The City is not legally obligated under the Lease Agreement to maintain, or cause to be maintained, earthquake insurance on the Property and no assurance is made that any earthquake insurance will be maintained. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City's right to use and occupy all or a portion of the Property, which could result in Lease Payments being subject to abatement. Additionally, severe seismic activity in the City could impact the City's general fund expenditures. See "CERTAIN RISK FACTORS—Abatement" above.

Bankruptcy

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Certificates, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease Agreement, the Trustee, on behalf of the Owners of the Certificates, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Certificates. Moreover, such rejection would terminate the Lease Agreement and the City's obligations to make payments thereunder.

Pension Benefit Liability

Many factors influence the amount of the City's pension benefit liabilities, including, without limitation, inflationary factors, changes in statutory provisions of PERS retirement system laws, changes in the level of benefits provided or in the contribution rates of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods (including but not limited to the assumed rate of return), and differences between actual and anticipated investment experience of PERS. Any of these factors could give rise to additional liability of the City to its pension plans as a result of which the City would be obligated to make additional payments to its pension plans in order to fully fund the City's obligations to its pension plans.

Early Redemption Risk

Early redemption of the Certificates may occur in whole or in part without premium, on any date if the Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance, or on any Interest Payment Date, without a premium (see “THE CERTIFICATES - Redemption”), if the City exercises its right to prepay Lease Payments in whole or in part pursuant to the provisions of the Lease Agreement and the Trust Agreement.

Limitations on Remedies

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

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

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

Special Counsel has limited its opinion as to the enforceability of the Lease Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor’s rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Certificates are not subject to acceleration in the event of the breach of any covenant or duty under the Lease Agreement. The lack of

availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Risk of Tax Audit

In December 1999, as a part of a larger reorganization, the Internal Revenue Service (the “Service”), commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by Service officials indicate that the number of tax-exempt bond examinations (which would include securities such as the Certificates) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an examination of the Certificates was undertaken that it would not adversely affect the market value of the Certificates. See “TAX MATTERS.” The City has not been contacted by the Service regarding the examination of any of its bond transactions.

Loss of Tax Exemption

As discussed under the caption “TAX MATTERS,” in order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the City has covenanted in the Lease Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest with respect to the Certificates under section 103 of the Code. Interest with respect to 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 acts or omissions of the City in violation of the Code. Should such an event of taxability occur, the Certificates are not subject to early redemption and will remain outstanding to maturity or until prepaid under the optional redemption or mandatory sinking fund redemption provisions of the Trust Agreement.

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Certificates, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

Changes in Law

There can be no assurance that the electorate of the State will not at some future time adopt additional initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State resulting in a reduction of the general fund revenues of the City and consequently, having an adverse effect on the security for the Certificates.

Taxability Risk

As discussed under the caption “TAX MATTERS,” interest with respect to 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 in violation of its covenants in the Lease Agreement. There is no provision in the Certificates or the Trust Agreement for special

redemption or acceleration or for the payment of additional interest should such an event of taxability occur, and the Certificates will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Trust Agreement.

In addition, as discussed under the caption “TAX MATTERS,” Congress is or may be considering in the future legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Certificates are outstanding or that any such changes will not adversely affect the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes. If the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Certificates would be adversely impacted.

ABSENCE OF LITIGATION

At the time of delivery of and payment for the Certificates, the City will certify that there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court or regulatory agency, public board, or body pending or threatened against the City or the Authority affecting their existence or the titles of their respective officers or seeking to restrain or to enjoin the issuance, sale, or delivery of the Certificates, or the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, any agreement entered into between the City and any purchaser of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease or any other applicable agreements or any action of the City or the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the Authority or their authority with respect to the Certificates or any action of the City or the Authority contemplated by any of said documents, nor, to the knowledge of the City or the Authority, is there any basis therefor.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by not later than March 31 following the end of the City’s fiscal year (currently ending June 30) (the “Annual Report”), commencing with the report for the fiscal year ended June 30, 2015, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX D—FORMS OF CONTINUING DISCLOSURE CERTIFICATES. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Within the past five years, the City failed to comply with previous continuing disclosure undertakings for its 2006 General Obligation Bonds. In addition, within the past five years, the City did not timely

file one underlying rating change in October 2013, one insured rating change in December 2011 and one insured rating change in March 2014. The City has corrected past deficiencies and has otherwise not failed to comply in all material respects with previous continuing disclosure undertakings. The City has retained NHA Advisors, LLC to provide continuing disclosure services to ensure compliance with its continuing disclosure undertakings going forward.

FINANCIAL ADVISOR

The City has retained NHA Advisors LLC, San Rafael, California, as financial advisor (the “Financial Advisor”) in connection with the execution, sale and delivery of the Certificates. The fees of the Financial Advisor are contingent upon the sale and delivery of the Certificates. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

LEGAL MATTERS

All legal matters in connection with the execution and delivery of the Certificates are subject to the approval of Quint & Thimmig LLP, Larkspur, California, Special Counsel. Special Counsel’s opinion with respect to the Certificates will be substantially in the form set forth in APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and for the City by Mary Anne Wagner, Esq., the City Attorney. Certain legal matters will also be passed on for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. The fees and expenses of Special Counsel, Disclosure Counsel and Underwriter’s counsel are contingent upon the execution and delivery of the Certificates.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Certificates, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest with respect to the Certificates to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to become includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

Subject to the City’s compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Special Counsel, interest with respect to the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest with respect to the Certificates is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

Subject to the City’s compliance with certain covenants, in the opinion of Special Counsel, the Lease Agreement is a “qualified tax exempt obligation” under the small issuer exception provided under

section 265(b)(3) of the ~~Internal Revenue Code of 1986, as amended (the “Code”)~~, which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under section 265(b)(2) of the Code.

In rendering its opinion, Special Counsel will rely upon certifications of the City with respect to certain material facts within its knowledge. Special Counsel’s opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The ~~Internal Revenue Code of 1986, as amended (the “Code”)~~, includes provisions for an alternative minimum tax (“AMT”) for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation’s alternative minimum taxable income (“AMTI”), which is the corporations’ taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). “Adjusted current earnings” would generally include certain tax-exempt interest, but not interest with respect to the Certificates.

Ownership of the Certificates may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Certificates should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “Issue Price”) for each maturity of the Certificates is the price at which a substantial amount of such maturity of the Certificates is first sold to the public. The Issue Price of a maturity of the Certificates may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

Owners of Certificates who dispose of Certificates prior to the stated maturity (whether by sale, redemption or otherwise), purchase Certificates in the initial public offering, but at a price different from the Issue Price, or purchase Certificates subsequent to the initial public offering, should consult their own tax advisors.

If a Certificate is purchased at any time for a price that is less than the Certificate’s stated redemption price at maturity (the “Reduced Issue Price”), the purchaser will be treated as having purchased a Certificate with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Certificate is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases a Certificate for a price that is less than its Reduced Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Certificate. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Certificates.

An investor may purchase a Certificate at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an

investor on a constant yield basis over the remaining term of the Certificate in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Certificate. Investors who purchase a Certificate at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Certificate's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Certificate.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or 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 bonds issued prior to enactment. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. Special Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Service has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Certificates. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of the ultimate outcome.

Payments of interest with respect to, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Certificates, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Certificate owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Certificate owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes.

Ownership of the Certificates may result in other state and local tax consequences to certain taxpayers. Special Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Certificates. Prospective purchasers of the Certificates should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinions that Special Counsel expects to deliver upon the delivery of the Certificates is set forth in APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL.

UNDERWRITING

The Certificates are being purchased by Raymond James & Associates, Inc. (the “Underwriter”) at a price of \$ _____ (consisting of \$ _____ aggregate principal amount of the Certificates, less \$ _____ of Underwriter’s discount, plus \$ _____ of original issue premium).

The Underwriter intends to offer the Certificates to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.

RATING

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), has assigned the rating of “AA” to the Certificates. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P at 55 Water Street, New York, NY 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Certificates.

FINANCIAL STATEMENTS

The City’s financial statements for the fiscal year ended June 30, 2014, included in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2014, have been audited by the City’s Auditor, as stated in its reports appearing in such appendix. The City’s Auditor has not undertaken to update its reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the City’s Auditor with respect to any event subsequent to its report.

ADDITIONAL INFORMATION

All of the preceding summaries of the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, 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 be realized.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

The City will furnish a certificate dated the date of delivery of the Certificates, from an appropriate officer of the City, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the City has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Trust Agreement at and prior to the date of the issuance of the Certificates.

The execution and delivery of the Official Statement by the City have been duly authorized by the Board of Supervisors of the City.

CITY OF SAUSALITO

By _____
City Manager

APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

The City

The City of Sausalito (the “City”) is located in central Marin County (the “County”). The City is 8 miles (13 km) south-southeast of San Rafael, the County seat, at an elevation of 13 feet (4 m). The community is situated near the northern end of the Golden Gate Bridge, and prior to the building of that bridge served as a terminus for rail, car, and ferry traffic. Developed rapidly as a shipbuilding center in World War II, the city’s industrial character gave way in postwar years to a reputation as a wealthy and artistic enclave, a picturesque residential community (incorporating large numbers of houseboats), and a tourist destination. It is adjacent to, and largely bounded by, the protected spaces of the Golden Gate National Recreation Area.

The County is included in the San Francisco-Oakland-Hayward, CA Metropolitan Statistical Area. It is across the Golden Gate Bridge from San Francisco. Marin County is well known for its natural beauty, liberal politics, and affluence. Marin County is among the leading counties in the United States in income per capita. The county is governed by the Marin County Board of Supervisors. The County seat is San Rafael. Marin County’s natural sites include the Muir Woods redwood forest, the Marin Headlands, Stinson Beach, the Point Reyes National Seashore, and Mount Tamalpais.

Organization

The City was incorporated on September 4, 1893 as a general law city. The City operates under a Council/Manager form of government. Policy-making and legislative authority are vested in a City Council consisting of mayor and four other members, all elected on a non-partisan, at large basis. The City Council appoints the government’s manager, who in turn appoints the heads of the various departments. Council members serve overlapping four-year terms. The mayor is appointed by the City Council on rotating one-year terms.

Population

The table below summarizes population of the City, the County and the State.

CITY OF SAUSALITO, MARIN COUNTY AND STATE OF CALIFORNIA Population

Year	City of Sausalito	Marin County	State of California
2006	7,038	246,969	36,116,202
2007	7,018	248,025	36,399,676
2008	7,039	249,546	36,704,375
2009	7,039	250,760	36,966,713
2010	7,058	252,279	37,223,900
2011	7,067	253,040	37,427,946
2012	7,110	253,829	37,680,593
2013	7,142	254,900	38,030,609
2014	7,214	257,153	38,357,121
2015	7,300	258,972	38,714,725

Source: California Department of Finance (as of January 1).

Employment

The following table summarizes the historical numbers of workers by industry in the County for the last five years:

SAN RAFAEL MSA (MARIN COUNTY) Labor Force and Industry Employment Annual Averages by Industry

	2010	2011	2012	2013	2014 ⁽¹⁾
Total, All Industries	100,900	102,700	105,900	110,100	112,000
Total Farm	500	400	400	400	400
Goods Producing	7,000	7,100	7,700	8,600	9,600
Wholesale Trade	2,400	2,400	2,600	2,700	2,800
Retail Trade	13,400	13,400	13,600	13,900	14,400
Transportation, Warehousing & Utilities	1,100	1,100	1,100	1,200	1,300
Information	2,100	2,600	2,800	2,800	2,600
Financial Activities	6,900	7,000	7,200	7,300	6,900
Professional & Business Services	18,400	17,800	18,600	18,700	18,300
Educational & Health Services	17,000	17,400	18,200	19,500	19,900
Leisure & Hospitality	12,200	12,700	13,200	14,400	15,300
Other Services	5,000	4,800	5,000	5,200	5,200
Government	15,000	16,000	15,500	15,400	15,300

Source: California Employment Development Department, based on March 2014 benchmark.

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

(1) Last available full year data.

The following tables summarize historical employment and unemployment for the County, the State of California and the United States:

MARIN COUNTY, CALIFORNIA, and UNITED STATES
Civilian Labor Force, Employment, and Unemployment
(Annual Averages)
2010-2014

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate ⁽¹⁾</u>
2010	Marin County	133,100	122,700	10,400	7.8%
	California	18,336,300	16,091,900	2,244,300	12.2
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	Marin County	134,700	124,900	9,800	7.3%
	California	18,419,500	16,260,100	2,159,400	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	Marin County	137,300	128,700	8,600	6.3%
	California	18,554,800	16,630,100	1,924,700	10.4
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	Marin County	138,900	131,700	7,200	5.2%
	California	18,671,600	17,002,900	1,668,700	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014 ⁽²⁾	Marin County	140,100	134,100	6,000	4.3%
	California	18,811,400	17,397,100	1,414,300	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2

Source: California Employment Development Department, based on March 2014 benchmark and US Department of Labor.

- (1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures available in this table.
- (2) Latest available full-year data.

Major Employers

The tables below set forth the principal employers of the City and the County.

CITY OF SAUSALITO 2014 Principal Employers

Employer	Employees	Percentage of Total Labor Force
Butler Shine Stern Partners LLC	147	2.58%
CP Shades	98	1.72
The Trident	95	1.67
The Spinnaker	75	1.32
City of Sausalito	74	1.30
Mollie Stone's Market	78	1.37
Poggio LP	65	1.14
Scoma's	63	1.11
Backen, Golliam & Kroeger	60	1.05
Fish Restaurant	49	1.06
Totals	804	14.11%

Source: City of Sausalito . Total labor force is 5,700.

MARIN COUNTY 2015 Major Employers

Employer Name	Location	Industry
Autodesk Inc	San Rafael	Computer Programming Services
Bradley Real Estate	Belvedere Tiburon	Real Estate
Cagwin & Dorward Landscape	Novato	Landscape Contractors
California Alpine Club	Mill Valley	Clubs
College of Marin	Kentfield	Schools-Universities & Colleges Academic
Corrections Dept	San Quentin	State Govt-Correctional Institutions
Dominican University of Ca	San Rafael	Schools-Universities & Colleges Academic
Extreme Pizza	San Rafael	Pizza
Fireman's Fund Insurance Co	Novato	Insurance
Kaiser Permanente Medical Ctr	San Rafael	Hospitals
Kentfield Rehabilitation Hosp	Kentfield	Rehabilitation Services
Lucas Licensing	Nicasio	Video Production & Taping Service
Macy's	Corte Madera	Department Stores
Managed Health Network Inc	San Rafael	Mental Health Services
Marin Community College	Kentfield	Schools-Universities & Colleges Academic
Marin County Sheriff's Dept	San Rafael	Sheriff
Marin Independent Journal	Novato	Newspapers (Publishers/Mfrs)
Marine General Hospital	Greenbrae	Hospitals
Nordstrom	Corte Madera	Department Stores
Novato Community Hospital	Novato	Hospitals
San Rafael Human Resources	San Rafael	Government Offices-City, Village & Twp
Sonnen Motorcars	San Rafael	Automobile Dealers-New Cars
Sutter Health Facility	Novato	Hospitals
Township Building Svc Inc	Novato	Janitor Service

Source: California Employment Development Department, Major Employers in Marin County.

Construction Activity

The following table reflects the five-year history of building permit valuation for the City and the County:

CITY OF SAUSALITO					
Building Permits and Valuation					
(Dollars in Thousands)					
	2010	2011	2012	2013	2014
Permit Valuation:					
New Single-family	4,809	1,112	1,162	205	2,060
New Multi-family	-	-	-	-	1,615
Res. Alterations/Additions	7,225	12,308	9,535	8,118	8,701
Total Residential	12,034	13,420	10,697	8,323	12,376
Total Nonresidential	3,065	7,648	5,103	12,165	2,359
Total All Building	15,100	21,068	15,800	20,488	14,736
New Dwelling Units:					
Single Family	4	1	2	1	2
Multiple Family	-	-	-	-	3
Total	4	1	2	1	5

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

MARIN COUNTY					
Building Permits and Valuation					
(Dollars in Thousands)					
	2010	2011	2012	2013	2014
Permit Valuation:					
New Single-family	59,252	35,394	36,152	59,423	71,460
New Multi-family	-	7,621	4,927	33,397	14,069
Res. Alterations/Additions	144,548	160,275	132,762	152,065	203,375
Total Residential	203,800	203,290	173,842	244,885	288,904
Total Nonresidential	93,279	82,031	118,071	378,771	186,281
Total All Building	297,080	285,321	291,914	623,657	475,186
New Dwelling Units:					
Single Family	75	55	67	90	112
Multiple Family	-	61	50	212	76
Total	75	116	117	302	188

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

Commercial Activity

Taxable sales in the County are shown below. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years.

MARIN COUNTY Taxable Sales, 2009-2013 (dollars in thousands)

	2009	2010	2011	2012	2013 ⁽²⁾
Retail and Food Services					
Motor Vehicles and Parts Dealers	434,910	485,061	523,483	610,028	660,321
Furniture and Home Furnishings Stores	106,960	109,379	117,090	118,307	121,233
Electronics and Appliance Stores	129,928	123,308	123,608	120,099	124,988
Bldg Mtrl. and Garden Equip. and Supplies	246,690	237,664	254,092	272,110	313,687
Food and Beverage Stores	246,161	259,294	266,823	277,873	287,593
Health and Personal Care Stores	109,301	114,342	121,051	122,472	127,239
Gasoline Stations	258,624	301,124	371,618	400,211	394,982
Clothing and Clothing Accessories Stores	243,655	263,834	280,098	305,000	324,851
Sporting Goods, Hobby, Book and Music Stores	128,490	131,862	138,838	137,827	143,664
General Merchandise Stores	261,529	265,063	273,199	281,325	292,739
Miscellaneous Store Retailers	157,795	157,970	182,054	184,154	209,267
Nonstore Retailers	26,001	25,596	26,884	41,692	85,735
Food Services and Drinking Places	418,831	422,951	455,433	486,787	518,808
Total Retail and Food Services	2,768,875	2,915,477	3,134,270	3,357,884	3,605,108
All Other Outlets	891,160	918,692	915,599	975,716	1,059,812
Totals All Outlets ⁽¹⁾	3,660,036	3,834,169	4,049,869	4,333,600	4,664,920

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

- (1) Totals may not add up due to independent rounding.
- (2) Last available full year data.

Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the years 2010 through 2014.

CITY OF SAUSALITO, MARIN COUNTY, CALIFORNIA and UNITED STATES Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effec- tive Buying Income
2010	City of Sausalito	546,705	82,906
	Marin County	10,453,585	68,688
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Sausalito	542,523	82,899
	Marin County	10,592,305	68,667
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Sausalito	494,920	76,284
	Marin County	11,615,363	69,129
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Sausalito	433,293	69,149
	Marin County	10,035,970	61,675
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Sausalito	549,323	90,512
	Marin County	11,636,360	74,420
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: Nielsen Claritas, Inc.

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APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The Auditor was not requested to consent to the inclusion of its report in this Appendix B and it has not undertaken to update financial statements included in this Appendix B. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

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APPENDIX C
INVESTMENT POLICY OF THE CITY

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APPENDIX D

FORM OF OPINION OF SPECIAL COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

City Council of the
City of Sausalito
420 Litho Street
Sausalito, California 94965

OPINION: \$ _____ * Certificates of Participation (2016 Financing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the City of Sausalito, as the Rental for Certain Property Pursuant to a Lease Agreement with the Sausalito Financing Authority

Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Sausalito (the “City”), of its \$ _____ * Lease Agreement, dated as of January 1, 2016, by and between the Sausalito Financing Authority (the “Authority”) and the City (the “Lease Agreement”), pursuant to the California Government Code. The Authority has, pursuant to the Assignment Agreement, dated as of January 1, 2016 (the “Assignment Agreement”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), assigned certain of its rights under the Lease Agreement, including its right to receive a portion of the lease payments made by the City thereunder (the “Lease Payments”), to the Trustee. Pursuant to the Trust Agreement, dated as of January 1, 2016, by and among the Trustee, the Authority and the City (the “Trust Agreement”), the Trustee has executed and delivered certificates of participation (the “Certificates”) evidencing direct, undivided fractional interests of the owners thereof in the Lease Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Lease Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a municipal corporation and general law city organized and existing under the laws of the State of California with the power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

* Preliminary, subject to change.

2. The Lease Agreement has been duly authorized, executed and delivered by the City and is an obligation of the City valid, binding and enforceable against the City in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

4. Subject to the terms and provisions of the Lease Agreement, the Lease Payments to be made by the City are payable from general funds of the City lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. Subject to the City's compliance with certain covenants, interest with respect to the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to be includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

6. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

Ownership of the Certificates may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Certificates.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement, the Assignment Agreement and the Trust Agreement may be subject to the Bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX E

SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

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APPENDIX F

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F, concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (as used in this Appendix E, the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

ing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF SAUSALITO (the “City”) in connection with the execution and delivery of \$ _____* City of Sausalito Certificates of Participation (2015 Financing Project,) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2016, by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the City and the Sausalito Financing Authority (the “Trust Agreement”). Pursuant to Section 11.08 of the Trust Agreement, the City covenants and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

“*Annual Report*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“*Dissemination Agent*” shall mean NHA Advisors, LLC, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Participating Underwriter*” shall mean any original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“*Rule*” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2014-15 Fiscal Year, which is due not later than March 31, 2016, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date; provided further, however, that if the audited financial statements are not available by that date, the City shall, or shall cause the Dissemination Agent to, file unaudited financial statements for such prior fiscal year end.

(b) *Change of Fiscal Year.* If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send, in a timely manner, a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send, in a timely manner, a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, as follows, substantially similar to that provided in the corresponding tables and charts in the official statement for the Certificates:

- (i) Assessed Valuation;
- (ii) Secured Tax Levies and Delinquencies;
- (iii) General Fund Tax Revenues by Source
- (iv) Other Revenue Sources

- (v) General Fund Long-Term Debt Outstanding; and
- (vi) Latest actuarial information released by CalPERS. For the City's Safety and Miscellaneous Plans.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Certificates:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.

- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Certificates under the Trust Agreement.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Certificate owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid reasonable compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all reasonable expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal require-

ments, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Certificate owners in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Certificate owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Trust Agreement. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF SAUSALITO

By _____
Authorized Officer

ACKNOWLEDGED:

NHA ADVISORS, LLC, as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Sausalito

Name of Issue: Certificates of Participation (2016 Financing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the City of Sausalito, as the Rental for Certain Property Pursuant to a Lease Agreement with the Sausalito Financing Authority

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by _____.

Date: _____

NHA ADVISORS, LLC, as Dissemination Agent

By _____
Authorized Officer

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