

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
SUBJECT: AUTHORIZATION TO ISSUE PENSION OBLIGATION
REFUNDING BONDS (FEDERALLY TAXABLE), SERIES
2013 AND TO REFUND OUTSTANDING PENSION
OBLIGATION REFUNDING BONDS, SERIES 2003A AND
2003B
STAFF PRESENTER: LAWRENCE CHIU, CHIEF FINANCIAL OFFICER, FINANCE
DEPARTMENT
AGENDA ACTION: RESOLUTION

ISSUE(S)

Shall the Council, by Resolution, (1) approve the refunding of outstanding 2003 Pension Obligation Refunding Bonds, Series A (Variable Rate) and Series B (Fixed Rate), (2) approve an appropriation of City funds to the prepayment of the 2003 Pension Obligation Bonds in the amount of \$4.00 million from the one-time Property Tax Administration Fee settlement, Enterprise, Internal Services and Debt Services Funds; (3) approve the issuance of Pension Obligation Refunding Bonds (Federally Taxable), Series 2013 in a principal amount of not-to-exceed \$35.00 million, (4) approve a Preliminary Official Statement, and (5) approve and authorize the execution of related documents by the City Manager, Chief Financial Officer or their respective delegates and actions with respect thereto?



COUNCIL GOALS/STRATEGIES

Goal 2: Promote a City Organization that is Sustainable and Maintains Employee Morale, Productivity, and Effectiveness.

BACKGROUND

1. On January 21, 2003, the City of Santa Rosa adopted Resolution 25538 which authorized the issuance of Pension Obligation Bonds for the purpose of refunding certain CalPERS pension obligations of the City. On July 16, 2003, the City issued two Series of Pension Obligation Refunding Bonds (POBs). These bonds are titled:
 - (a) 2003 Pension Obligation Refunding Bonds, Series A (Variable Rate) and the original par amount was \$20.50 million; and

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- (b) 2003 Pension Obligation Refunding Bonds, Series B (Fixed Rate) and the original par amount was \$30.17 million.

These bonds were issued as 21 year obligations of the City and will mature on September 1, 2024. The proceeds from the sale of the POBs Series A and B were delivered to CalPERS to pay a portion of the City's pension plan unfunded liability.

2. Since the recession in 2008, the Federal Reserve has been keeping its short-term interest rate low to stimulate economic recovery. This creates an opportunity for the City to replace the POBs with a lower fixed rate financing and to capture the current historically low fixed rate environment.
3. Working with the City's financial advisor, Public Financial Management (PFM), three underwriting firms were interviewed and Stifel, Nicolaus and Company, Inc. is recommended by the Finance Department to be the underwriter on the proposed POBs refunding transaction. Jones Hall is the City's bond counsel.

ANALYSIS

1. Refinancing of 2003 Pension Obligation Refunding Bonds, Series A (Variable Rate) with a fixed rate financing

The original par amount of 2003 POBs, Series A (Variable Rate) was \$20.50 million. Currently there is \$14.19 million of bond principal outstanding. Since 2005, the City has budgeted the annual debt service on the 2003 POBs, Series A (Variable Rate) at the higher fixed rate the City pays on the 2003 POBs, Series B (Fixed Rate). This has allowed the City to pay down an additional \$3.05 million of principal of the Series A POBs since they were issued in 2003. The outstanding principal balance of the 2003 POBs, Series A (Variable Rate) can be prepaid with thirty days prior notice.

The refinancing includes a City contribution of \$4.00 million to the refunding of the POBs, consisting of \$1,647,869 from one-time Property Tax Administration Fee settlement, \$815,000 from Enterprise and Internal Services Funds, and \$1,537,131 from Debt Services Fund.

The all-in cost for the 2003 POBs, Series A (Variable Rate) is currently about 1.10% per year, but that rate is expected to rise. The variable rates in recent history have been extraordinary low due to continued Federal Reserve action. Based on the history of variable interest rates over the past 30 years, the projected all-in cost to the City over the remaining term of the POBs would be approximately 3.62% per annum.

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The 2003 POBs, Series A (Variable Rate) require an Irrevocable Letter of Credit (LOC) issued by a bank as security for investors. The current LOC is with Wells Fargo Bank and will expire on June 29, 2014. Complying with the LOC requirement has become a challenge in the recent past due to financial uncertainty associated with California governments. The consequence of not providing a substitute LOC when the Wells Fargo Bank LOC expires is that the bonds become 'bank bonds' held by Wells Fargo Bank.

The 'bank bonds' bear interest at a rate of 7% (or higher, based on the Bank's cost of funds at the time) for the first 180 days the Bank hold the Bonds, and 8% (or higher, based on the Bank's cost of funds at the time) thereafter. In addition, the Bonds held by the Bank convert to a 3 year term loan, and must be fully repaid by the end of the third year after expiration of the LOC. This would create a severe financial hardship for the City. Furthermore, even if the LOC can be renewed or replaced, that process would require a renegotiation every 1 to 3 years, with the potential of rising costs at each renewal.

The proposed refinancing would reduce the City exposure to the risks of the availability of a LOC in the future, rising LOC costs due to fewer LOC banks in the market and rising short term rates.

2. Refinancing of 2003 Pension Obligation Refunding Bonds, Series B (Fixed Rate) with a lower fixed rate

The original par amount of 2003 POBs, Series B (Fixed Rate) was \$30.17 million. Currently there is \$24.13 million of principal outstanding. The weighted average interest rate on the outstanding bonds is 5.18%.

In the current market, the weighted average interest rate on the POBs is estimated at 3.40%. The first opportunity to refund the principal balance of the 2003 POBs, Series B (Fixed Rate) is September 1, 2013.

3. The refinancing of 2003 POBs take into consideration of CalPERS employer contribution rates increase in FY 2015/16 due to amortization and smoothing policies change. The annual debt services payment for the 2013 POBs would be approximately \$4.10 million in Fiscal Year 2014/15 and \$3.60 million in each subsequent Fiscal Years 2015/16 to 2024/25.
4. The one-time cost of issuance is estimated at \$0.19 million. The projected Present Value savings is \$7.35 million. After deducting the principal pay down of \$4.00 million and debt services payment of \$2.48 million in Fiscal Year 2013/14, the projected Net Present Value savings is \$0.87 million.

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RECOMMENDATION

It is recommended by the Finance Department that the Council, by Resolution, (1) approve the refunding of outstanding 2003 Pension Obligation Refunding Bonds, Series A (Variable Rate) and Series B (Fixed Rate), (2) approve an appropriation of City funds to the prepayment of the 2003 Pension Obligation Bonds in the amount of \$4.00 million from the one-time Property Tax Administration Fee settlement, Enterprise, Internal Services and Debt Services Funds; (3) approve the issuance of Pension Obligation Refunding Bonds (Federally Taxable), Series 2013 in a principal amount of not-to-exceed \$35.00 million, (4) approve a Preliminary Official Statement, and (5) approve and authorize the execution of related documents by the City Manager, Chief Financial Officer or their respective delegates and actions with respect thereto.

Author: Lawrence Chiu, x3089

Attachments:

- Indenture of Trust for the Pension Obligation Refunding Bond (Federally Taxable), Series 2013
- Preliminary Official Statement
- Escrow Agreement
- Bond Purchase Agreement

INDENTURE OF TRUST

by and between

**U.S. BANK NATIONAL ASSOCIATION
as Trustee**

and the

CITY OF SANTA ROSA

Dated as of August 1, 2013

Relating to

\$

**City of Santa Rosa
Pension Obligation Refunding Bonds (Federally Taxable),
Series 2013**

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EXHIBIT A FORM OF BOND

INDENTURE OF TRUST

THIS INDENTURE OF TRUST dated as of August 1, 2013 (this “Indenture”), is by and between the City of Santa Rosa (the “City”), and U.S. Bank National Association, as trustee (the “Trustee”).

RECITALS

WHEREAS, the City is a member of the California Public Employees' Retirement System (“PERS”) and as such is obligated by the Public Employees' Retirement Law, constituting Part 3 of Division 5 of Title 2 of the California Government Code (the “Retirement Law”), and the contract between the Board of Administration of PERS and the City Council of the City, effective January 1, 1959 (the “PERS Contract”), to make contributions to PERS to (a) fund pension benefits for its employees who are members of PERS, (b) amortize the unfunded actuarial liability with respect to such pension benefits, and (c) appropriate funds for the purposes described in (a) and (b);

WHEREAS, the City is authorized pursuant to Articles 10 and 11 (commencing with section 53570) of Chapter 3 of Division 2 of Title 5 of the California Government Code (the “Refunding Bond Law”), to issue bonds for the purpose of refunding certain obligations of the City, including the obligations evidenced by the PERS Contract;

WHEREAS, the City previously issued its City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003A (Variable Rate Demand) in the original principal amount of \$20,500,000, \$14,190,000 principal amount of which remain outstanding (the “Series 2003A Bonds”), and City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate) in the original principal amount of \$30,170,000, \$24,130,000 principal amount of which remain outstanding (the “Series 2003B Bonds”, and together with the Series 2003A Bonds, the “Prior Bonds”); and

WHEREAS, the Prior Bonds were issued pursuant to the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the “Bond Law”), and an Indenture of Trust, dated as of July 1, 2003, between U.S. Bank National Association and the City, for the purpose of refunding all or a portion of the City's then current obligation to PERS, as evidenced by the PERS Contract, to pay the then unfunded accrued actuarial liability of the City, and a portion of the City's then current normal contribution with respect to pension benefits under the Public Employees' Retirement Law, and paying the costs of issuance of the Prior Bonds, including the underwriter's discount and any original issue discount on the Prior Bonds; and

WHEREAS, the Prior Bonds accrue interest at both a variable rate and at fixed rates, and due to the current historically low interest rate environment, it is an opportune time to refinance the Prior Bonds by issuing debt that accrues interest at historically low fixed rates; and

WHEREAS, the Series 2003A Bonds were originally supported by a letter of credit (the “Original Credit Facility”) issued by Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch (the “Original Credit Provider”), under the terms of a reimbursement agreement between the Original Credit Provider and City; and

WHEREAS, on June 30, 2011, Wells Fargo Bank, National Association (the “Existing Credit Provider”), issued a letter of credit (“Existing Credit Facility”) replacing the Original Credit Facility under the terms of a reimbursement agreement (the “Existing Reimbursement Agreement”), dated as of June 1, 2011 between the Existing Credit Provider and City; and

WHEREAS, under Section 4.01(a) of the 2003 Indenture, the City may redeem the Series 2003A Bonds in whole on any date from a draw on the Credit Facility (the “Redemption Draw”)

so long as it demonstrates, to the reasonable satisfaction of the Existing Credit Provider that, at the time of such proposed redemption, the Existing Credit Provider will be fully reimbursed for all draws on the Existing Credit Facility; and

WHEREAS, under Section 4.01(b) of the 2003 Indenture, the City may optionally redeem the Series 2003B Bonds on September 1, 2013, and under Section 11.01(b) of the 2003 Indenture, may create an escrow fund into which non-callable Federal Securities are deposited in amounts sufficient to redeem the Series 2003 Bonds on the designated redemption date; and

WHEREAS, under Section 2.3(f)(ii) of the Existing Reimbursement Agreement, the Existing Credit Provider has agreed to fund the Redemption Draw; and

WHEREAS, for the purpose of refunding the Prior Bonds with bonds bearing historically low fixed rates of interest, including the funding of an escrow for the redemption of the Series 2003B Bonds and the reimbursement of the Existing Credit Provider for funding the Redemption Draw for use in discharging the Series 2003A Bonds, the City desires to issue its City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2013, in a principal amount of \$ _____ (the "Bonds"), pursuant to and secured by this Indenture;

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof and interest thereon, the City has authorized the execution and delivery of this Indenture; and

WHEREAS, the City certifies that all acts and proceedings required by law necessary to make the Bonds, when executed by the City, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal obligations of the City, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized.

NOW, THEREFORE THIS INDENTURE OF TRUST WITNESSETH, that in order to secure the payment of the principal of and the interest on all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the City does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS; EQUAL SECURITY

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture and of any agreement supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Authorized Representative” means: (a) with respect to the City, its City Manager, Chief Financial Officer, or any other Person designated as an Authorized Representative of the City by a Certificate of the City signed by its City Manager or Chief Financial Officer and filed with the Trustee; and (b) with respect to the Trustee, any Vice President, any Assistant Vice President or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or execute any document by or pursuant to a resolution of the Board of Directors of the Trustee or the bylaws of the Trustee.

“Beneficial Owner” means, for purposes of Section 6.07, any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any Bonds, including persons holding Bonds through nominees, depositories or other intermediaries, or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Bond Counsel” means Jones Hall, A Professional Law Corporation, San Francisco, California, and its successors; or any other firm of nationally recognized bond counsel selected by the City.

“Bonds” means the \$_____ City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2013, issued pursuant to Section 2.01 of this Indenture.

“Business Day” means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the City of San Francisco, California, the city in which documents are required to be delivered to the Bank to draw on the Letter of Credit, in the State of New York or the State, or in any state in which the Office is located, or the New York Stock Exchange, are closed. If any payment hereunder is due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day.

“City” means the City of Santa Rosa, California.

“Closing Date” means August __, 2013, being the date on which the Bonds are delivered to the original purchasers thereof.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the City and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the issuance of the Bonds, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including fees of its counsel), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of

rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established and held by the City pursuant to Section 3.02.

“Debt Service Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.01.

“Depository” means The Depository Trust Company, or such other securities depository as the City may designate in a Written Certificate delivered to the Trustee.

“DTC” means The Depository Trust Company and its successors and assigns.

“Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of August 1, 2013, by and between the City and U.S. Bank National Association, as escrow bank.

“Escrow Bank” means U.S. Bank National Association, as escrow bank under the Escrow Agreement.

“Event of Default” means any of the events specified in Section 7.01.

“Existing Credit Facility” has the meaning given to said term in the recitals hereto.

“Existing Credit Provider” has the meaning given to said term in the recitals hereto.

“Existing Reimbursement Agreement” has the meaning given to said term in the recitals hereto.

“Federal Securities” means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State, as shall be certified in writing by the City to the Trustee, for the moneys proposed to be invested therein:

(a) direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the payment of principal of and interest on which are directly or indirectly unconditionally guaranteed by, the United States of America; and

(b) direct obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City designated in a Written Certificate of the City delivered to the Trustee.

“Indenture” means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Independent Accountant” means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by the City, and who, or each of whom: (a) is in fact independent and not under domination of the City; (b) does not have any substantial interest, direct or indirect, with the City; and (c) is not connected with the City as an officer or employee of the City but who may be regularly retained to make reports to the City.

“Interest Account” means the account by that name established and held by the Trustee pursuant to Section 5.01.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2014.

“Moody's” means Moody's Investors Service, Inc., its successors and assigns.

“Nominee” means Cede & Co.

“Office” means the corporate trust office of the Trustee at One California Street, Suite 2550, San Francisco, California 94111, or at such other address or addresses designated by the Trustee in written notice filed with the City and the Owners.

“Original Credit Provider” has the meaning given to said term in the recitals hereto.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) disqualified under Section 11.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

“Owner” or **“Bond Owner,”** whenever used herein with respect to a Bond, means the Person in whose name the ownership of such Bond is registered on the Registration Books.

“Participant” means each broker-dealer, bank and other financial institution from time to time for which a Depository holds Bonds as security depository.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Permitted Investments” means any of the following that, at the time of investment, are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand or time deposits (including certificates of deposit) in federal or state chartered savings and loan associations or in federal or State banks (including the Trustee), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated in the highest short-term rating category by Moody's and S&P, or (ii) such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by Moody's and S&P, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank whose short-term obligations are rated in the highest short-term rating category by Moody's and S&P, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to section 103 of the Internal Revenue Code of 1986 and which are rated A or better by Moody's and S&P;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by Moody's and S&P;

(h) money market funds (including money market funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services) which are rated in the highest rating category by Moody's and S&P; and

(j) the Local Agency Investment Fund established pursuant to section 16429.1 of the California Government Code, to the extent the Trustee may deposit and withdraw funds directly, provided that the Trustee may restrict such investment if required to keep moneys available for the purposes of this Indenture.

"PERS" means the California Public Employees' Retirement System, established under and pursuant to the Retirement Law.

"PERS Contract" means the contract between the Board of Administration of PERS and the City Council of the City, effective May 4, 2003.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name established and held by the Trustee pursuant to Section 5.01.

"Prior Bonds" means: (i) the City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003A (Variable Rate Demand) issued on July 16, 2003 in the original principal amount of \$20,500,000, \$14,190,000 principal amount of which remain outstanding (the "Series 2003A Bonds"); and (ii) City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate) issued on July 16, 2003 in the original principal amount of \$30,170,000, \$24,130,000 principal amount of which remain outstanding (the "Series 2003B Bonds").

"Record Date" means the fifteenth (15th) day (whether or not a Business Day) of the month immediately preceding each Interest Payment Date.

"Redemption Draw" has the meaning given to said term in the recitals hereto.

"Refunding Bond Law" means Articles 10 and 11 (commencing with section 53570) of Chapter 3, Division 2, Title 5 of the California Government Code.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to Section 2.06.

“Retirement Law” means the Public Employees' Retirement Law, constituting Part 3 of Division 5 of Title 2 of the California Government Code, commencing with section 20000 of said Code, as amended from time to time.

“S&P” means Standard & Poor's Rating Services, and its successors.

“State” means the State of California.

“Supplemental Indenture” means a Supplemental Indenture modifying, amending or supplementing this Indenture, entered into by and between the City and the Trustee pursuant to the provisions of this Indenture.

“Surplus Account” means the account by that name established and held by the Trustee pursuant to Section 5.01.

“Term Bonds” means the Bonds maturing on September 1 in each of the years 20__ and 20__.

“Trustee” means U.S. Bank National Association, or its successor, as Trustee hereunder as provided in Section 8.01, and as paying agent, transfer agent and registrar for the Bonds.

“Written Certificate” and **“Written Request”** of the City mean, respectively, a written certificate or written request executed in the name of the City by its Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

Section 1.02. Interpretation. (a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

Section 1.03. Indenture Constitutes Contract. In consideration of the purchase and acceptance of any and all of the Bonds issued hereunder by those who shall hold the same from time to time, this Indenture shall be deemed to be and shall constitute a contract among the City, the Trustee and the Owners of the Bonds. The provisions, covenants and agreements herein set forth to be performed by or on behalf of the City shall be for the equal benefit, protection and security of the Owners of any and all of the Bonds. All of the Bonds, without regard to the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof.

ARTICLE II

THE BONDS

Section 2.01. Authorization, Form and Date of the Bonds. The Bonds shall be issued in the aggregate principal amount of \$_____, shall be issued in accordance with this Indenture and the Refunding Bond Law and sold primarily for the purpose of refunding the Prior Bonds, which refunded the City's obligation to PERS evidenced by the PERS Contract. The Bonds shall be issued substantially in the form of Exhibit A to this Indenture, with such changes therein, deletions therefrom and additions thereto as an Authorized Representative of the City shall approve, such approval to be conclusively evidenced by the execution and delivery of the Bonds.

The Bonds shall mature on September 1 in each of the years and in the amounts, and shall bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u> <u>Per Annum</u>
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		

Interest on the Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books as of the preceding Record Date; *provided, however*, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Trustee prior to any Record Date, interest on such Bonds shall be paid to such Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the United States designated in such written request. Principal of any Bond shall be paid upon presentation and surrender thereof, at maturity or the prior redemption thereof, at the Office. The principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

Section 2.02. Payment of Interest.

Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) it is authenticated on or before August 15, 2013, in which event it shall bear interest from the Closing Date; *provided, however*, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Section 2.03. Security for the Bonds. The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligations of the City to make payments on the Bonds constitute an indebtedness of the City, the State, or any of its political subdivisions in contravention of any constitutional or statutory debt limitation or restriction. The City Council of the City shall be obligated to make appropriations to pay the Bonds from any source of legally available funds of the City. The City Council shall be obligated in each Fiscal Year to appropriate all amounts from such funds as may be required to pay the aggregate amount of the principal of and the interest on the Bonds coming due and payable in such Fiscal Year.

As provided in Section 5.01(ii)(b), subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the amounts on deposit in the Debt Service Fund and the accounts therein are hereby pledged by the City to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of this Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds by the Trustee, upon the physical delivery thereof.

Section 2.04. Transfer and Exchange of the Bonds. Any Bond 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 duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like maturity and aggregate principal amount.

The Bonds may be exchanged at the Office for a like aggregate principal amount of Bonds of other authorized denominations and of the same maturity.

The Trustee shall not be required to exchange or transfer, pursuant to this Section 2.04, either (i) all Bonds during the period established by the Trustee for the selection of Bonds for redemption, or (ii) any Bonds selected for redemption pursuant to Article IV.

Section 2.05. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof upon receipt of the above-mentioned indemnity). The City may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under this Section 2.05 and of the expenses which may be incurred by the City and the Trustee. Any Bond issued under the provisions of this Section 2.05 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 2.06. Registration Books. The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and transfer of ownership of the Bonds, which shall be open to inspection during regular business hours and upon reasonable notice by the City; and, upon presentation for such purpose, the Trustee shall under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as herein before provided.

Section 2.07. Book-Entry System. The Bonds shall be initially executed and delivered in the form of a separate single fully registered Bond for each maturity (which may be typewritten). Upon initial execution and delivery, the ownership of each such Bond for each maturity shall be registered on the Registration Books in the name of the Nominee, as nominee of the Depository. Except as provided in this Section, all of the Outstanding Bonds shall be registered on the Registration Books in the name of the Nominee.

The City and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Registration Books, of any notice with respect to the Bonds, or (iii) the payment to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any amount with respect to principal of or interest on the Bonds. The City and the Trustee may treat and consider the Person in whose name each Bond is registered on the Registration Books as the holder and absolute owner of such Bond, for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and interest on the Bonds only to or upon the order of the respective Owner, as shown on the Registration Books, or such Owner's respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown on the Registration Books, shall receive a Bond for each maturity evidencing the obligation of the City to make payments of principal and interest pursuant to this Indenture. Upon delivery by the Depository to the Owner, Trustee and City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to record dates, the word Nominee in this Indenture shall refer to such nominee of the Depository.

The initial Depository shall be DTC. The initial Nominee shall be Cede & Co., as Nominee of DTC.

In order to qualify the Bonds for DTC's book-entry system, the City shall execute and deliver to DTC its letter representing such matters as shall be necessary to so qualify the Bonds (the "Representation Letter"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of this Section or in any other way impose upon the City any obligation whatsoever with respect to the Persons having interests in the Bonds other than the Owners, as shown on the Registration Books. In the written acceptance of the Trustee of the Representation Letter, the Trustee shall agree to take all action necessary for all representations of the Trustee in the Representation Letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of the Representation Letter, the City shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify the Bonds for the Depository's book-entry program.

In the event (i) the Depository determines not to continue to act as securities depository for the Bonds, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, or (iii) the City determines to discontinue the book-entry system with the Depository, the City may replace the Depository with another qualified securities depository or discontinue the book-entry system. If the City determines to replace the Depository with

another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate, fully registered Bond, registered in the name of such successor or substitute qualified securities depository or its nominee. If the City fails to identify another qualified securities depository to replace the Depository, then the Bonds shall no longer be restricted to being registered on the Registration Books in the name of the Nominee, but shall be registered in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest on such Bond, and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

ARTICLE III

APPLICATION OF PROCEEDS; COSTS OF ISSUANCE FUND

Section 3.01. Application of Proceeds of Sale of Bonds

Upon the receipt of payment for the Bonds on the Closing Date in the amount of \$_____, the Trustee shall:

- (a) transfer \$_____ of such proceeds to the Escrow Bank for deposit in accordance with the Escrow Agreement, for the refunding and redemption of the Series 2003B Bonds;
- (b) \$_____ shall be deposited to the Principal Account established under the 2003 Indenture, and applied to reimburse the Existing Credit Provider for the draw on the Existing Credit Facility made by the Trustee to pay the principal amount of the redemption price of the Series 2003A Bonds optionally redeemed on August 1, 2013; and
- (c) \$_____ shall be deposited to the Interest Account established under the 2003 Indenture, and applied to reimburse the Existing Credit Provider for the draw on the Existing Credit Facility made by the Trustee to pay the accrued interest on the Series 2003A Bonds optionally redeemed on August 1, 2013.
- (d) transfer the remaining amount of such proceeds (\$_____) to the Costs of Issuance Fund.

Section 3.02. Costs of Issuance Fund. The Trustee shall establish and maintain a separate fund to be known as the "Costs of Issuance Fund" into which shall be deposited a portion of the proceeds of sale of the Bonds pursuant to Section 3.01. The moneys in the Costs of Issuance Fund shall be disbursed by the Trustee to pay or reimburse, as the case may be, the Costs of Issuance.

Upon the earlier to occur of December 1, 2013, or the determination by the City that all Costs of Issuance have been paid, the Trustee shall transfer any moneys then remaining in the Costs of Issuance Fund to the Debt Service Fund, and the Costs of Issuance Fund shall be closed.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Optional Redemption of Bonds.

The Bonds maturing on or before September 1, 20__ shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after September 1, 20__ shall be subject to redemption prior to their respective maturity dates, at the option of the City, in whole or in part, among maturities on such basis as is designated by the City, and by lot within a maturity, on any date on or after September 1, 20__, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The City shall be required to give the Trustee written notice of its intention to redeem Bonds under this Section at least sixty (60) days prior to the date fixed for redemption.

Section 4.02. Mandatory Redemption.

The Term Bonds shall be subject to mandatory sinking fund redemption in part by lot, on September 1 in each year, commencing September 1, 20__, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on September 1 in the respective years as set forth in the following tables; *provided, however*, that in lieu of redemption thereof on September 1 in any year, such Bonds may be purchased by the City and tendered to the Trustee for cancellation not later than the preceding July 1; provided, that only Term Bonds with a maturity date which corresponds to the Bonds being redeemed may be so tendered.

(i) Term Bonds Maturing on September 1, 20__

<u>Year</u>	<u>Principal Amount</u>
20__	
20__	
20__	
20__	
20__	

(ii) Term Bonds Maturing on September 1, 20__

<u>Year</u>	<u>Principal Amount</u>
20__	
20__	
20__	
20__	
20__	

Section 4.03. Notice of Redemption; Rescission of Notice. When redemption is authorized or required pursuant to this Article, the Trustee, upon written instruction from the City, shall give notice (a "Redemption Notice") of the redemption of the Bonds. Such Redemption Notice shall specify: (i) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (ii) the date of

redemption, (iii) the place or places where the redemption will be made, including the name and address of the Trustee, (iv) the redemption price, (v) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (vi) the bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount of such Bond to be redeemed, and (vii) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the Redemption Price thereof, and redemption premium, if any, and that from and after such date, interest with respect thereto shall cease to accrue and be payable.

The Trustee shall take the following actions with respect to such Redemption Notice:

(i) At least thirty (30) but not more than sixty (60) days prior to the redemption date, such Redemption Notice shall be given to the respective Owners of Bonds designated for redemption by registered or certified mail postage prepaid, at their addresses appearing on the Registration Books.

(ii) At least two (2) days before the date of mailing required by clause (i), above, such Redemption Notice shall be given by (A) registered or certified mail, postage prepaid, or (B) telephonically confirmed facsimile transmission, or (C) overnight delivery service, to the Depository.

(iii) At least 2 days before the date of mailing required by clause (i), above, the Redemption Notice will be given by (A) registered or certified mail, postage prepaid, or (B) overnight delivery service, to the Municipal Securities Rulemaking Board.

Neither failure to receive any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds. Each check issued or other transfer of funds made by the Trustee for the purpose of redeeming the Bonds shall bear or include the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

The City shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under this Indenture. The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Section 4.04. Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of any maturity, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 portions and such portions shall be treated as separate Bonds which may be separately redeemed.

Section 4.05. Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of the same maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

Section 4.06. Effect of Notice of Redemption. Notice having been given as aforesaid, and the moneys for the redemption (including the interest to the applicable date fixed for

redemption) having been set aside, the Bonds to be redeemed shall become due and payable on the date fixed for redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed as provided in this Article IV, together with interest to such redemption date, shall be held by the Trustee so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable and such Bonds so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the redemption price. All money held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of this Article IV shall be canceled upon surrender thereof and be delivered to or upon the order of the City. All or any portion of a Bond purchased by the City shall be canceled by the Trustee.

ARTICLE V

FUNDS AND ACCOUNTS

Section 5.01. Debt Service Fund; Deposits to Debt Service Fund.

(i) In order to meet the City's obligations with respect to the Bonds, the City shall deposit or cause to be deposited with the Trustee, not later than fifteen (15) days prior to each Interest Payment Date, unless such day is not a Business Day, in which case such deposit shall be made on the next preceding Business Day, the aggregate amount of principal of and interest on the Bonds coming due and payable on such Interest Payment Date .

(ii) (a) All amounts payable by the City hereunder shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Debt Service Fund" which the Trustee shall establish and shall maintain and hold in trust.

(b) Subject only to the provisions hereof permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the amounts on deposit in the Debt Service Fund and the accounts therein are pledged by the City to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions hereof. This pledge constitutes a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds by the Trustee, upon the physical delivery thereof.

(c) The Trustee shall immediately deposit into the following respective accounts within the Debt Service Fund (each of which the Trustee shall establish and maintain in trust separate and distinct from the other funds and accounts established hereunder), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

(1) The Trustee shall deposit in the Interest Account an amount which, together with the amounts then on deposit therein, is required to cause the aggregate amount on deposit in the Interest Account to equal the amount then required to make any payment pursuant to Section 5.02.

(2) The Trustee shall deposit in the Principal Account an amount which, together with the amounts then on deposit therein, is required to cause the aggregate amount on deposit in the Principal Account to equal the amount then required to make any payment pursuant to Section 5.03.

(3) The Trustee shall deposit all remaining amounts to the Surplus Account to be applied as provided in Section 5.04.

Section 5.02. Application of Interest Account. Subject to the provisions of this Indenture, all amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as the same shall become due and payable. Any amounts on deposit in the Interest Account on any Interest Payment Date and not required to pay interest then due and payable on the Bonds shall be deposited in the Surplus Account.

Section 5.03. Application of Principal Account. Subject to the provisions of this Indenture, all amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal of the Bonds upon the stated maturity or sinking account redemption or optional redemption thereof. Any amounts on deposit in the Principal Account upon the

stated maturity or sinking account redemption or optional redemption and not required to pay principal then due and payable on the Bonds will be transferred to the Surplus Account.

Section 5.04. Application of Surplus Account. Following the deposits set forth above during a particular Fiscal Year, any moneys remaining in the Debt Service Fund shall be deposited by the Trustee in the Surplus Account. Moneys deposited in the Surplus Account shall be transferred by the Trustee to or upon the order of the City, as specified in a Written Request of the City, provided that all of the City's obligations under this Indenture for the then applicable Fiscal Year are then otherwise satisfied.

Section 5.05. Investment of Moneys. Except as otherwise provided herein, all moneys in any of the funds or accounts established pursuant to this Indenture shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the City two (2) Business Days prior to the making of such investment. Permitted Investments may be purchased at such prices as the City shall determine. All Permitted Investments shall be acquired subject to such limitations or requirements as may be established by the Written Request of the City. Moneys in all funds and accounts shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Indenture. Absent timely written direction from the City, the Trustee shall invest any funds held by it in Permitted Investments described in clause (h) of the definition thereof.

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to this Indenture shall be deposited in the Debt Service Fund. Notwithstanding anything to the contrary contained in this paragraph, interest received with respect to any Permitted Investments equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investments shall be credited to the fund from which such accrued interest was paid.

Permitted Investments acquired as an investment of moneys in any fund or account established under this Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund or account shall be valued at the lesser of cost or par value plus, prior to the first payment of interest following purchase, the amount of accrued interest, if any, paid as a part of the purchase price. Notwithstanding the foregoing, moneys in any funds and accounts under this Indenture may be commingled for the purpose of investment.

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the City, or as required for the purposes of this Indenture, the Trustee shall sell or present for redemption any Permitted Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to this Section 5.05.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

The Trustee shall not be responsible to determine the legality of any investment hereunder.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The City shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof.

Section 6.02. Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section 6.02 shall be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Section 6.03. Power to Issue the Bonds. The City is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture. The Bonds and the provisions of this Indenture are the legal, valid and binding obligations of the City in accordance with their terms. The Bonds constitute obligations imposed by law.

Section 6.04. Records and Accounts. The City covenants that it shall keep proper books of record and accounts of its financial affairs, in which complete and correct entries shall be made of all transactions relating to the Bonds. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause its books and accounts to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Office, upon reasonable request, a copy of the report of such Independent Accountant.

Section 6.05. Waiver of Laws. The City shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the City to the extent permitted by law.

Section 6.06. Further Assurances. The City will make, execute and deliver any and all such further agreements, indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

Section 6.07. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee (at the written request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, to the extent indemnified to its satisfaction from and against any costs, liabilities or expenses, including fees and expenses of its attorneys) or any Bondholder 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 Section.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default:

(a) Default in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the City in the observance of any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; *provided, however*, if in the reasonable judgment of the City the default stated in the notice can be corrected, but not within such sixty (60) day period, such default shall not constitute an Event of Default if corrective action is instituted by the City within such sixty (60) day period and diligently pursued until the default is corrected.

(d) The filing by the City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or the approval by a court of competent jurisdiction of a petition, filed with or without the consent of the City, seeking reorganization of the City under the federal bankruptcy laws or any other applicable law of the United States of America, or the assumption of custody or control of the City or of the whole or any substantial part of its property, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction.

Section 7.02. Remedies Upon Event of Default. Subject to the provisions of Section 7.06, the Trustee shall have the right, for the equal benefit and protection of all Bond Owners similarly situated, to exercise any or all of the following remedies upon the occurrence and the continuation of an Event of Default:

(a) The Trustee may, by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents or employees to perform each and every term, provision and covenant contained in this Indenture and the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by this Indenture and by the Retirement Law.

(b) The Trustee may, by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners' rights.

(c) The Trustee may, upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the City and its members and employees to account as if it and they were the trustees of an express trust.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all amounts then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any fees and expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and to the payment of the reasonable charges

and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Indenture;

(b) To the payment of the principal and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture, as follows:

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

Section 7.04. Trustee to Represent Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, this Indenture, the Refunding Bond Law, the Retirement Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, this Indenture, the Refunding Bond Law, the Retirement Law or any other applicable law. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of this Indenture.

Section 7.05. Bond Owners' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Section 7.06. Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or

enforcement of any right or remedy under this Indenture, the Refunding Bond Law, the Retirement Law or any other applicable law with respect to the Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers herein before granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and such tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder or under law, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by such Owner's or Owners' action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners, or to enforce any right under the Bonds, this Indenture, the Refunding Bond Law, the Retirement Law or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

Section 7.07. Absolute Obligation of City. Nothing in this Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of, and the interest on, the Bonds to the respective Owners thereof when due as herein provided.

Section 7.08. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the City, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Section 7.09. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.10. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties and Liabilities of Trustee. (a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and shall in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section 8.01, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City, and to the Bond Owners at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days following the giving of notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of such Owner and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee hereunder. After payment by the City of all unpaid fees and expenses of the predecessor Trustee, such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth together with the unearned portion, if any, of any fees theretofore paid to the predecessor Trustee. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a

successor Trustee as provided in this subsection, the City shall mail or cause the successor Trustee to mail by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to each rating agency which then maintains a rating on the Bonds and to the Bond Owners at their respective addresses shown on the Registration Books. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(e) Any Trustee appointed under the provisions of this Section 8.01 as a successor Trustee shall be a trust company or bank having the powers of a trust company, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state agency. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section 8.01.

(f) The City shall have no responsibility for, and makes no representations with respect to, any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(g) No provision of this Indenture shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights hereunder.

(h) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(i) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

(j) The Trustee may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care.

Section 8.02. Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liabilities of Trustee. (a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the City, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or of the Bonds or shall incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of any Bonds, or in respect of the security afforded by this Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to: (i) the issuance of the Bonds for value; (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee; or (iii) the

application of any moneys paid to the City or others in accordance with this Indenture except as to the application of any moneys paid to it in its capacity as Trustee. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture. The Trustee may act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any default or Event of Default hereunder unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Office. Except as otherwise provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder.

(f) The Trustee shall be under no obligation to institute any suit or take any remedial action under this Indenture, or to enter any appearance in or in any way defend any suit in which it may be made defendant, or to take any steps in the execution of the trust hereby created or in the exercise of any rights or powers hereunder at the request, order, or direction of any Owners of Bonds or otherwise unless it shall be indemnified to its satisfaction against any and all reasonable costs and expenses, outlays and counsel fees and other disbursements, and against all liability not due to its negligence or willful misconduct; *provided, however*, that if the Trustee intends to rely on this Section 8.03(f) as a basis for non-action it shall so inform the Owners of the Bonds and the City as soon as possible.

Section 8.04. Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be Bond Counsel or other counsel of or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith; *provided, however*, the Trustee shall in no event delay any payment with respect to the Bonds in anticipation of any such opinion.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the City, and such written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance

upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Accounting Records and Financial Statements; Preservation and Inspection of Documents. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions relating to the Bond proceeds, all amounts deposited by the City pursuant to this Indenture and all funds and accounts established pursuant to this Indenture. Such books of record and account shall be available for inspection by the City and its agents and representatives during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject during regular business hours and upon reasonable notice to the inspection of the City and its agents and representatives.

Section 8.06. Compensation and Indemnification. The City shall pay to the Trustee, to the extent permitted by law such compensation as the City and the Trustee shall have agreed in a separate writing. The City further agrees, to the extent permitted by law, to indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder and under any related documents, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The obligations of the City hereunder shall survive the termination or discharge of the Indenture and the resignation or removal of the Trustee.

Section 8.07. Right of Trustee to Acquire Bonds. The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the City in the manner and to the same extent and with like effect as if it were not the Trustee hereunder.

ARTICLE IX

MODIFICATION OR AMENDMENT HEREOF

Section 9.01. Amendments Permitted. (a) This Indenture and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof, or extend the time of payment, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the City and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall cause to be mailed a notice (the form of which shall be furnished to the Trustee by the City), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) This Indenture and the rights and obligations of the City, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City in this Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in this Indenture, or as to any other provisions of the Indenture for any purpose whatsoever as the City may deem necessary or desirable, provided that no such amendment or modification shall materially adversely affect the interest of the Bond Owners in the opinion of Bond Counsel filed with the City and the Trustee; and

(iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the City, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the City so

determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of such Owner's Bonds for such purpose at the Office, or at such other office as shall be designated by the Trustee in accordance with the terms of this Indenture, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office (or at such other office designated by the Trustee), without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount and of the same interest rate and maturity.

Section 9.04. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. Any or all of the Bonds may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust (pursuant to an escrow agreement), at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds in accordance herewith; or

(c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

If the City shall also pay or cause to be paid all other sums payable hereunder by the City, including without limitation any compensation then due and owing the Trustee hereunder, then and in that case, at the election of the City (evidenced by a Written Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and all covenants, agreements and other obligations of the City under this Indenture shall cease, terminate, become void and be completely discharged and satisfied with respect to the Bonds (or portions thereof) with respect to which such action shall have been taken. In such event, upon the Written Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to this Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the City.

Section 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to maturity, notice of redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be --

(a) Lawful money of the United States of America, in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the

Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the date fixed for redemption of the Bonds; or

(b) Non-callable Federal Securities described in clause (a) of the definition thereof, the principal of, premium, if any, and interest on which when due will provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the date fixed for redemption of the Bonds, as the case may be, on the Bonds to be paid or redeemed, as such principal and interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have received written verification from an Independent Accountant of the sufficiency of the money or securities deposited with the Trustee to pay or redeem the Bonds as and when the same shall become due and payable or subject to redemption and the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the City) to apply such funds to the payment of such principal and interest with respect to such Bonds.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Successor Is Deemed Included in All References to Predecessor.

Whenever in this Indenture either the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.02. Limitation of Rights to Parties and Bond Owners. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the City, the Trustee, and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Trustee, and the Owners of the Bonds.

Section 11.03. Waiver of Notice; Requirement of Mailed Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice shall be required to be given by mail such requirement shall be satisfied by the deposit of such notice in the United States mail postage prepaid, by first class mail.

Section 11.04. Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding, subject to the laws of the State, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for one (1) year after the date when such Bonds have become due and payable, at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee after said date when such Bonds become due and payable, shall, at the Written Request of the City, be repaid by the Trustee to the City, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the City for the payment of such Bonds; *provided, however*, that before being required to make any such payment to the City, the Trustee shall, at the expense of the City, cause to be mailed to the Owners of all such Bonds, at their respective addresses appearing on the Registration Books, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned to the City.

Section 11.05. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee may, upon the Written Request of the City, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the City, if the City shall so require) as may be allowed by law, and deliver a certificate of such destruction to the City.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The City hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of

the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices; Notices to Rating Agencies. (a) General. All notices or communications herein required or permitted to be given to the City or the Trustee shall be in writing and shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by telecopy or by being deposited, postage prepaid, in a post office letter box, addressed as follows:

If to the City:	City of Santa Rosa 90 Santa Rosa Avenue Santa Rosa, California 95404 Attention: Chief Financial Officer Fax: (707) 543-3139
If to the Trustee:	U.S. Bank National Association One California Street, Suite 2550 San Francisco, California 94111 Attention: Corporate Trust Department Fax: (415) 273-4591

Section 11.08. Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the City if made in the manner provided in this Section 11.08.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of the Bonds shall be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Section 11.09. Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, under direct or indirect common control with the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 11.09 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 11.10. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on a date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account and may for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to such funds and accounts shall at all times be maintained in accordance with industry standards to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every Owner thereof

Section 11.12. Payment on Non-Business Days. In the event any payment is required to be made hereunder on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such preceding non-Business Day.

Section 11.13. Waiver of Personal Liability. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of principal or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

Section 11.14. Execution in Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.15. Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the City of Santa Rosa, has caused this Indenture of Trust to be signed in its name by its Chief Financial Officer and its official seal attested by its City Clerk, and U.S. Bank National Association, in token of its acceptance of the trusts created hereunder, has caused this Indenture of Trust to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

CITY OF SANTA ROSA

By _____
Chief Financial Officer

(S E A L)

Attest:

City Clerk

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Officer

EXHIBIT A
FORM OF BOND

CITY OF SANTA ROSA
PENSION OBLIGATION REFUNDING BOND (FEDERALLY TAXABLE),
SERIES 2013

No. _____ \$ _____

RATE OF INTEREST	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
		_____, 2013	

REGISTERED OWNER:

PRINCIPAL AMOUNT:

The CITY OF SANTA ROSA, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California (the "City"), for value received, hereby promises to pay to the Registered Owner identified above or registered assigns (the "Registered Owner"), on the Maturity Date identified above, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Rate of Interest identified above in like money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond (unless this Bond is authenticated on or before an Interest Payment Date and after the fifteenth calendar day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to February 15, 2014, in which event it shall bear interest from the Original Issue Date identified above; *provided, however,* that if, at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest hereon has previously been paid or made available for payment), payable semiannually on September 1 and March 1 in each year, commencing March 1, 2014 (each, an "Interest Payment Date") until payment of such Principal Amount in full. The Principal Amount hereof is payable upon presentation hereof at the principal corporate trust office (the "Office") of U.S. Bank National Association as trustee (the "Trustee"), in San Francisco, California. Interest hereon is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof at the address of the Registered Owner as it appears on the Registration Books of the Trustee as of the fifteenth calendar day of the month preceding such Interest Payment Date; except that at the written request of the owner of at least \$1,000,000 in aggregate principal amount of outstanding Bonds filed with the Trustee prior to the fifteenth calendar day of the month preceding any Interest Payment Date, interest on such Bonds shall be paid to such owner on such Interest Payment Date by wire transfer of immediately available funds to an account in the United States designated in such written request.

This Bond is one of a duly authorized issue of bonds of the City designated the "City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2013" (the "Bonds"), issued in the aggregate principal amount to \$_____, and secured by an Indenture of Trust dated as of August 1, 2013 (the "Indenture") by and between the City and the Trustee. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the security therefor, of the rights, duties and immunities of the Trustee and of the rights and obligations of the City thereunder; and all of the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the Registered Owner hereof, and to all of

the provisions of which Indenture the Registered Owner hereof, by acceptance hereof, assents and agrees.

The Bonds are authorized to be issued pursuant to the provisions of the Articles 10 and 11 (commencing with section 53570) of Chapter 3 of Division 2 of Title 5 of the California Government Code. The Bonds are obligations imposed by law payable from funds to be appropriated by the City for such purpose in accordance with the Indenture. The principal of and interest on the Bonds are payable from any source of legally available funds of the City, including the general fund of the City.

To the extent and in the manner permitted by the terms of the Indenture, the provisions of the Indenture may be amended by the parties thereto and the owners of a majority in aggregate principal amount of the Bonds then Outstanding, and may be amended without the consent of the owners under certain circumstances provided that no amendment may contend the fixed maturity of any Bonds or reduce the principal thereof, or extend the time for payment, without the consent of the owner of each Bond so affected, or reduce the percentage of Bonds required for any amendment, without the consent of the owners of all of the Bonds then Outstanding.

The Term Bonds shall be subject to mandatory sinking fund redemption in part by lot, on September 1 in each year, commencing September 1, 20___, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on September 1 in the respective years as set forth in the following tables; *provided, however*, that in lieu of redemption thereof on September 1 in any year, such Bonds may be purchased by the City and tendered to the Trustee for cancellation not later than the preceding July 1; provided, that only Bonds with a maturity date which corresponds to the Bonds being redeemed may be so tendered.

(i) Term Bonds Maturing on September 1, 20___

<u>Year</u>	<u>Principal Amount</u>
20___	
20___	
20___	
20___	
20___	

(ii) Term Bonds Maturing on September 1, 20___

<u>Year</u>	<u>Principal Amount</u>
20___	
20___	
20___	
20___	
20___	

The Bonds maturing on or before September 1, 20___ shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after September 1, 20___ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole on any date, or in part in inverse order of maturities and by lot within a maturity on any date on or after September 1, 20___, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

As provided in the Indenture, notice of redemption shall be given not less than 30 nor more than 60 days prior to the date fixed for redemption in the manner described in the Indenture. Neither failure to receive such notice nor any defect in any notice so given shall affect the sufficiency of the proceedings for the redemption of the Bonds. Upon the surrender of any Bonds redeemed in part only, the City shall issue, at the expense of the City, a new Bond or Bonds to the registered owner, of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond or Bonds surrendered for redemption and of the same tenor.

If this Bond is called for redemption and payment of the principal amount thereof plus accrued interest and premium, if any, is duly provided therefor as specified in the Indenture, then interest shall cease to accrue with respect to this Bond from and after the date fixed for redemption.

The Bonds are issuable as fully registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the Office for a like aggregate principal amount and maturity of Bonds of other authorized denominations.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. The City and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the City and the Trustee shall not be affected by any notice to the contrary.

The Trustee has no obligation or liability to the registered owners to make payments of principal or interest with respect to the Bonds, except from amounts on deposit for such purposes with the Trustee. The Trustee's sole obligations are to administer, for the benefit of the City and the owners, the various funds and accounts established under the Indenture and, to the extent provided in the Indenture, to enforce the obligations of the City with respect to the Bonds.

THE OBLIGATIONS OF THE CITY HEREUNDER, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS OF INTEREST AND PRINCIPAL WHEN DUE, ARE OBLIGATIONS OF THE CITY IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED OR PERMITTED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED OR WILL LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the Certificate of Authentication hereon endorsed shall have been dated and manually executed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF, the City of Santa Rosa has caused this Bond to be signed by the manual or facsimile signature of the Chief Financial Officer of the City, countersigned by the manual or facsimile signature of the City Clerk of the City and the seal of the City to be affixed hereto, and has caused this Bond to be dated as set forth above.

CITY OF SANTA ROSA

By _____
Chief Financial Officer

[SEAL]

Attest:

City Clerk

FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture and registered on the Bond Registration Books.

Date:

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
Authorized Signatory

ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto

_____ (Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute(s) and appoint(s)

attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Notice: Signature(s) must be guaranteed by a qualified guarantor.

Notice: The signature on this assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

NEW ISSUE — BOOK-ENTRY ONLY

RATINGS: S&P: “___”
(See “CONCLUDING INFORMATION — Ratings”.)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, based upon existing laws, regulations, rulings, court decisions, and assuming (among other things) compliance with certain covenants, interest on the Bonds is exempt from State of California personal income taxes, although interest on the Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. For a more complete description, see “CONCLUDING INFORMATION – Tax Matters.”

\$ _____ *

CITY OF SANTA ROSA
Pension Obligation Refunding Bonds (Federally Taxable),
Series 2013

Dated: Date of Delivery

Due: September 1; see inside cover

The Bonds. The Bonds will be issued as fully registered bonds in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases of the Bonds will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2014, and principal payable on the Bonds will be paid on September 1 in the years set forth on the maturity schedule on the inside cover of this Official Statement. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS”.

Purpose. The Bonds are being issued to (i) refund two outstanding series of pension obligation bonds previously issued by the City of Santa Rosa (the “City”) and (ii) pay the costs of issuing the Bonds. See “FINANCING PLAN”.

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See “THE BONDS – Redemption of Bonds.”

Security. Payment of the principal of and interest on the Bonds is not limited to any special source of funds and is payable from any legally available moneys or funds of the City. The City is not empowered or obligated to levy or pledge taxes to make payments on the Bonds. See “SECURITY FOR THE BONDS” and “RISK FACTORS.” **The City has not established a debt service reserve fund for the Bonds.**

MATURITY SCHEDULE

(See inside cover)

THE OBLIGATIONS OF THE CITY UNDER THE INDENTURE, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS OF INTEREST AND PRINCIPAL WHEN DUE ON THE BONDS, ARE OBLIGATIONS OF THE CITY IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED OR PERMITTED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED OR WILL LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

The Bonds are offered when, as and if sold and issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the Bonds in book-entry form, will be available for delivery to DTC in New York, New York, on or about August __, 2013.

[Stifel Logo]

Dated: July __, 2013

* Preliminary; subject to change.

\$ _____
CITY OF SANTA ROSA
Pension Obligation Refunding Bonds (Federally Taxable),
Series 2013

MATURITY SCHEDULE
(Base CUSIP:† _____)

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

\$ _____ % Term Bonds due September 1, _____, Priced to yield _____ % CUSIP:† _____

† Copyright 2013, CUSIP Global Services, and a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

CITY OF SANTA ROSA, CALIFORNIA

CITY COUNCIL

Scott P. Bartley, *Mayor*
Erin Carlstrom, *Vice Mayor*
Julie Combs, *Council Member*
Ernesto Olivares, *Council Member*
Jake Ours, *Council Member*
Robin Swinth, *Council Member*
Gary Wysocky, *Council Member*

CITY OFFICIALS

Kathleen A. Millison, *City Manager*
Lawrence Chiu, *Chief Financial Officer*
Caroline Fowler, *City Attorney*
Terri Griffin, *City Clerk*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds 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 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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

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Location Map

\$ _____ *

**CITY OF SANTA ROSA
PENSION OBLIGATION REFUNDING BONDS (FEDERALLY TAXABLE),
SERIES 2013**

INTRODUCTION

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

General

The purpose of this Official Statement (which includes the cover page and the Appendices) is to provide information concerning the issuance of the captioned bonds (the “**Bonds**”).

The City

The City of Santa Rosa (the “**City**”) is the county seat of Sonoma County (the “**County**”) at the crossroads of U.S. Highway 101 and State Route 12, approximately 50 miles north of San Francisco. The City has a current estimated population of 168,841 as of January 1, 2012.

For selected financial, economic and demographic information about the City, see “APPENDIX A – City of Santa Rosa General Demographic and Financial Information.”

The City’s audited financial statements for the fiscal year ended June 30, 2012 are attached as Appendix C.

Authority for the Bonds

The Bonds are being issued pursuant to the provisions of an Indenture of Trust, dated as of August 1, 2013 (the “**Indenture of Trust**”), between the City and U.S. Bank National Association, as trustee (the “**Trustee**”).

Purpose

The proceeds of the sale of the Bonds will be used to (i) refund two series of outstanding pension obligation bonds (collectively, the “**Prior Bonds**”) and (ii) pay the costs of issuing the Bonds:

2003A Bonds: the \$20,500,000 initial principal amount City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003A (Variable Rate Demand), which bear interest at a variable rate (the “**2003A Bonds**”). The 2003A Bonds are currently outstanding in the principal amount of \$14,190,000.

2003B Bonds: the \$30,170,000 initial principal amount City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate),

* Preliminary; subject to change.

which bear interest at a fixed rate of interest (the “**2003B Bonds**”). The 2003B Bonds are currently outstanding in the principal amount of \$24,130,000.

The City issued the Prior Bonds to refund the City’s obligations to the California Public Employees’ Retirement System (“**PERS**”) evidenced by a contract between the Board of Administration of PERS and the City Council of the City, effective January 1, 1959 (the “**PERS Contract**”).

See “FINANCING PLAN.”

Security for the Bonds

The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law, and are absolute and unconditional, without any right of set-off or counterclaim. The City Council of the City is obligated under the Indenture to make appropriations to pay the Bonds from any source of legally available funds of the City no later than July 1 of each Fiscal Year. The City Council is obligated in each fiscal year to appropriate all amounts from such funds as may be required to pay the aggregate amount of the principal of and the interest on the Bonds coming due and payable in such Fiscal Year.

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the amounts on deposit in the Debt Service Fund and the accounts therein are pledged by the City to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds by the Trustee, upon the physical delivery thereof.

The City has not established a debt service reserve fund for the Bonds.

See “SECURITY FOR THE BONDS” and “APPENDIX B - Summary of Indenture.”

Redemption

The Bonds are subject to optional and mandatory redemption as described in this Official Statement. See “THE BONDS – Redemption of the Bonds”.

Limited Obligations

The obligations of the City under the Indenture, including the obligation to pay principal of and interest on the Bonds, are obligations imposed by law and are absolute and unconditional without any right of set-off or counterclaim. However, the Bonds do 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 or will levy or pledge any form of taxation.

Summaries Not Definitive

The summaries and references of documents, statutes, reports and other instruments referred to in this Official Statement do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each

document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined in this Official Statement, indicates that such word is defined in a particular agreement or other document and, as used in this Official Statement, has the meaning given it in such agreement or document. See "APPENDIX B - Summary of Indenture" for summaries of certain of such definitions.

Copies of the documents described in this Official Statement will be available at the City Manager's office, City of Santa Rosa, 100 Santa Rosa Avenue, Santa Rosa, CA 95404.

FINANCING PLAN

General

The Bonds are being issued to: (i) refund the Prior Bonds and (ii) pay the costs of issuing the Bonds.

Refunding of the Prior Bonds

2003A Bonds. The City previously issued the \$20,500,000 initial principal amount City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003A (Variable Rate Demand), which bear interest at a variable rate (the "**2003A Bonds**") pursuant to a Indenture of Trust, dated as of July 1, 2003 (the "**Prior Bonds Indenture**"). The 2003A Bonds are currently outstanding in the principal amount of \$14,190,000.

The 2003A Bonds are secured by a letter of credit (the "**2003A Letter of Credit**") issued by Wells Fargo Bank, National Association (the "**Letter of Credit Bank**").

Pursuant to the Prior Bonds Indenture, the 2003A Bonds are subject to redemption as a whole on any date, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

On the date of issuance of the Bonds, the City will deposit a portion of the proceeds of the Bonds into the Interest Account and the Principal Account established under the Prior Bonds Indenture to redeem the Letter of Credit Bank for a draw on the 2003A Letter of Credit to pay the redemption price of the 2003A Bonds on or about August 7, 2013.

The amounts held by the Trustee in the Interest Account and the Principal Account under the Prior Bonds Indenture will be held uninvested and are pledged solely to the payment of amounts due and payable by the City under the Prior Bonds Indenture and to payment of the 2003A Bonds. ***The funds deposited in the Interest Account and the Principal Account under the Prior Bonds Indenture are not available for the payment of debt service with respect to the Bonds.***

2003B Bonds. The City previously issued the \$30,170,000 initial principal amount City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate), which bear interest at a fixed rate of interest (the "**2003B Bonds**") pursuant to the Prior Bonds Indenture. The 2003B Bonds are currently outstanding in the principal amount of \$24,130,000.

Pursuant to the Prior Bonds Indenture, the 2003B Bonds are subject to redemption as a whole on any date on and after September 1 2013, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

On the date of issuance of the Bonds, the City will deposit a portion of the proceeds of the Bonds in an escrow fund for the 2003B Bonds (the "**Series 2003B Bonds Escrow Account**") established and held by the Trustee under an Escrow Deposit and Trust Agreement, dated as of August 1, 2013. Moneys in the Series 2003B Bonds Escrow Account will be used to pay principal and accrued interest on the 2003B Bonds on or about September 1, 2013.

The amounts held by the Trustee in the Series 2003B Bonds Escrow Account will be held uninvested and are pledged solely to the payment of amounts due and payable by the City under the Prior Bonds Indenture and to payment of the 2003B Bonds. ***The funds deposited in the Series 2003B Bonds Escrow Account are not available for the payment of debt service with respect to the Bonds.***

Estimated Sources and Uses of Funds.

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

SOURCES OF FUNDS:

Principal Amount of Bonds
Less: Original Issue Discount

Total Sources:

USES OF FUNDS:

Redemption of Series 2003A Bonds⁽¹⁾
Redemption of Series 2003B Bonds⁽¹⁾
Costs of Issuance Fund⁽²⁾
Underwriter's Discount

Total Uses:

⁽¹⁾ These amounts represent outstanding principal plus estimated accrued interest through the scheduled redemption date.

⁽²⁾ Includes legal fees, trustee fees, printing expenses, and other costs of issuing the Bonds.

THE BONDS

General

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

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

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2014, and continuing to and including the date of maturity or redemption, whichever is earlier.

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

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

Bonds may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Trustee may charge the Owner a reasonable sum for each new Bond issued upon any exchange and the Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee is not required to register the transfer or exchange of any Bond during the period the Trustee is selecting Bonds for redemption or any Bond selected for redemption, and the City may rescind the notice by written notice to the Trustee on or prior to the redemption date.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on or before September 1, ____, are not subject to optional redemption prior to maturity. The Bonds maturing on or after September 1, ____, are subject to redemption prior to their respective maturity dates, at the option of the City, in whole or in part among maturities on such basis as is designated by the City, and by lot within a maturity, on any date on or after September 1, ____, from any source of available funds, at the principal amount of such Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, ____, September 1, ____ and September 1, ____ are subject to mandatory sinking fund redemption in

part by lot, on September 1 in each year, commencing September 1, _____, September 1, _____ and September 1, _____, respectively, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on September 1 in the respective years as set forth in the following tables; *provided, however*, that in lieu of redemption on September 1 in any year, such Bonds may be purchased by the City and tendered to the Trustee for cancellation not later than the preceding July 1; provided, that only Term Bonds with a maturity date which corresponds to the Bonds being redeemed may be so tendered.

Term Bonds Maturing on September 1, _____

<u>Year</u>	<u>Principal Amount</u>
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Term Bonds Maturing on September 1, _____

<u>Year</u>	<u>Principal Amount</u>
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Term Bonds Maturing on September 1, _____

<u>Year</u>	<u>Principal Amount</u>
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Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of any maturity, the Trustee will select the Bonds to be redeemed by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 portions and such portions shall be treated as separate Bonds which may be separately redeemed.

So long as the Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered Owner of the Bonds, partial redemptions will be done in accordance with DTC procedures. It is the City's intent that redemption allocations made by DTC be made in accordance with the proportional provisions described herein. However, neither the City nor the Trustee has a duty to assure, and can provide no assurance, that DTC will allocate redemptions among Beneficial Owners on such a proportional basis, and neither the City nor the Trustee shall have any liability whatsoever to Beneficial Owners in the event redemptions are not done on a proportionate basis for any reason. The portion of any registered Bonds of a denomination of more than \$5,000 to be redeemed will be

in the principal amount of \$5,000 or any integral multiple thereof. See “-Book Entry System” below.

Notice of Redemption. When redemption is authorized or required, the Trustee, upon written instruction from the City, will give notice (a “**Redemption Notice**”) of the redemption of the Bonds. The Redemption Notice must specify: (i) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (ii) the date of redemption, (iii) the place or places where the redemption will be made, including the name and address of the Trustee, (iv) the redemption price, (v) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (vi) the bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount of such Bond to be redeemed, and (vii) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. The Redemption Notice must further state that on the specified date there will become due and payable upon each Bond or portion thereof being redeemed the Redemption Price thereof, and redemption premium, if any, and that from and after such date, interest with respect thereto shall cease to accrue and be payable. The Redemption Notice may provide that redemption of the Bonds is conditional, subject to the City’s deposit with the Trustee of funds sufficient to accomplish the redemption. The City may rescind the notice by written notice to the Trustee on or prior to the redemption date.

The Trustee will take the following actions with respect to a Redemption Notice:

(i) At least 30 but not more than 60 days prior to the redemption date, the Redemption Notice will be given to the respective Owners of Bonds designated for redemption by registered or certified mail postage prepaid, at their addresses appearing on the Registration Books.

(ii) At least 2 days before the date of mailing required by clause (i), above, the Redemption Notice will be given by (A) registered or certified mail, postage prepaid, or (B) telephonically confirmed facsimile transmission, or (C) overnight delivery service, to the Depository.

(iii) At least 2 days before the date of mailing required by clause (i), above, the Redemption Notice will be given by (A) registered or certified mail, postage prepaid, or (B) overnight delivery service, to the Municipal Securities Rulemaking Board.

Neither failure to receive any Redemption Notice nor any defect in any Redemption Notice will affect the sufficiency of the proceedings for the redemption of the affected Bonds.

Book-Entry System

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

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any

redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

**CITY OF SANTA ROSA
Pension Obligation Refunding Bonds (Federally Taxable), Series 2013
Debt Service Schedule**

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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Total

SECURITY FOR THE BONDS

Source of Payment

The obligations of the City under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law, and are absolute and unconditional, without any right of set-off or counterclaim. The City Council of the City is obligated under the Indenture to make appropriations to pay the Bonds from any source of legally available funds of the City no later than July 1 of each Fiscal Year. The City Council is obligated in each fiscal year to appropriate all amounts from such funds as may be required to pay the aggregate amount of the principal of and the interest on the Bonds coming due and payable in such Fiscal Year.

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the amounts on deposit in the Debt Service Fund and the accounts therein are pledged by the City to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds by the Trustee, upon the physical delivery thereof.

Debt Service Fund

In order to meet the City's obligations with respect to the Bonds, the City will deposit or cause to be deposited with the Trustee, not later than fifteen (15) days prior to each Interest Payment Date for the Bonds, unless such day is not a Business Day, in which case such deposit shall be made on the next preceding Business Day, the aggregate amount of principal of and interest on the Bonds coming due and payable on such Interest Payment Date for the Bonds.

All amounts payable by the City under the Indenture will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "**Debt Service Fund**" which the Trustee will establish and will maintain and hold in trust, and the Trustee will immediately deposit into the following respective accounts in the Debt Service Fund (each of which the Trustee will establish and maintain in trust separate and distinct from the other funds and accounts established under the Indenture), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any the account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

Interest Account: The Trustee will deposit in the Interest Account an amount that, together with the amounts then on deposit, is required to cause the aggregate amount on deposit in the Interest Account to equal the amount then required to make any payment from the Interest Account. Subject to the provisions of the Indenture, all amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable. Any amounts on deposit in the Interest Account on any Interest Payment Date and not required to pay interest then due and payable on the Bonds will, to the extent any funds remain therein, be deposited in the Surplus Account.

Principal Account: The Trustee will deposit in the Principal Account an amount which, together with the amounts then on deposit, is required to cause the aggregate amount on deposit in the Principal Account to equal the amount then required to make any payment from the Interest Account. Subject to the provisions of the Indenture, all amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal of the Bonds upon the stated maturity or sinking account redemption or optional redemption. Any amounts on deposit in the Principal Account upon the stated maturity or sinking account redemption or optional redemption and not required to pay principal then due and payable on the Bonds will be transferred to the Surplus Account.

Surplus Account: Following the deposits described above during a particular Fiscal Year to pay principal of and interest on the Bonds as the same becomes due and payable, the Trustee will deposit all remaining amounts in the Debt Service Fund immediately following each Interest Payment Date in the Surplus Account. Moneys deposited in the Surplus Account will be transferred by the Trustee to or upon the order of the City, as specified in a Written Request of the City, provided that all of the City's obligations under the Indenture for the then applicable Fiscal Year are then otherwise satisfied.

No Reserve Fund

The City has not established a debt service reserve fund for the Bonds.

The Bonds are not Lease Revenue Bonds

The Bonds are an obligation of the City payable from any legally available funds. Unlike most bonds payable from the general fund of a California city, the Bonds are not lease revenue bonds. This means that the City's obligation to pay debt service is not a contingent lease obligation that is based on the availability of a leased asset and is not subject to abatement in the event the leased asset is not available for use and occupancy of the City.

RISK FACTORS

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

Limitations on Remedies Available; Bankruptcy

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

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

In addition, failure by large property owners to pay property taxes when due may have an adverse impact on general fund revenues available to make debt service payments on the Bonds.

Assessed Value of Taxable Property

Natural and economic forces can affect the assessed value of taxable property within the City. The City is located in a seismically active region, and damage from an earthquake in or near the area could cause moderate to extensive damage to taxable property. Other natural or manmade disasters, such as flood, fire, toxic dumping, or acts of terrorism, could cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the regional economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable 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). Reductions in the market values of taxable property may cause property owners to appeal assessed values and may be associated with an increase in delinquency rates for taxes. See also "- National Calamities" below.

Security

Military conflicts and terrorist activities may adversely impact the operation of the City. In addition, the City may experience a decrease with respect to their revenues because of any

change in economic circumstances as a result of future military conflicts or terrorist activities. Such a reduction in revenues may include, but is not limited to, a decline in airport, transient occupancy tax, parking tax, business tax and sales tax revenues.

The City is subject to safety and security measures and inspections on a continuing basis. The City does not represent that any existing or additional safety and security measures will be adequate in the event that terrorist activities are directed against the City or that costs of security measures will not be greater than presently anticipated.

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 levels 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 of the City's obligations to its pension plans.

Articles XIII C and XIII D of the California Constitution

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIII C and XIII D," for information about certain risks to the City's general fund revenues under Articles XIII C and Article XIII D of the California Constitution.

Natural Calamities

General. From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City, which could have a negative impact on City finances.

Seismic. The following information is excerpted from the City's General Plan. According to the General Plan, the City is within the natural region of California known as the Coast Ranges geomorphic province.

According to the General Plan, earthquakes pose especially high risks to the City because of the City's proximity to active faults. The Rodgers Creek Fault Zone, approximately 8 miles southeast of the Maacama Fault Zone, and 20 miles northeast of the San Andreas Fault Zone runs through the central part of the City. The Rodgers Creek and San Andreas faults are the two principally active, Bay Area "strike-slip" faults and have experienced movement within the last 150 years. The San Andreas Fault Zone is a major structural feature in the region. Other principal faults capable of producing ground shaking in the City include the Hayward, San Gregorio-Hosgri Fault Zone, the Calaveras fault, and the Concord-Green Valley fault.

The City could experience a major Rodgers Creek Fault Zone earthquake or an earthquake on any one of the active or potentially active faults in the greater San Francisco Bay Area. General Plan policies seek to ensure that the new structures are built with consideration of the four major hazards associated with earthquakes.

Surface Fault Rupture. Surface fault rupture, displacement at the earth's surface resulting from fault movement, is typically observed close to or on the active fault trace. The Rodgers Creek Fault Zone extends beneath downtown and has the highest potential for significant fault rupture.

Ground Shaking. The City could be affected by strong ground shaking caused by a major earthquake during the next 30 years. Ground shaking can be described in terms of peak acceleration, peak velocity, and displacement of the ground. Areas that are underlain by bedrock tend to experience less ground shaking than those underlain by unconsolidated sediments such as artificial fill. Ground shaking may affect areas hundreds of miles away from the earthquake's epicenter.

Liquefaction and Ground Failure. Liquefaction is the process by which water-saturated soil materials lose strength and fail during strong seismic ground shaking. The shaking causes the pore-water pressure in the soil to increase, thus transforming the soil from a solid to a liquid. Liquefaction has been responsible for ground failures during almost all of California's great earthquakes.

Earthquake-Induced Landslides. Seismically induced landsliding is typical of upland areas with slopes greater than 25%. Earthquake groundshaking can trigger slope movements such as earth flows and rotational landslides, or dislodge fractured bedrock material resulting in a rockfall.

Flood. Flooding hazards may be considered in two categories: natural flooding and dam inundation.

Natural Flooding. Natural flooding hazards are those associated with major rainfall events, which result in the flooding of developed areas due to overflows of nearby waterways, or inadequacies in local storm drain facilities. In the City, most of the annual precipitation falls between the months of November and April. The Federal Emergency Management Agency ("**FEMA**") has identified a 100-year flood zone, approximately 7 square blocks in area, at the confluence of Spring Creek and Matanzas Creek in Santa Rosa. Major creeks in the City have the potential to cause flooding during a large storm event. In the northern part of the City, the number and geographic distribution of creeks, combined with favorable topography creates a condition in which flooding risks are expected to be minimal. In the southern part of the City, drainage conditions are less favorable due to flat topography and the limited number of drainageways (creeks and conduits) that are available for storm water disposal. Currently, the majority of collected storm water in the southern part of the City is channeled into Colgan and Roseland creeks. Limited capacity and concentrated discharge place these creeks at the greatest risk of flooding during a 100-year storm event. Drainage improvements to both creeks will be necessary to minimize flooding risks in the future.

Dam inundation. Dam inundation hazards are those associated with the downstream inundation that would occur given a major structural failure in a nearby reservoir. A major earthquake could potentially cause damage or failure to a dam structure, and cause localized flooding. Although dam failure is unlikely due to current state regulations for design, maintenance, and monitoring of dams, the City is exposed to the hazard of inundation from failure of local dams such as Lake Ralphine.

Improvements to the storm drain system consistent with expansion or intensification of urban development is essential to protecting the City from flooding hazards.

Wildfire. Hillside residential neighborhoods located in the northern and eastern portions of the City are subject to risk of wildland fire. Open areas and slopes covered with tall grasses and/or chaparral provide fuels to feed wildfires, once started. Fire-resistant building materials and landscaping contribute to prevention of damage to residences in case of a wildfire. General Plan policies requiring adequate fire flows and community fire breaks in residential subdivisions also minimize potential for fire damage.

Hazardous Substances

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

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

The effect, therefore, should any substantial amount of property within the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Reduction in the value of property in the City as a whole could reduce property tax revenues received by the City and deposited in the general fund, which could significantly and adversely affect the ability of the City to make payments on the Bonds.

Litigation

The City may be or become a party to litigation which has an impact on the City's general fund. Although the City maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents (see Appendices A and C for further information), the City cannot predict what types of liabilities may arise in the future. See also "CONCLUDING INFORMATION – Litigation".

Impact of State Budget on City Revenues

The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget.

See "APPENDIX A - City of Santa Rosa General Demographic and Financial Information" for more information about recent State budgets and their impact on City finances.

State Law Limitations on Appropriations

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

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State in a manner that could result in a reduction of the City's revenues and therefore a reduction of the funds legally available to the City to make debt service payments on the Bonds. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIII C and XIII D of the State Constitution."

Secondary Market

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

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation, or changes in interpretation of existing law.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

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

Section 2 of Article XIII A defines “**full cash value**” to mean the county assessor’s valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. See “Litigation Relating to Two Percent Limitation” below. Legislation implementing Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value.

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

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

Article XIII B of the State Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “**appropriations limit**” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in July 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of

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

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

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

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a “**general tax**”) must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a “**special tax**”) must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency’s property tax allocation.

Most of the provisions of Proposition 62, which was a statutory initiative, were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Gardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax.

The City believes that none of its general fund revenues are subject to challenge under Proposition 62.

Article XIIC and XIID of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIIC and XIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act”. Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIII C define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

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

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

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

Burden of Proof. Article XIII C provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIII D provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIII D.

Impact on City’s General Fund. The approval requirements of Articles XIII C and XIII D reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

Judicial Interpretation. The interpretation and application of Articles XIIC and XIID will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 1A; Proposition 22

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

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

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

Proposition 22. Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

The City expects Proposition 22 to result in more stable revenues for the City.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("**Unitary Property**"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the

previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

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

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Proposition 62 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than March 31 after the end of each fiscal year of the City (currently June 30th), commencing with the report for the 2012-13 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX E – Form of Continuing Disclosure Certificate," attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities Exchange Commission Rule 15c2 12(b)(5).

[confirm] The City has complied with all of its material obligations under existing continuing disclosure undertakings during the past five years.

CONCLUDING INFORMATION

Underwriting

Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**") has agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of \$_____ (being the principal amount of the Bonds, *less* an original issue discount of \$_____, and *less* an Underwriter's discount in the amount of \$_____).

The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Bonds if any Bonds are purchased. The Underwriter intends to offer the Bonds to the public initially at the prices and/or yields set forth on the inside cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Bonds

to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Bonds at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

Legal Opinion

Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render an opinion substantially in the form of Appendix D with respect to the validity of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement. Jones Hall is also serving as Disclosure Counsel to the City. Certain matters will be passed upon for the City by the City Attorney.

Fees payable to Bond Counsel and Disclosure Counsel are contingent upon issuance of the Bonds.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, based upon existing laws, regulations, rulings and court decisions, and assuming (among other things) compliance with certain covenants, interest on the Bonds is exempt from State of California personal income taxes, although interest on the Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

A copy of the proposed opinion of Bond Counsel is set forth in Appendix D hereto.

Circular 230 Disclaimer

This official statement contains advice with respect to federal tax issues. Some of that advice, including all of the federal tax advice contained in the form of bond counsel opinion attached hereto, concerns only the excludability of interest on the Bonds from gross income under section 103 of the Internal Revenue Code of 1986 (the “**Code**”) and original issue premium and/or discount on the Bonds. With respect to all advice related to original issue premium and/or discount on the Bonds the following apply:

- (a) The advice was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- (b) The advice was written to support the promotion or marketing of the transactions or matters addressed by this official statement; and
- (c) Each taxpayer should seek advice based on that taxpayer’s particular circumstances from an independent tax advisor.

Litigation

The City is not aware of any pending or threatened litigation concerning the validity of the Bonds or challenging any action taken by the City with respect to the Bonds. Furthermore, the City is not aware of any pending or threatened litigation to restrain, enjoin, question or otherwise affect the Indenture of Trust or in any way contesting or affecting the validity or

enforceability of any of the foregoing or any proceedings of the City taken with respect to any of the foregoing.

There are a number of lawsuits and claims pending and threatened against the City unrelated to the Bonds or actions taken with respect to the Bonds. It is the opinion of the City as of this date that such litigation, claims and threatened litigation will not materially affect the City's finances or impair its ability to make debt service payments on the Bonds.

Validation of Original Issuance

On February 19, 2003, the City, acting pursuant to the provisions of Section 860 et seq. of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State of California in and for the County of Sonoma seeking judicial validation of the transactions relating to the PERS Contract and the Prior Bonds and certain other matters entitled City of Santa Rosa v. All Persons (Case No. 232090). On May 22, 2003, the court entered a default judgment to the effect, among other things, that the PERS Contract and the Prior Bonds are valid, legal and binding obligations of the City and are in conformity with all applicable provisions of law and the California Constitution. Pursuant to Section 870 of the California Code of Civil Procedure and Rule 2(a) of the California Rules of Court, the period during which a notice of appeal to this judgment can be timely filed expired on June 21, 2003, and since that time the judgment is binding and conclusive in accordance with California law. As with any judgment, there can be no assurance that this judgment will not be challenged, although no such challenge has been filed, and the City is unaware of any threatened challenge to this judgment.

Ratings

It is anticipated that, on the Closing Date, Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("**S&P**"), will assign its municipal bond rating of " _____ " to the Bonds.

This rating reflects only the view of the rating agency, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from the rating agency.

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

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

Financial Statements

Macias Gini & O'Connell LLP (the "**Auditor**"), audited the financial statements of the City for the fiscal year ended June 30, 2012. The Auditor's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by

the Comptroller General of the United States. See “APPENDIX C – Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012.”

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City.

Miscellaneous

All of the descriptions of applicable law, the Indenture of Trust, the City, and the agreements and other documents contained herein 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 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will realize.

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

CITY OF SANTA ROSA, CALIFORNIA

By: _____
City Manager

APPENDIX A

CITY OF SANTA ROSA GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

The City. The City of Santa Rosa, located in the central portion of Sonoma County (the “County”), covers an area of approximately 41 square miles. The City is centered at the crossroads of U.S. Highway 101 and State Route 12, approximately 55 miles north of San Francisco, via the Golden Gate Bridge. The City is the largest city in California's Wine Country and fifth largest city in the San Francisco Bay Area, after San Jose, San Francisco, Oakland, and Fremont. The City's downtown has three distinct shopping districts.

The City's Recreation and Parks Department maintains and operates 57 parks totaling over 514 acres, and two year-round swim centers. The City has cool, wet winters and warm, mostly dry summers. In the summer, fog and low overcast often moves in from the Pacific Ocean during the evenings and mornings. Average annual rainfall is 30.45 inches, falling on 74 days annually.

The County. One of California's original 27 counties (incorporated in 1850), the County is the northernmost of the nine greater San Francisco Bay Area counties. Bordered on the north and east by Mendocino, Lake, and Napa counties and to the west and south by the Pacific Ocean, Marin County, and San Pablo Bay, its area encompasses 1,598 square miles.

Geographically, Sonoma County is divided almost equally into mountainous regions, rolling hills and valley land. Three narrow valleys, separated by mountains, run northwest to southeast. Elevations range from sea level to 4,262 feet at Mt. Saint Helena, where Sonoma, Napa, and Lake counties converge. Varied terrain in the County includes Pacific coastline, the Russian River, vineyards, and old growth redwoods. Sonoma County is the original home of wine production in northern California and still the largest producer of quality wine.

City Services and Government

The City provides a full range of services including police and fire protection, construction and maintenance of streets, highways and other infrastructure, water, storm water and wastewater utilities, housing services through its Housing Authority, economic development, transit, parking and recreation, and cultural services, including a municipal golf course. Boards appointed by the City Council are responsible for policy direction of the Housing Authority, the Redevelopment Agency and the City's utilities as authorized in State law and the City's charter.

The City has operated under the council-manager form of government since its adoption of a charter update in 1923. Policy-making and legislative authority are vested in a seven member governing council consisting of the Mayor and six Council Members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager and City Attorney. The City Clerk is hired by the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council Members serve four-year staggered terms, with either three or four Council Members elected every two years. The Mayor is selected by a majority of the City Council and serves a two-year term.

Population

The City is the largest city in the County. The historic population estimates of the cities in the County, as of January 1 of the past five years are shown in the following table:

**Table A-1
COUNTY OF SONOMA
Population**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Cloverdale	8,484	8,542	8,594	8,623	8,629
Cotati	7,219	7,232	7,258	7,271	7,276
Healdsburg	11,133	11,203	11,249	11,420	11,442
Petaluma	56,792	57,344	57,791	58,033	58,165
Rohnert Park	41,000	40,938	40,952	40,818	40,846
Santa Rosa	162,657	165,405	167,302	168,034	168,841
Sebastopol	7,244	7,250	7,380	7,387	7,405
Sonoma	10,337	10,471	10,605	10,658	10,665
Windsor	26,325	26,565	26,751	26,803	27,003
Unincorporated	143,628	143,672	145,079	146,035	146,739
County Total	474,819	478,622	482,961	485,082	487,011

Source: California State Department of Finance, Demographic Research Unit.

Employment

The City's major employers are set forth below:

**Table A-2
CITY OF SANTA ROSA
Major Employers
(As of June 30, 2012)**

<u>Company Name</u>	<u>Category</u>	<u>Employment</u>
County of Sonoma	Government	3,657
Kaiser Permanente	Health Care	2,847
St. Joseph Health System	Health Care	2,239
Sutter Medical Center of Santa Rosa	Health Care	1,497
Santa Rosa School District	Public Education	1,352
Santa Rosa Junior College	Education	1,267
City of Santa Rosa	Government	1,200
Agilent Technologies/Hewlett Packard	Electronics, Communications	1,175
Safeway	Retail Grocery	1,082
Amy's Kitchen	Frozen Food Processors (Mfrs)	900

Source: City of Santa Rosa Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

The County's major employers are set forth below.

**Table A-3
COUNTY OF SONOMA
Major Employers
(As of April 2013)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Agilent Technologies Inc	Santa Rosa	Instruments-Measuring (Mfrs)
Amica Mutual Insurance Co	Petaluma	Insurance
Amy's Kitchen Inc	Sonoma County	Frozen Food Processors (Mfrs)
Army National Guard Recruiter	Santa Rosa	State Government-National Security
Arterial Vascular Engineering	Santa Rosa	Engineering
Fairmont Sonoma Msn Inn & Spa	Sonoma County	Hotels & Motels
Friedman Brothers Hardware	Santa Rosa	Hardware-Retail
JDS Uniphase Corp	Santa Rosa	Optical Instruments & Lenses (Mfrs)
Korbel Champagne Cellars	Guerneville	Wineries (Mfrs)
Macy's	Santa Rosa	Department Stores
North Bay Construction Inc	Petaluma	General Contractors
Petaluma Valley Hospital	Petaluma	Hospitals
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Santa Rosa, City	Santa Rosa	Public Agency
Sonoma County	Santa Rosa	Public Agency
Sonoma Developmental Ctr	Eldridge	Cognitive Disability-Dev Disability Svcs
Sonoma Valley Hospital	Sonoma	Hospitals
Sutter Medical Ctr-Santa Rosa	Santa Rosa	Hospitals
Walmart	Sonoma County	Department Stores

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2013 2nd Edition; City of Santa Rosa.

The unemployment rate in the Sonoma County was 7.6% in February 2013, down from a revised 8.3% in January 2013, and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period.

**Table A-4
Civilian Labor Force, Employment and Unemployment, Unemployment by Industry
(Annual Averages 2008 through 2012)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Civilian Labor Force ⁽¹⁾	260,000	256,500	256,100	257,300	256,900
Employment	245,200	231,800	229,300	232,100	234,900
Unemployment	14,900	24,700	26,800	25,100	22,000
Unemployment Rate	5.7%	9.6%	10.5%	9.8%	8.6%
Wage and Salary Employment ⁽²⁾					
Agriculture	5,800	5,800	5,700	5,800	5,800
Mining and Logging	200	100	100	200	200
Construction	12,800	9,800	8,900	8,600	8,600
Manufacturing	22,000	20,200	19,900	20,200	19,600
Wholesale Trade	7,700	6,800	6,600	6,600	6,900
Retail Trade	23,100	21,500	21,500	22,000	22,500
Transportation, Warehousing and Utilities	4,400	4,000	3,900	3,800	3,900
Information	2,800	2,600	2,500	2,500	2,600
Financial Activities	8,500	7,800	7,700	7,600	7,400
Professional and Business Services	22,100	18,300	18,800	18,000	17,900
Educational and Health Services	24,200	24,100	24,100	24,500	25,100
Leisure and Hospitality	21,000	20,100	20,100	20,500	21,900
Other Services	6,400	6,100	5,900	6,100	6,300
Federal Government	1,700	1,700	1,800	1,600	1,500
State Government	5,000	5,000	4,700	4,700	4,700
Local Government	23,700	22,600	20,300	22,100	21,500
Total, All Industries ⁽³⁾	191,400	176,300	172,300	174,700	176,300

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Budget Process

In accordance with applicable sections of the California Government Code and the City's Charter, an annual budget is adopted by the City Council by June 30 of each year. As part of the budget process, all City departments submit budget requests for the next fiscal year. These requests are reviewed, and a final City Manager recommended budget showing estimated revenues and expenditures of the City is prepared. This proposed budget is transmitted to the City Council and made available to the public for review. Study sessions and a public hearing are conducted before final adoption of the budget by the City Council.

The City Manager is authorized to transfer an unlimited amount of appropriations within any fund so long as the total appropriations are not increased. The City Manager is also

authorized to transfer up to \$50,000 of appropriations between funds. In addition, the City Manager is authorized to transfer up to \$100,000 of appropriations between funds within one enterprise activity. Only the City Council has the authority to increase total appropriations subject to the appropriation limitations established by state law. Budget appropriations lapse at the end of the fiscal year, with the exception of contract commitments and capital improvements, which are carried over until the commitment is met or the project has been completed.

The City Council reviews budget results at the mid-year review and budget adoption. The ongoing review and long range planning focus for financial management provides numerous opportunities to identify and respond to changes in revenues and expenditures and community priorities.

General Fund Budgets

General. The City's general fund budget figures for fiscal year 2011-12, audited actual figures for fiscal year 2011-12 and general fund adopted budget figures for fiscal year 2012-13 are set forth in the following table. The City's audited financial statements for the fiscal year ended June 30, 2012 are included as Appendix C to this Official Statement.

Table A-5
CITY OF SANTA ROSA
General Fund Budgets
For Fiscal Years 2011-12 and 2012-13
(Dollars in Thousands)

	<u>Adopted Budget 2011-12</u>	<u>Actual 2011-12</u>	<u>Adopted Budget 2012-13</u>
Property taxes	\$ 19,776	\$ 19,833	\$ 19,440
Sales taxes	33,653	36,017	36,825
Utility use taxes	9,500	8,931	9,640
Other taxes (1)	25,925	26,606	26,644
Licenses and permits	1,316	1,379	1,359
Charges for services	20,918	20,934	21,422
Intergovernmental	1,717	1,229	820
Fines and forfeitures	1,806	1,842	1,689
Investment earnings	623	165	100
Net change in fair value of investments	--	22	--
Other	1,594	1,795	1,784
Total revenues	<u>116,828</u>	<u>118,753</u>	<u>119,778</u>
<u>Expenditures:</u>			
Current:			
General government	21,342	21,019	21,499
Public safety	69,097	65,512	68,721
Public works	12,541	9,804	12,830
Recreation and parks	13,396	13,089	13,632
Other	--	41	--
Capital outlay	--	473	--
Debt service: principal	216	216	224
Debt service: interest	21	21	18
Total expenditures	<u>116,613</u>	<u>110,175</u>	<u>116,924</u>
Excess of revenues over (under) expenditures	215	8,578	2,854
Other financing sources (uses):			
Proceeds from sale of capital assets	--	132	--
Transfers in	3,699	94	3,099
Transfers out	(3,914)	(3,839)	(4,576)
Total other financing sources (uses)	<u>(215)</u>	<u>(3,613)</u>	<u>(1,477)</u>
Net change in fund balance	--	4,965	1,377
Fund balance - July 1	28,536	28,536	33,501
Fund balance - June 30	<u>28,536</u>	<u>\$ 33,501</u>	<u>34,878</u>

(1) Includes franchise fees, motor vehicle license fees, business licenses, real property transfer tax and transient occupancy tax.

Source: City of Santa Rosa.

Elimination of Redevelopment Agency. State legislation enacted as part of the 2011 Budget Act, and upheld by the California Supreme Court (as amended, the “**Dissolution Act**”), resulted in the formal dissolution of redevelopment agencies, including the Santa Rosa Redevelopment Agency (the “**Redevelopment Agency**”), effective as of February 1, 2012. All

tax increment that would have been allocated to the Redevelopment Agency is now allocated to the Santa Rosa Redevelopment Property Tax Trust Fund, as established by the County Auditor-Controller under the Dissolution Act.

See “Fiscal Year 2012-13” below for information about the Dissolution Act’s impact on the City’s budget.

Fiscal Year 2011-12. After the significant level of cuts that the City’s General Fund experienced in the fiscal year 2009-10 and 2010-11 budgets, the reductions contained in the fiscal year 2011-12 budget are modest. The General Fund budget comprises of \$116.6 million of the total \$315.4 million budget. The General Fund budget was balanced using a variety of measures.

In November 2010, the voters of Santa Rosa adopted Measure P, a quarter-percent general sales tax measure that will be in effect for 8 years to fund vital City services. For fiscal year 2011-12, Measure P is projected to generate \$6.5 million in new City revenue. After factoring in the \$6.5 million revenue from Measure P, the General Fund would require about \$3.5 million in additional budget reductions. As a result, the fiscal year 2011-12 budget includes \$2 million in on-going program and staff reductions, \$500,000 in new revenue and \$1 million in projected employee concessions.

The projected General Fund revenues for fiscal year 2011-12 is \$116.8 million, an \$8.4 million increase over the prior fiscal year 2010-11 budget. The \$8.4 million increase includes \$6.5 million of Measure P revenue. The City has experienced 3 quarters of increases in sales tax after nearly 4 years of declines. The City is projecting a 3% growth in sales tax and a 4% growth in transient occupancy tax (TOT) with hotel occupancy rates beginning to climb. On the other hand, the housing market continued to be a key factor impacting the overall recovery. As home sales prices continue to be suppressed by low-priced foreclosures, the property tax is projected to decline by 2% or \$200,000.

Although economic recovery is now underway, it is slow and will remain sluggish for several more years. The passage of Measure P has stabilized the City financial situation. However, the General Fund still has a structural deficit that needs to be addressed before Measure P expires in March 2019. The City is developing a long-term financial plan to address the structural deficit and to prepare a fiscally sustainable budget.

Fiscal Year 2012-13. After four years of extensive reductions in response to the so-called “great recession” and its impact on City revenues, General Fund revenues have begun to stabilize with some modest growth resulting in a fiscal year 2011-12 estimate of \$117.9 million, with continued growth to \$119.8 million in fiscal year 2012-13. The primary driver of the increase is higher overall sales tax revenues.

To begin the path to long-term financial sustainability, the City is curbing ongoing increases in operating expenses with solutions such as employee concessions (including a two-tier retirement system for new hires) and evaluation of all programs and activities to find long-term savings. The City also worked to restore its General Fund Reserves to a Council-approved policy of 15% of annual expenditures (the June 30, 2013 balance is estimated to be at or above 15%), to limit the impact of future revenue shortfalls on City budgets, to stabilize the City’s fiscal position and provide assurance to financial markets, and to be prepared for unforeseen emergencies. Long-term funding solutions in response to the dissolution of State-funded redevelopment activities is also needed, as economic development and neighborhood vitality

are among the core City Goals.

In development of the fiscal year 2012-13 budget, departments provided both one-time and ongoing reductions. This includes the reduction of discretionary funding for services and supplies, as well as an increase in fundraising activities by the Recreation & Parks department to assist with the funding of recreation and aquatic programs.

The City has worked in partnership with management to come to agreement on both short-term and long-term employee compensation concessions totaling \$4.7 million across all funds, with \$3.0 million of those savings in the General Fund in fiscal year 2012-13. Miscellaneous (non-Public Safety) employees agreed to one-time concessions totaling \$1.1 million in the General Fund (\$2.2 million across all funds) in the form of employee furloughs for fiscal year 2012-13, which equates to a 3.1% salary reduction. This is the third consecutive year of furloughs. Public Safety employees have agreed to \$1.4 million in General Fund concessions (\$1.6 million across all funds) in the form of a permanent increase in retirement contributions as well as greater health insurance contributions. Executive employees have also agreed to pay increased retirement contributions. Additionally, the City has realized savings with health plan changes, totaling \$0.4 million in the General Fund (\$0.7 million across all funds) for fiscal year 2012-13. Finally, as noted above, a second tier retirement system was established for new hires after July 8, 2012.

Through these budget strategies and agreements, the City is able to meet and retain basic city services and programs during fiscal year 2012-13, including the following enhancements in the proposed budget:

- Addition or extension of assignments for 10.2 FTE across all funds to sustain current department service levels.
- Addition of 8.0 FTE in Police in support of a new Community Policing Team as well as restoring positions reduced in previous budgets.
- Building maintenance and repair citywide including fire stations, parks and other essential facilities.
- Economic Development and Neighborhood Revitalization funding to retain portions of programs jeopardized by the loss of Redevelopment funding. Further evaluation of Economic Development programs will be conducted once the procedures for administering the dissolution of Redevelopment are stabilized.
- Funding of street and pedestrian facilities.

City General Fund Reserve Policy

In March 2006, the City Council adopted a policy to designate part of the General Fund balance for contingencies at an amount between 15% and 17% of General Fund expenditures. Any unreserved balances in excess of 17% of expenditures would be designated for future expenditures. If the General Fund contingency reserve level is below 15%, a plan will be established to increase the reserve to a minimum of 15% during the upcoming budget process.

The projected General Fund reserve for fiscal year 2012-13 is \$16,931,000 million or 14.5% of General Fund expenditures. The City is developing strategies on how to replenish the General Fund reserve and to preserve the General Fund balance.

State Budget and its Impact on the City

Set forth in the following paragraphs are descriptions of the State budget process, the current State budget situation, and the potential impacts on the City.

The Budget Process. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Prior to the November 2, 2010 California General Election, the Budget Act required approval by a two-thirds majority vote of each House of the Legislature. On the November 2, 2010, California voters passed Proposition 25, which amended this legislative vote requirement to a simple majority. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent Reoffering Circulars for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California Reoffering Circulars, many of which contain a summary of the current State

Budget, past State Budgets, and the impact of those budgets on local governments in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Reoffering Circular, which discusses the State budget and its impact on local agencies in the State.
- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.
- The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

The State has not entered into any contractual commitment with the City or the owners of the Notes to provide State budget information to the City or the owners of the Notes. Although the City believes the State sources of information listed above are reliable, the City assumes not responsibility for the accuracy of the State budget information set forth or referred to herein.

Tax Shifts and Triple Flip. Assembly Bill No. 1755 ("**AB 1755**"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required the shift away from the Education Revenue Augmentation Fund ("ERAF") to \$135 million. Legislation, commonly referred to as the "Triple Flip," was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of \$15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip", one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local governments, the legislation then redirects property taxes in the ERAF to local governments. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. The swap of sales taxes for property taxes will terminate once the deficit financing bonds are repaid, which is currently expected to occur by 2016.

2012-13 State Budget. On June 15, 2012, the Legislature passed a \$92 billion General Fund State Budget (the "**2012-13 State Budget**") that closed the State's then-remaining \$15.7 billion deficit and rebuilt a \$1 billion State General Fund reserve.

Tax Increase. The 2012-13 State Budget relied upon the Schools and Local Public Safety Protection Act, a \$6.9 billion tax increase approved by California voters at a regular election in November 2012 (the "**2012 Initiative**"). The 2012 Initiative enacted

temporary increases on high-income earners, raising income taxes by up to three percent on the wealthiest Californians for seven years and increase the state sales tax by one-quarter of one cent for four years, and averted \$5.9 billion of planned Trigger Cuts that would have affected public education funding in the State. The 2012-13 State Budget also contains reductions in expenditures from prior years spending totaling \$8.1 billion, including reductions caused by elimination of the Healthy Families program and by reforms relating to the CalWORKs, Medi-Cal, Judiciary and Cal Grant programs. The 2012-13 State Budget expects \$1.5 billion in savings will be generated as the result of the transfer of cash assets previously held by redevelopment agencies to cities, counties and special districts to fund core public services and to schools to offset State General Fund costs. An additional \$1.9 billion in savings will arise due to prepayment of the State's Proposition 98 funding as required by a court settlement. Governor Brown signed the 2012-13 State Budget on June 27, 2012.

Realignment. Also, in 2011, the State legislature made a number of changes to realign certain State program responsibilities and revenues to local government, and primarily counties. In total, the realignment shifted approximately \$6 billion in State sales tax revenues, vehicle license fee revenues, and (on a one-time basis) Mental Health Services Fund revenues to local governments to fund various criminal justice, mental health, and social service programs. As part of the 2012-13 State Budget, the State legislature approved a number of changes to the funding structure and programs in the realignment, including without limitation establishing an ongoing funding structure for the programs realigned in 2011.

The complete 2012-13 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The City can take no responsibility for the continued accuracy of this Internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

The execution of 2012-13 State Budget may be affected by numerous factors, including but not limited to: (i) national, State and international economic conditions, (ii) litigation risk associated with proposed spending reductions, (iii) failure to generate expected savings as a result of the transfer of cash assets previously held by redevelopment agencies and (iv) other factors, all or any of which could cause the revenue and spending projections made in 2012-13 State Budget to be unattainable. The City cannot predict the impact that the 2012-13 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the City cannot predict the accuracy of any projections made in the State's 2012-13 State Budget, or the accuracy of its attempts to project and budget for past and future Trigger Cuts that may affect it.

2013-14 Proposed State Budget. On January 14, 2013, Governor Brown released a \$97.6 billion General Fund Proposed State Budget (the "**2013-14 Proposed Budget**"). The 2013-14 Proposed Budget reflects a significant improvement in the State's finances, due to the economic recovery, prior budgetary restraint, and voters' approval of temporary tax increases. Specifically, the Governor proposes \$138.6 billion in General Fund and special fund spending in 2013-14, up 4.5% from fiscal year 2012-13. The administration forecasts that the State's General Fund budgetary balance will be \$1 billion at the end of fiscal year 2013-14 under the Governor's plan. The budget contains major proposals in education, including a new formula for

funding schools and additional resources for the public university systems, and presents alternatives for implementing the federal health care reform law.

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

Information about State budgets is regularly available at various State-maintained websites. See: www.dof.ca.gov, under the heading "California Budget". Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Financial Statements

The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information.

Accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. There are three groups of funds- governmental funds (which include the General Fund), proprietary funds (which include enterprise funds and internal service funds) and fiduciary funds (which are used to account for resources held for the benefit of parties outside the City). The City maintains 16 individual governmental funds. Information is presented separately in the governmental statement of revenues, expenditures, and changes in fund balances for the General Fund and the Street Maintenance and Construction Fund, both of which are considered to be major funds. Data for the 14 other funds are combined into a single aggregated presentation.

All governmental funds and fiduciary funds use the modified accrual basis of accounting. The proprietary funds use the accrual basis of accounting. The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

Set forth in the following pages are (i) a general fund balance sheet for fiscal years 2008-09 through 2011-12 and (ii) a statement of revenues, expenditures and changes in fund balances for the City's general fund for the same period along with the adopted budget for fiscal year 2012-13.

Table A-6
CITY OF SANTA ROSA
General Fund Balance Sheet
As of June 30 for Fiscal Years 2008-09 through 2011-12
(Dollars in Thousands)

	Audited <u>2008-09</u>	Audited <u>2009-10</u>	Audited <u>2010-11</u>	Audited <u>2011-12</u>
ASSETS:				
Cash and cash equivalents	\$ 13,455	\$ 13,420	\$ 14,428	\$ 18,562
Receivables (net of allowances for uncollectibles)				
Accounts	2,238	2,113	2,204	2,481
Interest	62	11	33	57
Intergovernmental	5,524	5,388	7,733	6,301
Assessments	-	-	61	121
Due from other funds	3,023	1,070	812	3,289
Inventory of supplies	323	287	698	772
Prepaid items	138	56	49	59
Restricted cash and investments	450	450	450	-
Advances to component unit	5,821	5,559	5,281	5,876
Notes and loans receivable – long term	100	50	-	-
Total assets	\$ 31,134	\$ 28,404	\$ 31,749	\$ 37,518
LIABILITIES:				
Accounts payable and other current liabilities	\$ 2,261	\$ 1,906	\$ 1,859	\$ 2,783
Deferred revenue	1,656	823	982	1,232
Deposits	472	372	372	2
Total liabilities	4,389	3,101	3,213	4,017
Fund Balances: (1)				
Nonspendable				
Advances	-	-	5,281	5,876
Inventory of supplies	-	-	698	772
Prepaid items	-	-	49	59
Assigned				
Carryover of appropriations	-	-	8,652	8,818
Encumbrances	-	-	962	-
Unassigned				
Unassigned	-	-	12,894	17,976
Reserved for:				
Advances	5,821	5,559	-	-
Encumbrances	1,906	981	-	-
Long-term notes and loans	100	50	-	-
Debt service	-	-	-	-
Prepaid items	138	56	-	-
Unreserved	18,780	18,657	-	-
Total fund balances	26,745	25,303	28,536	33,501
Total liabilities and fund balances	\$ 31,134	\$ 28,404	\$ 31,749	\$ 37,518

(1) Line items under "Fund Balances" reclassified beginning in fiscal year 2010-11.

Source: City of Santa Rosa Comprehensive Annual Financial Reports.

Table A-7
CITY OF SANTA ROSA
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2008-09 through 2011-12 and FY 2012-13 (adopted budget)
(Dollars in thousands)

	<u>Audited</u> <u>2008-09</u>	<u>Audited</u> <u>2009-10</u>	<u>Audited</u> <u>2010-11</u>	<u>Audited</u> <u>2011-12</u>	<u>Adopted</u> <u>Budget</u> <u>2012-13</u>
Revenues:					
Property taxes	\$ 21,472	\$ 20,435	\$ 19,276	\$ 19,833	\$ 19,440
Sales taxes	28,161	24,810	28,575	36,017	36,825
Utility use taxes	9,804	9,311	9,481	8,931	9,640
Other taxes (1)	26,760	25,632	26,588	26,606	26,699
Licenses and permits	1,278	997	1,154	1,379	1,359
Charges for services	18,718	18,333	20,938	20,934	21,422
Intergovernmental	1,510	1,558	1,945	1,229	820
Fines and forfeitures	1,748	1,564	1,938	1,842	1,689
Investment earnings	840	722	541	165	100
Net change in fair value of investments	28	(69)	14	22	--
Other	3,737	3,099	1,653	1,795	1,784
Total revenues	114,056	106,392	112,103	118,753	119,778
Expenditures:					
Current:					
General government	27,826	22,022	20,226	21,019	21,499
Public safety	70,534	63,602	64,199	65,512	68,721
Public works	13,543	11,871	11,711	9,804	12,830
Recreation and parks	13,278	14,424	12,657	13,089	13,632
Other	36	4	21	41	--
Capital outlay	450	214	619	473	--
Debt service: principal	400	201	208	216	224
Debt service: interest	49	37	29	21	18
Total expenditures	126,116	112,375	109,670	110,175	116,924
Excess of revenues over (under) expenditures	(12,060)	(5,983)	2,433	8,578	2,854
Other financing sources (uses):					
Proceeds from sale of capital assets	655	49	41	132	--
Transfers in	8,862	8,134	5,364	94	3,099
Transfers out	(3,835)	(3,642)	(4,605)	(3,839)	(4,576)
Total other financing sources (uses)	5,682	4,541	800	(3,613)	(1,477)
Net change in fund balance	(6,378)	(1,442)	3,233	4,965	1,377
Fund balance - July 1	33,123	26,745	25,303	28,536	33,501
Fund balance - June 30	\$ 26,745	\$ 25,303	\$ 28,536	\$ 33,501	\$ 34,878

(1) For a breakdown of each component of taxes, see the following table.

Source: City of Santa Rosa Comprehensive Annual Financial Reports.

Taxes and Other Revenues

Taxes received by the City for the most recent fiscal years are listed in the table below.

Table A-8
CITY OF SANTA ROSA
Major Tax Revenues by Source- General Governmental Activities
(Dollars in thousands)

	<u>Audited</u> <u>2007-08</u>	<u>Audited</u> <u>2008-09</u>	<u>Audited</u> <u>2009-10</u>	<u>Audited</u> <u>2010-11</u>	<u>Audited</u> <u>2011-12</u>
Property Taxes	\$21,945	\$21,472	\$20,435	\$19,276	\$19,833
Sale and Use Taxes	40,088	34,505	30,754	35,213	43,054
Utility User's Tax	9,758	9,804	9,311	9,481	8,931
Motor Vehicle In-Lieu Fees	12,185	12,123	11,523	11,276	10,391
Business Tax	3,956	3,775	3,346	3,422	3,666
Real Property Transfer Tax	2,366	2,207	2,093	1,706	1,859
Transient Occupancy Tax	4,055	3,460	2,863	3,183	3,654
Other Taxes	5,192	5,195	5,807	7,001	7,036
Total Taxes	<u>\$99,545</u>	<u>\$92,541</u>	<u>\$86,132</u>	<u>\$90,558</u>	<u>\$98,424</u>

Source: City of Santa Rosa Comprehensive Annual Financial Reports.

Sales and Use Taxes

Sales and use taxes represent the largest source of tax revenue to the City (approximately 43.7% of governmental fund tax revenues in 2011-12). This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State of California. The City budgeted to receive \$43,955,000 in sales tax revenue for fiscal year 2012-13, which would be an increase of approximately \$901,000 or 2% from the prior year.

Sales Tax Rates. The City collects a percentage of taxable sales in the City (minus certain administrative costs imposed by the State Board of Equalization) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the "**Sales Tax Law**"), as shown below. As part of the State's 2003-04 Budget, the State Legislature authorized, and the voters of the State approved, a redirection to the State from local jurisdictions (including the City) of sales revenues in the amount of 0.25% of the basic 1.0% local sales tax rate, starting July 1, 2004. The State of California uses such revenues to pay the State's economic recovery bonds. Under the California Economic Recovery Act, which includes legislation commonly referred to as the "Triple Flip", the State redirected certain property taxes in the Education Augmentation Revenue Fund ("**ERAF**") to local governments, including the City, to compensate for this redirection of sales taxes on a "dollar for dollar" basis. Under this legislation, along with the guarantees provided by the passage of Proposition 1A in November 2004, the City expects that there will not be any significant fiscal impacts on the City resulting from the "Triple Flip".

At an election held on November 2, 2010, the voters of the City approved (by a majority vote) a measure to increase the sales tax in the City by 0.25%, to be used by the City for general purposes. This additional general fund revenue will become available in June 2011 and continue for eight years. The additional sales tax, which is included in the figures in the previous table, is budgeted to generate \$6,778,000 in fiscal year 2012-13. It is available to fund any general fund activity.

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

**Table A-9
CITY OF SANTA ROSA
Sales Tax Rates
Fiscal Year 2012-13**

<u>Component</u>	<u>Rate</u>
State (General Fund)	3.9375%
State (Fiscal Recovery Fund)	0.2500
State (Local Revenue Fund 1991 Realignment)	0.5000
State (Local Revenue Fund 2011)	1.0625
State (Local Public Safety Fund)	0.5000
Local (City and County Operations)	0.7500
Local (County Transportation Funds)	<u>0.2500</u>
Total State-Wide Tax Rate	7.5000%
Sonoma County Open Space Authority	0.2500
Sonoma-Marín Area Rail Transportation Authority	0.2500
Sonoma County Agricultural Preservation & Open Space	0.2500
City of Santa Rosa Transactions and Use Tax ⁽¹⁾	0.2500
City of Santa Rosa 2010 Transactions and Use Tax	<u>0.2500</u> ⁽²⁾
Total City of Santa Rosa Tax Rate	8.7500%

(1) Proceeds of the Transactions and Use Tax must be used to enhance fire services (40% of proceeds), police services (40%) and gang prevention (20%).

(2) Incremental sales tax will be received by the City until June 2019.

Source: *California State Board of Equalization.*

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

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

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

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

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's Publication No. 61 entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at <http://www.boe.ca.gov/>.

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

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

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

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

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

History of Taxable Transactions. A summary of historic taxable sales within the City is shown in the following table.

Table A-10
CITY OF SANTA ROSA
Taxable Sale by Category (Dollars in thousands)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Apparel stores	\$ 147,252	\$ 136,633	\$ 138,755	\$ 145,129	\$ 156,508
Auto dealers and supplies	457,981	317,087	319,289	346,149	396,309
Building materials and farm tools	256,002	209,361	195,190	213,275	225,867
Drug stores	40,936	41,818	40,883	40,266	40,646
Eating and drinking places	212,237	210,035	203,277	217,946	232,610
Food stores	143,751	141,819	139,057	148,193	159,378
General merchandise	378,644	355,046	332,620	346,614	350,586
Home furnishing & appliances	179,266	160,842	149,444	158,788	159,317
Other retail	399,630	357,050	324,496	340,307	359,245
Packaged liquor stores	24,375	22,727	24,421	22,783	24,686
Service stations	261,796	211,611	220,059	258,881	268,652
All other outlets	<u>319,970</u>	<u>274,830</u>	<u>268,493</u>	<u>252,231</u>	<u>316,903</u>
Total	\$2,821,840	\$2,438,859	\$2,355,984	\$2,490,562	\$2,690,707

Source: Source: City of Santa Rosa Comprehensive Annual Financial Reports; MuniServices, LLC.

Property Taxes

General. This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property tax payers in the City.

Property taxes represent the second largest source of tax revenue to the City (approximately 20.2% of governmental fund tax revenues in fiscal year 2011-12). The City budgeted to receive \$19,440,000 of property tax revenues in fiscal year 2012-13. See “ – Assessed Valuation” below.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed over 20 years ago when they were reduced by two-thirds and thereafter limited to 2% annual increases or the CPI, whichever was less.

ERAF Shift and Triple Flip Legislation. Certain property taxes have been shifted from local government agencies to schools by the State Legislature for deposit in the Education Revenue Augmentation Fund (“ERAF”), a shift that has resulted in diversion of City property taxes since fiscal year 1992-93. See “State Budgets” below.

As discussed in “Sales and Use Taxes” below, on March 2, 2004, the State’s voters approved a bond initiative known as the “California Economic Recovery Act” which includes provisions known as “Triple Flip” legislation, calling for a diversion of a portion of local governments’ share of sales taxes to the State of California, and in return, a redirection of certain property taxes from the ERAF to local government.

Levy and Collection. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and 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 public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State of California and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment 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 Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation 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.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” in the body of the Reoffering Circular.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

Assessed Valuation History. The following table shows an eight-year history of the City's assessed valuation.

Table A-11
CITY OF SANTA ROSA
Assessed Value and Estimated Actual Value of Taxable Property
Fiscal Years 2005-06 to 2012-13
(in thousands)

Fiscal Year	Real Property Assessed/Market Value	Personal Property Assessed/Market Value	Total Assessed/Market Value	Percentage of Change in Market Value	Total Direct Tax Rate
2005-06	\$15,725,609	\$589,269	\$16,314,878	9.5%	0.14594%
2006-07	17,523,321	621,807	18,145,128	11.2	0.14553
2007-08	18,952,212	657,821	19,610,033	8.1	0.15686
2008-09	19,086,678	693,812	19,780,490	0.9	0.16131
2009-10	18,199,746	683,473	18,883,219	-4.5	0.15863
2010-11	17,343,038	673,858	18,016,896	-4.6	0.15686
2011-12	16,941,806	697,590	17,639,396	-2.1	0.15489
2012-13	16,743,905	721,477	17,465,382	1.0	0.15484

Source: City of Santa Rosa Comprehensive Annual Financial Report.

Proposition 13 and Proposition 8 Property Value Adjustments. Proposition 13, passed in 1978, established the base year value concept for property tax assessments. Under Proposition 13, the 1975-1976 fiscal year serves as the original base year used in determining the assessment for real property. Thereafter, annual increases to the base year value are limited to the inflation rate, as measured by the California Consumer Price Index, or 2%, whichever is less. A new base year value, however, is established whenever a property, or portion thereof, has had a change in ownership or has been newly constructed.

Proposition 8, enacted in 1978, allows for a temporary reduction in assessed value when a property suffers a “decline-in-value.” As of January 1st (lien date) each year, the Assessor must enroll either a property’s Proposition 13 value (adjusted annually for inflation by no more than 2%) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value, the lower value is commonly referred to as a “Proposition 8 Value.” “Proposition 8 values” are temporary and, once enrolled, must be reviewed annually by the assessor until the Proposition 13 adjusted base year value is enrolled.

Fiscal Year 2011-12. [to come from Sonoma County]

Fiscal Year 2012-13. [to come from Sonoma County]

Major Property Taxpayers. The following table shows the principal property taxpayers in the City as determined by their secured assessed valuations in 2012-13.

**Table A-12
CITY OF SANTA ROSA
Principal Property Tax Payers
(in thousands)**

<u>Taxpayer</u>	FY 2012-13		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Agilent Technologies	\$143,642	1	0.82%
Varenna at Fountaingrove LLC	75,108	2	0.43
EMI Santa Rosa LP	60,578	3	0.35
Coddingtown LLC	64,494	4	0.37
Donahue Schriber Realty Group	41,999	5	0.24
FIT REN Paulen Creek LP	41,175	6	0.24
Montgomery Village LP	38,757	7	0.22
Arterial Vascular Engineering Inc.	34,463	8	0.20
STRS Ohio CA Estate Investments LLC	32,651	9	0.19
Santa Rosa Town Center LLC	<u>32,461</u>	10	<u>0.19</u>
Total	\$565,328		3.24%

(1) Fiscal Year 2012-13 Local Secured Assessed Valuation: \$16,743,904,701.
Source: City of Santa Rosa Comprehensive Annual Financial Report.

Teeter Plan. 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. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies on secured property for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections.

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. 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.

Other Taxes and Revenues

Motor Vehicle In-Lieu Fees. Motor vehicle in-lieu fees (“MVLFF”) is a State tax levied annually on the value of motor vehicles registered in the State. Under the State Constitution, MVLFF revenues are allocated to cities and counties pursuant to State statute. In fiscal year 2004-05, the MVLFF rate was reduced from 2% to 0.65% of the market value of the vehicle. Also commencing in fiscal year 2004-05, by State statute, the State is required to allocate to cities and counties property tax revenues in order to make up the difference in revenues as a result of the MVLFF rate reduction from 2% to 0.65%. In fiscal year 2006-07 and thereafter, the replacement property taxes will increase at rates corresponding to the rate of increase, if any, in each jurisdiction’s gross assessed property value. Additionally, per the amendments to the State Constitution enacted by the passage of Proposition 1A in November 2004, if the MVLFF rate is reduced below 0.65%, then the State must replace the corresponding revenues to cities and counties. The City received \$10,391 of MVLFF in fiscal year 2011-12

Utility User’s Tax. The utility users tax (“UUT”) is the fourth largest revenue source for the City. The City charges a 5% UUT on the usage of electricity, gas, cable television, local non-cellular telecommunications and intrastate non-cellular telecommunications. The maximum tax is \$1,000 for each utility, for each service user, at each contiguous location, per UUT Year.

The City’s history of enactments regarding its Utility Users Tax is summarized as follows:

**Table A-13
CITY OF SANTA ROSA
Utility Users Tax History**

<u>Effective Date</u>	<u>Utility Covered</u>	<u>Rate</u>
Sept. 1970	Electricity	5%
Sept. 1970	Gas	5
Sept. 1970	Cable Television	5
Sept. 1970	Local non-cellular Telecommunications and Intrastate non-cellular Telecommunications	5

Source: City of Santa Rosa.

Business Tax. Pursuant to City ordinance, the City imposes a business tax upon any business conducted within the City limits. The amount of business tax is measured by gross receipts, and the tax rate is determined according to business classification, and amount of gross receipts. Business tax payments are due on January 1 of each year. There are flat rates for special events or persons without a permanent place of business in the City. Under the ordinance, there is a minimum business tax of \$25 and a maximum business tax of \$3,000.

Real Property Transfer Tax. Pursuant to the City’s charter and an ordinance adopted by the City Council, a tax at the rate of \$2 for each \$1,000 or fractional part of the value must be paid when real property in the City is sold, granted, assigned or conveyed. All revenue received by the City from this tax is deposited into the City’s General Fund.

Transient Occupancy Tax. The City currently levies a transient occupancy tax on hotel and motel bills equal to 9%. This tax is collected by all lodging establishments located within City limits and is remitted to the City on or before the last day of the month following the close of each calendar quarter.

Long-Term General Fund Obligations

Set forth below is a summary of long-term obligations payable from the City's general fund (other than the Prior Bonds being refunded).

2005 Series A Certificates of Participation (Bennett Valley Golf Course Project) and 2005 Series B (Taxable) Certificates of Participation (Bennett Valley Golf Course Project). In September 2005, the City caused execution and delivery of \$3,850,000 Series A Certificates of Participation (Bennett Valley Golf Course Project) and \$1,725,000 2005 Series B (Taxable) Certificates of Participation (Bennett Valley Golf Course Project) to finance improvements to the City's municipal golf course. Although the City has covenanted to include all lease payments due under the Golf Course Leases in its general fund budgets, the City expects to continue to make the lease payments from the City's Golf Course Fund. The aggregate balance outstanding as of July 2, 2012 on the two Golf Course leases is \$4,760,000.

2007 Building Acquisition Certificates of Participation. In June 2007, the City caused execution and delivery of \$9,960,000 Certificates of Participation (Building Acquisition Project) to finance the construction of administrative office space for the City. The balance outstanding as of July 2, 2012 is \$9,380,000.

Lease Payment Obligations. In December 2005, the City entered into a lease agreement for financing the acquisition of fire engines at a total cost of \$1,409,000. In November 2008, the City entered into another lease agreement for financing the acquisition of the Enterprise Resource Planning System at a total cost of \$3,300,000. These leases qualify as capital leases for accounting purposes. The outstanding principal amount on the leases is approximately \$2,129,000 as of June 30, 2012.

Employee Relations

The City had 1,197.25 authorized positions at the beginning of fiscal year 2012-13, of which 172 were sworn Police personnel and 129 were Fire personnel. The City's employees are represented by 16 labor groups. All employees, except Public Safety Police employees, are currently under contracts which expire on June 30, 2013; Police personnel are under an agreement that expires on June 30, 2014 and Fire personnel are under an agreement that expires on June 30, 2013.

Risk Management

The City uses a program of self-insurance for workers' compensation and general liability claims, and employs a professional risk manager, supplemented by a professional claim administration firm, to minimize losses. The City also participates in a multi-agency joint powers authority to provide excess insurance coverage for liability coverage. The joint powers authority and the City rely on estimates prepared by professional actuaries to set aside funds adequate to meet potential future losses.

See Note 12 in the City's fiscal year 2011-12 audited financial statements (Appendix C) for additional information about the City's risk management practices.

Employee Retirement System

Plan Description. All permanent City employees are eligible to participate in the Public Employees' Retirement Fund (the "**Fund**") of the State of California's Public Employees' Retirement System ("**PERS**"). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after 5 years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the Fund's annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy. The City now has three tiers of retirement for Police, Fire and Miscellaneous employees. The retirement received by employees is dependent on their date of hire and previous employment with CalPERS reciprocal agencies.

Police Safety Retirement Plan

	Tier One	Tier Two	Tier Three
Benefit Formula	3%@50	3%@55	2.7%@57
Final Compensation	Single highest year average	Three-Year (36 Month) Average	Three-Year (36 Month) Average
Applies to Employees	Hired before July 8, 2012	Hired on or after July 8, 2012, or worked for a CalPERS (or reciprocal) agency within the immediate six (6) months prior to the date of hire by the CITY.	New members hired on or after January 1, 2013
Member Contribution	5% ⁽¹⁾	9%	12%

⁽¹⁾ Police Officers in Tier One will pay 9% of their salary for the full member contribution to PERS by January 1, 2014. Police Safety Managers in Tier One pay 9% of their salary for the full member contribution to PERS.

Fire Safety Retirement Plan

	Tier One	Tier Two	Tier Three
Benefit Formula	3%@50	3%@55	2.7%@57
Final Compensation	Single highest year average	Three-Year (36 Month) Average	Three-Year (36 Month) Average
Applies to Employees	Hired before July 8, 2012	Hired on or after July 8, 2012, or worked for a CalPERS (or reciprocal) agency within the immediate six (6) months prior to the date of hire by the CITY.	New members hired on or after January 1, 2013
Member Contribution	0% ⁽¹⁾	9%	10.5%

(1) Fire safety managers pay 9% of their salary for the full member contribution to PERS. As part of a concession, Firefighters pay 5% of a previously contracted increase to the City's cost of PERS. However, the City pays the 9% member contribution on behalf of Tier One Firefighters.

Miscellaneous Retirement Plan

	Tier One	Tier Two	Tier Three
Benefit Formula	3%@60	2.5%@55	2%@62
Final Compensation	Single highest year average	Single highest year average	Three-Year (36 Month) Average
Applies to Employees	Hired before July 8, 2012	Hired on or after July 8, 2012, or worked for a CalPERS (or reciprocal) agency within the immediate six (6) months prior to the date of hire by the CITY.	New members hired on or after January 1, 2013
Member Contribution	8%	8%	6.25%

The 2010-11 fiscal year contribution rates were 12.847% for miscellaneous employees, 24.841% for police Safety employees and 20.534% for fire Safety employees, of annual covered payroll. The 2011-12 fiscal year contribution rates were 15.592% for miscellaneous employees, 29.354% for police safety employees and 26.418% for fire safety employees, of annual covered payroll. The fiscal year 2012-13 rates are 15.937% for miscellaneous employees, 29.485% for police safety employees and 27.744% for fire safety employees. For fiscal year 2013-14, the rates will be 17.018% for miscellaneous employees, 30.389% for police safety employees and 29.363% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost. The City's actual contribution to PERS is equal to the required contribution, which was determined as part of the June 30, 2011 CalPERS Annual Valuation Report using the entry age normal actuarial cost method. The actuarial assumptions for miscellaneous, police and fire, are set forth in the City's June 30, 2012 Audited Financial Statements, Note 8- Employees' Retirement Plan.

Since 2003, the City's contributions were equal to the annual required contribution, which were less than the annual pension cost as a result of the City's issuance of pension obligation bonds in 1996 and 2003.

The most recent three-year trend information is as follows:

**Table A-14A
CITY OF SANTA ROSA
Contribution Information for PERS**

Miscellaneous Plan (Dollars in thousands)					
Fiscal Year	Annual Pension Cost	Contribution	% of APC Contributed	Net Pension Asset	Market Value of Assets
2011-12	\$ 12,244	\$ 9,535	77.87%	\$22,505	N/A
2010-11	10,023	7,703	76.85	25,214	\$385,002,988
2009-10	10,246	8,271	80.72	27,534	321,361,944
Police Plan (Dollars in thousands)					
Fiscal Year	Annual Pension Cost	Contribution	% of APC Contributed	Net Pension Asset	Market Value of Assets
2011-12	\$ 6,641	\$ 5,717	86.09%	\$7,677	N/A
2010-11	5,528	4,736	85.67	8,601	\$140,365,601
2009-10	5,422	4,748	87.57	9,393	117,147,895
Fire Plan (Dollars in thousands)					
Fiscal Year	Annual Pension Cost	Contribution	% of APC Contributed	Net Pension Asset	Market Value of Assets
2011-12	\$ 4,733	\$ 4,071	86.01%	\$ 5,499	N/A
2010-11	3,652	3,085	84.47	6,161	\$109,877,350
2009-10	3,696	3,213	86.93	6,728	91,408,061

Funding Status. As of June 30, 2011, the Miscellaneous, Police, and Fire plans were 88.1%, 80.4%, and 79.2% funded, respectively. For the Miscellaneous, Police, and Fire plans, respectively, the actuarial accrued liability for benefits were \$485.6, \$193.6, and \$153.5 million and the actuarial value of assets were \$427.8, \$155.7, and \$121.6 million, resulting in unfunded actuarial accrued liabilities ("UAAL") of \$57.8, \$37.9, and \$31.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$61.8 million for miscellaneous employees, \$18.8 million for police employees, and \$14.3 million for fire employees; and the ratio of UAAL to the covered payroll was 93.5%, 201.4%, and 223.5%, respectively. This information is derived from the CalPERS Annual Valuation Report as of June 30, 2009.

See page 67 of the City's June 30, 2012 Comprehensive Annual Financial Report for a three-year schedule of funding progress.

Actuarial Assumptions. As of the June 30, 2011 valuation, the actuarial assumptions used for are shown in the table below.

	Miscellaneous	Police	Fire
Investment rate of return:	7.50% (net of administrative services).	7.50% (net of administrative services)	7.50% (net of administrative services)
Projected salary increases:	3.30% to 14.20% depending on age, service and type of employment.	3.30% to 14.20% depending on age, service and type of employment.	3.30% to 14.20% depending on age, service and type of employment.
Inflation:	2.75%	2.75%	2.75%
Payroll growth:	3.00%	3.00%	3.00%
Individual salary growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%.

Recent Actions Taken by CalPERS. On March 14, 2012, the CalPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, (i) the amounts of CalPERS member state and schools employer contributions will increase by 1.2 to 1.6% for Miscellaneous plans and 2.2 to 2.4% for Safety plans beginning in fiscal year 2012-13 and (ii) the amounts of CalPERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning in fiscal year 2013-14. More information about the CalPERS discount rate adjustment can be accessed through CalPERS's web site at www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml. *The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the City and is not incorporated herein by reference.*

The CalPERS Board adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The City is unable to predict what the amount of CalPERS liabilities will be in the future, or the amount of the CalPERS contributions which the City may be required to make.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set

employer contribution rates for the Fiscal Year 2015-16. The City cannot predict how this change in amortization and smoothing policies will affect its contribution levels.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16. The City cannot predict how this change in amortization and smoothing policies will affect its contribution levels.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, a bill that will enact the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and that will also amend various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA will apply to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with CalPERS.)

The provisions of AB 340 went into effect on January 1, 2013 with respect to State employees hired on that date and after; local government employee associations, including employee associations of the City, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of CalPERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

CalPERS predicts that the impact of AB 340 on employers, including the City, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS notes that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about AB 340 can be accessed through PERS's website at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST. *The reference to this internet website is shown for reference and convenience only; the information contained within the website may not be current and has not been reviewed by the City and is not incorporated herein by reference.*

The City is unable to predict what the amount of CalPERS liabilities will be in the future or the amount of the CalPERS contributions which the City may be required to make, all as a result of the implementation of AB 340, and as a result of negotiations with its employee associations.

Other Post-Employment Retirement Benefits

General. In April 2004, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for post-employment healthcare and other nonpension benefits (“**OPEB**”) plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 is applicable to the City for the fiscal year ending June 30, 2009.

Subsequently, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45’s provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

As required, the City has adopted GASB 43 and 45 beginning with fiscal year 2007-08.

City Plan Description. The City sponsors a single-employer defined-benefit postemployment healthcare plan (the “**Plan**”) to provide medical insurance benefits to eligible retired employees and their spouses. The Plan is administered by a third party. Benefit provisions are established and may be amended by the City. The Plan does not issue a publicly available financial report.

The City has a stand-alone medical program for Miscellaneous employees, providing medical insurance options through City healthcare plans. Medical coverage for Safety employees is provided through the CalPERS healthcare program (PEMHCA). The City allows retirees to continue participating in the medical insurance program after retirement, with some retirees eligible to receive a stipend from retiree medical stipend plans established for some bargaining units.

The following summarizes the retiree healthcare benefits:

- **Retiree Medical Stipend Plans:** The City contributes to retiree medical stipend plans for Fire, Maintenance, SRCEA, Transit, Police Management, Police Officers and Police Civilian Technical employees. Stipend amounts and eligibility requirements vary by bargaining unit.

- PEMHCA Minimum: Safety retirees participating in PEMHCA receive the PEMHCA minimum required employer contribution towards the retiree monthly premium.

- Implied Subsidy: An implied subsidy generally exists when retiree premiums are based on blended active and retiree experience. Since PEMHCA is a community rated plan for the City, no implied subsidy is required for the PEMHCA plan. The City’s actuary has determined that no implied subsidy is required for the City’s stand-alone medical plan.

Funding Policy. The City’s actuarially determined contribution rate was 4.6% of annual covered payroll, which was based on the June 30, 2011 actuarial valuation. The City currently contributes to the stipend plans based on a percentage of payroll which varies by bargaining group. This results in partial pre-funding for these plans based on the benefit levels selected by the plan trustees. On average, the City contributes approximately 50% of the annual required contribution for the stipend plans. The City contributes on a pay-as-you-go basis for the PEMHCA minimum benefits. For fiscal year 2011-12, the City contributed \$1,720,000 in benefit payments (\$103,000 for the PEMHCA minimum and \$1,617,000 for the stipend plans). As of June 30, 2012, the total market value of the funds set aside in irrevocable plan trusts for the stipend plans was \$14,940,000.

Annual OPEB Cost and Net OPEB Obligation. The Annual Required Contribution (“ARC”) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City’s annual OPEB cost for fiscal year 2011-12, the amount actually contributed to the plan, and changes in the City’s Net OPEB obligation. Dollars are in thousands.

	PEMHCA	Stipend	Total
Annual required contribution	\$ 741	\$ 3,347	\$ 4,088
Interest on net OPEB obligation (asset)	105	(140)	(35)
Adjustment to annual required contribution	(107)	131	24
Annual OPEB cost	739	3,338	4,077
Contributions (benefit payments)	103	1,617	1,720
Increase in net OPEB obligation	636	1,721	2,357
Net OPEB obligation (assets) – beginning of year	2,524	(2,848)	(324)
Net OPEB obligation (assets) – end of year	\$3,160	\$(1,127)	\$ 2,033

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009-10 through 2011-12 are as follows. Dollars are in thousands.

Fiscal Year Ended June 30,	Annual OPEB Cost	Benefit Payments/ Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (asset)
2010	\$ 2,919	\$ 1,768	60.6%	\$(1,716)
2011	3,115	1,723	55.3	(324)
2012	4,077	1,720	42.2	2,033

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2011, was as follows (amounts in thousands). Note the following funded status does not include the Police stipend plan as its benefit level has not been set. As required by GASB Statement No. 45, the City will report three valuations of data in the above table as the information becomes available in subsequent years. Dollars are in thousands.

	PEMHCA	Stipend	Total
Actuarial Accrued Liability (AAL)	\$8,332	\$37,560	\$ 45,892
Actuarial Value of Plan Assets	-	12,256	12,256
Unfunded Actuarial Accrued Liability	8,332	25,304	33,636
Funded Ratio (Actuarial value of plan assets/AAL)	-	32.6%	26.7%
Covered Payroll (active plan members)	45,520	76,624	89,128
UAAL as a percentage of Covered Payroll	18.3%	34.8%	37.7%
Market Value ⁽²⁾	0	14,939	14,939
Funded Ratio (Market Value value of plan assets/AAL)	0	39.8	32.6

(1) Fire and Police participants' covered payroll is included in PEMHCA and Stipend Plans, therefore \$29,016 must be adjusted out to total \$89,128 to avoid double-counting.

(2) See June 30, 2012 Comprehensive Annual Financial Report, Note 9.

Of the \$33.6 million of UAAL, \$25.3 million is associated with the City's retiree medical stipend plans and the remaining \$8.3 million is associated with medical coverage for Safety employees provided through the PERS healthcare program. As mentioned under the heading entitled "- Funding Policy" above, the City had approximately \$14.9 million set aside in irrevocable trusts at June 30, 2012, to fund the accrued actuarial liability associated with the stipend plans estimated to be \$37.6 million as of June 30, 2011. These funds held in trust qualify as plan assets. The stipend plans provide that an actuarial valuation be performed no less than every two years, at which time the City withholds the right to reduce benefits to the level recommended by the actuary, if necessary. Alternatively, employees are provided the option of increasing contributions to avoid a reduction in benefits if the actuary determines that a given plan is underfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

See page 68 of the City's June 30, 2012 Comprehensive Annual Financial Report for a three-year schedule of funding progress.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. 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

continual revision as actual results are compared to past expectations and new estimates are made into the future. The actuarial methods and the assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3% inflation rate and a 4.9% and 4.25% investment rate of return (net of administrative expenses) for the stipend plan and PEHMCA minimum benefits, respectively. PEMHCA minimum was assumed to increase at a rate of 4.5% per year. Safety employees' stipend was assumed to increase at a rate of 3% per year. Other bargaining units' stipends were assumed to remain level. Salary scale and demographic assumptions for withdrawal, mortality, disability, and retirement rates were based on PERS 1997-2007 Experience Study. Post retirement mortality is projected fully generational with scale AA from 2010. The actuarial value of assets is based on the market value of assets with investment gains and losses spread over a 5-year rolling period. In addition, the actuarial value can not be less than 80% or more than 120% of market value. The UAAL was amortized over a 28-year closed period as a level percentage of payroll.

Investment Policies and Procedures

The City invests its funds in accordance with the City's Investment and Portfolio Policy (the "**Investment Policy**"), which is subject to annual review and approval by the City Council. The purpose of the Investment Policy is to establish the investment goals of safety, liquidity, and return on investments (in that order). The City's Investment Policy complies with the provisions of the California Government Code, Sections 53600 through 53659 (the authority governing investments for municipal governments in the State). The Investment Policy limits the City to investments authorized by State law (Sections 53601 et sec). In addition, the Investment Policy establishes further guidelines.

The overall strategy of the Investment Policy is to earn a market rate of return, commensurate with identified risk constraints and cashflow characteristics. Because the composition of the portfolio fluctuates, depending on market and credit conditions, various indices are used to monitor performance. These may include, but will not be limited to, the State of California Local Agency Investment Fund and the one year Treasury Bill.

The City Council receives monthly investment reports. According to the report for the month ended March 31, 2013, the City has invested funds as set forth in the table below.

Table A-15
CITY OF SANTA ROSA
Investment Portfolio as of March 31, 2013

	<u>Par Value</u>	<u>Market Value</u>	<u>Cost</u>	<u>% of Portfolio</u>	<u>Days to Mat./Call</u>	<u>YTM/C</u>
U.S. Treasury	\$45,700,000	\$46,356,744	\$46,463,022	15.8%	628	0.346%
U.S. Govt Agencies	74,040,000	73,228,135	74,247,585	25.3	536	0.611
Medium Term Corp Notes	42,845,000	43,206,946	42,923,929	14.6	706	1.040
Commercial Paper	3,700,000	3,699,291	3,687,102	1.3	46	0.479
Certificates of Deposit-negotiable	21,900,000	21,938,906	21,900,000	7.5	529	0.723
Local Agency Investment Funds	48,000,000	48,000,000	48,000,000	16.4	1	0.286
Money market mutual funds	44,000,000	44,000,000	44,000,000	15.0	1	0.148
Wells Fargo checking-peg balance	500,000	500,000	500,000	0.2	1	0.000
Municipal Bonds	6,765,000	6,781,897	6,805,654	2.3	507	0.595
Mutual Funds (WFB and BNY Sweep Accounts)	4,715,270	4,715,270	4,715,270	1.6	1	0.020
Total	\$292,165,270	\$292,427,189	\$293,242,562	100.0%	391	0.506%

Source: City of Santa Rosa.

Effective Buying Income

“Effective buying income” (“EBI”) is a classification developed exclusively by *Sales & Marketing Management* magazine to distinguish it from other sources reporting income statistics. EBI is defined as “money income” less personal tax and non-tax payments - a number often referred to as “disposable” or “after tax” income. Money income is the aggregate of wages and salaries, net farm and non-farm self employment income, interest, dividends, net rental and royalty income, Social Security and railroad retirement income, other retirement and disability income, public assistance income, unemployment compensation, Veterans Administration Payments, alimony and child support, military family allotments, net winnings from gambling and other periodic income. Money income does not include money received from the sale of property (unless the recipient is engaged in the business of selling property); the value of “in-kind” income such as food stamps, public housing subsidies, medical care, employer contributions for persons, etc.; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; gifts and lump-sum inheritances, insurance payments, and other types of lump-sum receipts. EBI is computed by deducting from money income all personal income taxes (federal, state and local), personal contributions to social insurance (Social Security and federal retirement payroll deductions), and taxes on owner-occupied non-business real estate.

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2007 through 2011:

Table A-16
COUNTY OF SONOMA
Effective Buying Income

<u>Calendar Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2007	City of Santa Rosa	\$ 3,682,715	\$50,093
	Sonoma County	11,753,533	52,027
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Santa Rosa	\$ 3,684,323	\$50,045
	Sonoma County	11,763,448	52,146
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Santa Rosa	\$ 3,779,543	\$50,142
	Sonoma County	11,867,810	52,992
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Santa Rosa	\$ 3,618,488	\$47,768
	Sonoma County	11,482,273	50,323
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Santa Rosa	\$ 3,816,995	\$47,817
	Sonoma County	12,044,560	50,113
	California	814,578,458	47,062
	United States	6,438,704,664	41,253

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 and after is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table.

Total taxable sales during calendar year 2011 in the County were reported to be \$6,962,114,000, a 7.34% increase over the total taxable sales of \$6,485,950,000 reported during calendar year 2010. Figures are not yet available for 2012.

Table A-17
COUNTY OF SONOMA
Taxable Transactions
(Figures in Thousands)
Calendar Years 2007 through 2011

Calendar Year	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	6,352	5,404,597	17,638	7,877,195
2008	6,581	5,009,164	17,764	7,369,109
2009 ⁽¹⁾	10,645	4,413,001	16,810	6,263,829
2010 ⁽¹⁾	10,997	4,583,801	17,303	6,485,950
2011 ⁽¹⁾	10,799	4,895,477	16,972	6,962,114

(1) Retail sales figures are not comparable to prior years. "Retail" category now includes "Food Services".

Source: State Board of Equalization.

Construction Activity

Building activity for the years 2007 through 2011 in the City is shown in the following table:

Table A-18
CITY OF SANTA ROSA
Total Building Permit Valuations
(Figures in Thousands)

Permit Valuation	Calendar Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
New Single-family	\$68,910.1	\$28,844.3	\$19,134.9	\$16,842.8	\$42,075.9
New Multi-family	65,164.9	2,797.2	0.0	15,183.8	7,087.8
Res. Alterations/Additions	<u>23,501.0</u>	<u>15,498.7</u>	<u>9,938.3</u>	<u>12,493.8</u>	<u>16,152.1</u>
Total Residential	157,576.1	47,140.2	29,073.1	44,520.4	65,315.8
New Commercial	7,185.5	17,016.8	0.0	971.9	212.2
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	19,034.3	8,952.2	4,203.2	6,793.0	0.0
Com. Alterations/Additions	<u>42,994.5</u>	<u>40,923.5</u>	<u>18,049.8</u>	<u>36,251.4</u>	<u>29,700.3</u>
Total Nonresidential	69,214.3	66,892.6	22,253.0	44,016.3	29,912.5
<u>New Dwelling Units</u>					
Single Family	367	152	94	86	184
Multiple Family	<u>495</u>	<u>24</u>	<u>0</u>	<u>138</u>	<u>71</u>
TOTAL	862	176	94	224	255

Source: Construction Industry Research Board, Building Permit Summary.

Building activity for the years 2007 through 2011 in the County is shown in the following table:

Table A-19
COUNTY OF SONOMA
Total Building Permit Valuations
(Figures in Thousands)

Permit Valuation	Calendar Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
New Single-family	\$219,642.1	\$142,928.4	\$ 93,260.5	\$31,155.8	\$114,931.4
New Multi-family	86,982.7	5,915.2	12,433.0	5,174.4	16,401.6
Res. Alterations/Additions	<u>71,029.9</u>	<u>60,566.8</u>	<u>38,404.4</u>	<u>30,936.7</u>	<u>63,334.6</u>
Total Residential	377,654.6	209,410.5	144,097.9	67,267.0	194,667.6
New Commercial	59,683.5	53,072.9	5,343.8	1,482.3	5,855.3
New Industrial	5,426.0	3,619.1	1,191.1	0.0	0.0
New Other	46,140.0	36,591.7	18,725.8	23,433.4	4,902.2
Com. Alterations/Additions	<u>106,300.6</u>	<u>87,097.7</u>	<u>43,318.6</u>	<u>65,119.6</u>	<u>69,301.5</u>
Total Nonresidential	217,550.1	180,381.4	68,579.3	90,035.2	80,059.0
<u>New Dwelling Units</u>					
Single Family	904	546	359	176	443
Multiple Family	<u>622</u>	<u>45</u>	<u>71</u>	<u>68</u>	<u>184</u>
TOTAL	1,526	591	430	244	627

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

All modes of commercial transportation are available in the County. The Petaluma River is capable of handling water barge freight from the San Francisco Bay to Petaluma. The Sonoma County Airport, located just outside the City of Santa Rosa, handles commercial and private air traffic, with Horizon-Alaska Airlines providing regional air transportation. Seven private airfields serve the County as well. In addition, highways dissect the County; the major freeway is U.S. Highway 101 which runs from Marin and San Francisco Counties in the south to Mendocino County in the north. State Highway 12 is the major east-west thoroughfare from Bodega Bay on the western coastline to Sonoma on the east.

Utilities

Water and wastewater services are provided by the City of Santa Rosa and electricity and gas is provided by Pacific Gas & Electric Co. AT&T provides telephone service to the residents of the City of Santa Rosa.

Recreation/Community Facilities

The City maintains 60 parks totaling 529 developed acres. Additional recreational facilities include two championship golf courses, museums, a theater/playhouse, a senior center, two recreation centers, public swimming facilities and numerous tennis courts. Baseball fields and other athletic facilities such as an ice arena are also available. The City of Santa Rosa is located within a short distance of three centers for the arts, local wineries in Sonoma

and Napa Counties, the Russian River recreation area and several state and county parks including Annadale State Park and Spring Lake County Park.

There are four newspapers, 11 radio stations, two cable television stations and four internet service providers in the City, and residents have access to numerous television channels from throughout the San Francisco Bay Area.

Health Facilities

The City has three general hospitals with a 559 total bed capacity, a physical rehabilitation hospital with 61 beds, six convalescent hospitals, four community clinics, 161 dentists, 33 optometrists, 56 chiropractors, and 27 physical therapists. The County has more than 600 physicians and surgeons.

Education

The City of Santa Rosa is a higher education center for the North Bay Area with the only four year public university and the largest junior college within the four North Bay Area Counties. Sonoma State University has an enrollment of approximately 7,000 and offers a wide variety of undergraduate and graduate programs. The Santa Rosa Junior College has an enrollment of more than 32,000 students in day and night classes and offers 65 certificate and occupational programs. Santa Rosa public schools are administered by a total of eight school districts comprised of six high schools, five middle schools and 34 elementary schools.

APPENDIX B
SUMMARY OF INDENTURE

APPENDIX C

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2012**

APPENDIX D
PROPOSED FORM OF FINAL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF SANTA ROSA Pension Obligation Refunding Bonds (Federally Taxable), Series 2013

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Santa Rosa (the “**City**”), in connection with the execution and delivery of the above-captioned bonds (the “**Bonds**”) pursuant to an Indenture of Trust, dated as of August 1, 2013 (the “**Indenture**”) by and between the City and U.S. Bank National Association (the “**Trustee**”).

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

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

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) 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 that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2014, with the report for the 2012-13 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by 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 Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the

preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recent completed Fiscal Year, including information showing tax revenue collections by source;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the City which are payable out of the General Fund of the City, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the City from the most recently available County Assessor's Roll, showing the valuation for secured and unsecured property;

(iv) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year;

(v) table showing General Fund tax revenues by source, and

(vi) information, based on the most recent actuarial report received by PERS, on the City's unfunded liability with respect to its PERS retirement plans, and the current year's contribution rate.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material 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.

(d) 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 the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

- (6) 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.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (13) 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, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States 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 City, or if such jurisdiction has been assumed by leaving the existing governing 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 City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the 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 legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

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. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and 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. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2013

CITY OF SANTA ROSA

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Santa Rosa

Name of Issue: Pension Obligation Refunding Bonds (Federally Taxable), Series 2013

Date of Issuance: _____, 2013

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust, dated as of August 1, 2013, by and between the City and U.S. Bank National Association, as trustee. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

APPENDIX F

BOOK ENTRY PROVISIONS

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, 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. 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.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (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 issue of the Securities, each 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 has a Standard & Poor’s rating of AA+. 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. *The information contained on this Internet site is not incorporated herein by reference.*

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 representing 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 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 Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 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 Issuer or Agent, 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, Agent, or Issuer, 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 Issuer or Agent, 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 Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer 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 Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

ESCROW DEPOSIT AND TRUST AGREEMENT

City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate)

This ESCROW DEPOSIT AND TRUST AGREEMENT (this "Agreement"), dated as of August 1, 2013, is between the CITY OF SANTA ROSA, CALIFORNIA (the "City") and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, acting as Escrow Bank for the Series 2003A Bonds described below (the "Escrow Bank").

B A C K G R O U N D :

WHEREAS, for the purpose of refunding the City's obligations to PERS, evidenced by the PERS Contract (as defined in the below-defined 2003 Indenture), to pay unamortized, unfunded accrued actuarial liability with respect to pension benefits under the Retirement Law (the "Unfunded Liability") and paying the costs of issuance thereof, including underwriter's discount and any original issue discount, the City simultaneously issued its \$20,500,000 City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003A (Variable Rate Demand) (the "Series 2003A Bonds"), and \$30,170,000 City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate) (the "Series 2003B Bonds"), on July 16, 2003, pursuant to and secured by an Indenture of Trust (the "2003 Indenture"), dated as of July 1, 2003, by and between the City and Escrow Bank, as trustee;

WHEREAS, for the purpose of refunding the Prior Bonds with bonds bearing historically low fixed rates of interest, including the funding of an escrow for the redemption of the Series 2003B Bonds, and the reimbursement of the Existing Credit Provider for funding the Redemption Draw (as those terms are defined in the 2013 Indenture, defined below) for use in discharging the Series 2003A Bonds, the City has decided to issue its City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2013, in a principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of August 1, 2013 (the "2013 Indenture"), by and between the City and Escrow Bank, as trustee (in that capacity, the "2013 Bond Trustee"); and

WHEREAS, the City wishes to appoint the Escrow Bank for the purpose of establishing an irrevocable escrow fund to be funded, invested, held and administered for the purpose of refunding and defeasing the Series 2003B Bonds.

A G R E E M E N T :

In consideration of the premises and the material covenants contained herein, the City and Escrow Bank hereby agree as follows:

SECTION 1. *Definition of Defeasance Obligations.* As used herein, the term "Defeasance Obligations" means (a) cash, (b) non-callable direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) ("Treasuries"), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (d) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof).

SECTION 2. *Appointment of Escrow Bank; Establishment of Escrow Fund.*

(a) The City hereby appoints the Escrow Bank as escrow bank for all purposes of this Agreement, and the Escrow Bank hereby accepts such appointment.

(b) There is hereby created a fund (the "Escrow Fund") to be held by the Escrow Bank as an irrevocable escrow securing the payment and redemption of the Series 2003B Bonds, subject to and in accordance with the provisions of this Agreement.

SECTION 3. *Deposit into Escrow Fund; Investment of Amount.* Concurrently with delivery of the 2013 Bonds on August 1, 2013 (the "Refunding Bond Issuance Date"), the City shall cause to be transferred to the Escrow Bank for deposit into the Escrow Fund, from: (1) the proceeds of the Refunding Bonds, the amount of \$_____. The total amount deposited to the Escrow Fund on the Refunding Bond Issuance Date shall be \$_____.

The Escrow Bank shall invest \$_____ of the amounts so deposited into the Escrow Fund in the Defeasance Obligations set forth in Exhibit A attached hereto and by this reference incorporated herein, and shall hold the remaining \$_____ in cash uninvested.

All Defeasance Obligations and cash shall be deposited with and held by the Escrow Bank in the Escrow Fund solely for the uses and purposes set forth herein. The Escrow Bank shall have no lien upon or right of set off against the Defeasance Obligations and cash at any time on deposit in the Escrow Fund.

SECTION 4. *Instructions as to Application of Deposit; Notices of Redemption and Defeasance.*

(a) From and after the Refunding Bond Issuance Date, all cash and Defeasance Obligations in the Escrow Fund shall be and are hereby irrevocably pledged as a special fund for the payment of the principal of and interest on the Series 2003B Bonds in accordance with the 2003 Indenture. For such purpose, the total amount of Defeasance Obligations and cash deposited in the Escrow Fund pursuant to Section 3 shall be applied by the Escrow Bank for the sole purpose of paying the principal of, interest on, and redemption price of the Series 2003B Bonds at the times and in the amounts set forth in the schedule shown in Exhibit B attached hereto and by this reference incorporated herein. Such amounts due on the Series 2003B Bonds shall be paid directly by the Escrow Bank to the registered owners of the Series 2003B Bonds, in its capacity as Trustee for the Series 2003B Bonds. If at any time the Escrow Bank shall receive actual knowledge that the cash and Defeasance Obligations in the Escrow Fund will not be sufficient to make any payment required by this Section 5, the Escrow Bank shall notify the City of such fact and the City shall immediately cure such deficiency from any source of legally available funds. Following payment in full of the principal of and interest on the Series 2003B Bonds, all amounts on deposit in the Escrow Fund shall be transferred by the Escrow Bank to the Trustee for deposit in the Debt Service Fund established pursuant to the Indenture.

(b) The City hereby irrevocably elects to redeem all of the Series 2003B Bonds on September 1, 2013, in accordance with the provisions of the 2003 Indenture. Notice of redemption of the Series 2003B Bonds shall be given by the Escrow Bank, in its capacity as Trustee for the Series 2003B Bonds, in accordance with the 2003 Indenture, at the expense of the City. Such notice shall be in substantially the form attached hereto as Exhibit C. In addition, a Notice of Defeasance of the Series 2003B Bonds shall be given by the Escrow Bank, in its capacity as Escrow Bank, on the Refunding Bond Issuance Date, to the Municipal Securities Rulemaking Board Electronic Municipal Market Access (EMMA) system accessible at the emma.msrb.org website, in substantially the form attached hereto as Exhibit D.

SECTION 5. *Compensation to Escrow Bank.* The City shall pay the Escrow Bank full compensation for its services under this Agreement, including out-of-pocket costs such as publication costs, legal fees and other costs and expenses relating hereto and, in addition, all

fees, costs and expenses relating to the purchase, substitution or withdrawal of any securities after the date hereof. Under no circumstances shall amounts deposited in or credited to the Escrow Fund be deemed to be available for said purposes. The Escrow Bank has no lien upon or right of set off against the cash and securities at any time on deposit in the Escrow Fund.

The City shall indemnify, defend and hold harmless the Escrow Bank and its officers, directors, employees, representatives and agents, from and against and reimburse the Escrow Bank for any and all claims, obligations, liabilities, losses, damages, actions, suits, judgments, reasonable costs and expenses (including reasonable attorneys' and agents' fees and expenses) of whatever kind or nature regardless of their merit, demanded, asserted or claimed against the Escrow Bank directly or indirectly relating to, or arising from, claims against the Escrow Bank by reason of its participation in the transactions contemplated hereby, except to the extent caused by the Escrow Bank's negligence or willful misconduct. The provisions of this Section 5 shall survive the termination of this Agreement or the earlier resignation or removal of the Escrow Bank.

SECTION 6. *Immunities and Liability of Escrow Bank.* The Escrow Bank undertakes to perform only such duties as are expressly set forth in this Agreement and no implied duties, covenants or obligations shall be read into this Agreement against the Escrow Bank. The Escrow Bank shall not have any liability hereunder except to the extent of its negligence, bad faith or willful misconduct. In no event shall the Escrow Bank be liable for any special, indirect or consequential damages. The Escrow Bank shall not be liable for any loss from any investment made by it in accordance with the terms of this Agreement. The Escrow Bank may consult with legal counsel of its own choice and the Escrow Bank shall not be liable for any action taken or not taken by it in good faith in reliance upon the opinion or advice of such counsel. The Escrow Bank shall not be liable for the recitals or representations contained in this Agreement and shall not be responsible for the validity of this Agreement, the sufficiency of the Escrow Fund or for the sufficiency of the moneys and securities to pay the principal of and interest on the Series 2003A Bonds.

Whenever in the administration of this Agreement the Escrow Bank deems it necessary or desirable that a matter be proved or established prior to taking or not taking any action, such matter may be deemed to be conclusively proved and established by a certificate of an authorized representative of the City and shall be full protection for any action taken or not taken by the Escrow Bank in good faith reliance thereon.

The Escrow Bank may conclusively rely as to the truth and accuracy of the statements and correctness of any opinions or calculations provided to it in connection with this Agreement and shall be protected in acting, or refraining from acting, upon any notice, instruction, request, certificate, document, opinion or other writing furnished to the Escrow Bank in connection with this Agreement and reasonably believed by the Escrow Bank to be signed by the proper party, and it need not investigate any fact or matter stated therein.

None of the provisions of this Agreement shall require the Escrow Bank to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder. The Escrow Bank may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed. The Escrow Bank shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of *force majeure*. The term "*force majeure*" means an occurrence that is beyond the control of the Escrow Bank and could not have been avoided by exercising due care. *Force majeure* shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The Escrow Bank may at any time resign by giving 30 days written notice of resignation to the City. Upon receiving such notice of resignation, the City shall promptly appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning Escrow Bank from its obligations hereunder by written instrument, a copy of which instrument shall be delivered to each of the City, the resigning Escrow Bank and the successor. If no successor shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Escrow Bank may petition any court of competent jurisdiction for the appointment of a successor.

Any bank, corporation or association into which the Escrow Bank may be merged or converted or with which it may be consolidated, or any bank, corporation or association resulting from any merger, conversion or consolidation to which the Escrow Bank shall be a party, or any bank, corporation or association succeeding to all or substantially all of the corporate trust business of the Escrow Bank shall be the successor of the Escrow Bank hereunder without the execution or filing of any paper (other than notice thereof) with any party hereto or any further act on the part of any of the parties hereto except on the part of any of the parties hereto where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding.

The Escrow Bank agrees to accept and act upon instructions or directions pursuant to this Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Bank shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Escrow Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Bank in its discretion elects to act upon such instructions, the Escrow Bank's reasonable understanding of such instructions shall be deemed controlling. The Escrow Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Bank's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Bank, including without limitation the risk of the Escrow Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties, other than risks of the Escrow Bank's negligence, bad faith or willful misconduct, as set forth in the second sentence of the first paragraph of Section 6.

SECTION 7. *Termination of Agreement.* Upon payment in full of the Series 2003A Bonds, and upon payment of all fees, expenses and charges of the Escrow Bank as described above, this Agreement shall terminate, and the Escrow Bank shall be discharged from any further obligation or responsibility hereunder.

SECTION 8. *Execution in Counterparts.* This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

CITY OF SANTA ROSA

By _____
Chief Financial Officer

(S E A L)

Attest:

City Clerk

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
Authorized Officer

EXHIBIT A

IDENTIFICATION OF ORIGINAL FEDERAL SECURITIES

Purchase Date	Type of Security	Type of SLGs	Final Maturity Date	Par Amount
8/1/2013	Certificate	Time Deposit	9/1/2013	\$ _____ —

EXHIBIT B

PAYMENT AND REDEMPTION SCHEDULE OF THE SERIES 2003B BONDS

Period Ending	Maturing Principal	Interest	Redeemed Principal	Total Redemption Price
9/ 1/ 2013	\$4,880,000	\$_____	\$22,945,000	\$_____

EXHIBIT C

**Notice of Redemption
City of Santa Rosa
Pension Obligation Refunding Bonds
(Federally Taxable), Series 2003B
(Fixed Rate)**

Maturity Date	Principal Amount	Interest Rate	CUSIP
9/ 1/ 2018	\$7,885,000	4.9%	
9/ 1/ 2024	15,060,000	5.4	

NOTICE IS HEREBY GIVEN, that the City of Santa Rosa has called for redemption on September 1, 2013 (the "Redemption Date") its Pension Obligation Refunding Bonds (Federally Taxable) Series 2003B (Fixed Rate) (the "Bonds") in the principal amount of \$22,945,000, together with the accrued interest to the Redemption Date (the "Redemption Price"). The Bonds are being called for redemption on the Redemption Date pursuant to the provisions of the governing documents of the Bonds.

Pursuant to the governing documents, payment of the Redemption Price on the Bonds called for redemption will be paid without presentation of the Bonds if presentment is not required and upon presentation of the Bonds if presentment is required. If presentment is required, surrender thereof can be made in the following manner:

If by Mail:
U.S. Bank
Corporate Trust Services
P.O. Box 64111
St. Paul, MN 55164-0111

If by Hand or Overnight Mail:
U.S. Bank
Corporate Trust Services
60 Livingston Avenue
1st Fl – Bond Drop Window
St. Paul, MN 55107
1-800-934-6802

Bondholders presenting their bonds in person for same day payment **must** surrender their bond(s) by 1:00 P.M. CST on the Redemption Date and a check will be available for pick up after 2:00 P.M CST. Checks not picked up by 4:30 P.M. will be mailed out to the bondholder via first class mail. If payment of the Redemption Price is to be made to the registered owner of the Bond, you are not required to endorse the Bond to collect the Redemption Price.

Interest on the principal amount designated to be redeemed shall cease to accrue on and after the Redemption Date

REDEMPTION REQUIREMENTS INFORMATION

For a list of redemption requirements please visit our website at www.usbank.com/corporatetrust and click on the "Bondholder Information" link.

IMPORTANT NOTICE

Under the Job and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), 28% will be withheld if tax identification number is not properly certified.

**The Undersigned shall not be held responsible for the selection or use of the CUSIP number, nor is any representation made as to their correctness indicated in the Redemption Notice. It is included solely for convenience of the Holders.*

By: U. S. Bank National Association
As Trustee

Date: August 1, 2013

EXHIBIT D

NOTICE OF DEFEASANCE

\$30,170,000
(Original Principal Amount)

City Of Santa Rosa
Pension Obligation Refunding Bonds
(Federally Taxable), Series 2003B
(Fixed Rate)

NOTICE IS HEREBY GIVEN, pursuant to the Continuing Disclosure Certificate dated July 16, 2003, which has been executed and delivered by the City of Santa Rosa (the “City”) in connection with the issuance of its City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B, on July 16, 2003, in the aggregate principal amount of \$30,170,000 (the “ Series 2003B Bonds”), and the Escrow Deposit and Trust Agreement, dated as of August 1, 2013, between the City and U.S. Bank National Association. (the “Escrow Bank”) that the Series 2003B Bonds have been defeased and discharged under and within the meaning of the Indenture of Trust authorizing the issuance of the Series 2003B Bonds. The Series 2003B Bonds which have been defeased consist of the following maturities:

Maturity Date	Principal Amount	Interest Rate	CUSIP
9/ 1/ 2013	\$ 4,880,000	4.3%	
9/ 1/ 2018	\$7,885,000	4.9	
9/ 1/ 2024	15,060,000	5.4	

Funds for the payment of the Series 2003B Bonds have been deposited with the Escrow Bank, and the sufficiency of the funds and investments for the purpose of paying the principal of and interest on the Series 2003B Bonds has been verified by Causey Demgen & Moore P.C. certified public accountants.

The City has irrevocably elected to redeem all of the outstanding 2003B Bonds on September 1, 2013, at a redemption price equal to the par amount thereof, together with accrued interest thereon to the redemption date, without premium.

Dated: August 1, 2013

U.S.BANK NATIONAL ASSOCIATION,
as Escrow Bank

\$ _____
**CITY OF SANTA ROSA
PENSION OBLIGATION REFUNDING BONDS (FEDERALLY TAXABLE),
SERIES 2013**

BOND PURCHASE AGREEMENT

_____, 2013

Honorable Members of the City Council
City of Santa Rosa
100 Santa Rosa Avenue
Santa Rosa, California 95404

Ladies and Gentlemen:

The undersigned, Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) offers to enter into this Bond Purchase Agreement (the “Purchase Contract”) with the City of Santa Rosa (the “City”), which, upon your acceptance hereof, will be binding upon the City and the Underwriter. This offer is made subject to the written acceptance of this Purchase Contract by the City and delivery of such acceptance to us at our office specified below prior to 11:59 p.m., California Time, on the date hereof, and the conditions set forth herein. Capitalized terms used herein and not otherwise defined will have the meanings given such terms in the Official Statement described below.

The Chief Financial Officer or other Authorized City Officer shall execute this Purchase Contract. The term “Authorized City Officer” shall include, but not be limited to, the Chief Financial Officer, the City Manager, or deputies thereof.

1. Upon the terms and conditions and upon the basis of the representations herein set forth, the Underwriter hereby agrees to purchase from the City for offering to the public, and the City hereby agrees to cause the Trustee (defined below) to authenticate and deliver to the Underwriter, all (but not less than all) of the \$_____ aggregate principal amount of the City of Santa Rosa Pension Obligation Refunding Bonds (Federally Taxable), Series 2013 (the “Bonds”). The Bonds will be purchased at a price of \$_____, being the principal amount of the Bonds, less an Underwriter’s discount of \$_____, and [less net original discount] [plus net original issue premium] of \$_____. The Bonds shall bear interest at the rates, and shall mature in the years shown on Exhibit A hereto, which is incorporated herein by this reference.

The Bonds shall be issued pursuant to pursuant to Articles 10 and 11 (commencing with section 53570) of Chapter 3 of Division 2 of Title 5 of the California

Government Code, and an Indenture of Trust, dated as of August 1, 2013 (the “Indenture of Trust”), between the City and U.S. Bank National Association, as trustee (the “Trustee”).

The proceeds of the Bonds will be used to refund the City’s outstanding Pension Obligation Refunding Bonds (Federally Taxable), Series 2003A (Variable Rate Demand) (the “2003A Bonds”), and its Pension Obligation Refunding Bonds (Federally Taxable), Series 2003B (Fixed Rate) (the “2003B Bonds” and, with the 2003A Bonds, the “Prior Bonds”) and (ii) pay the costs of issuing the Bonds. The Prior Bonds were issued to pay the the City’s obligations to the California Public Employees’ Retirement System (“PERS”) evidenced by a contract between the Board of Administration of PERS and the City Council of the City, effective January 1, 1959 (the “PERS Contract”).

The Underwriter agrees to make a bona fide public offering of all the Bonds at the initial public offering price or prices (or yields) set forth on Exhibit A attached hereto and made a part hereof; provided, however, the Underwriter reserves the right to change such initial public offering price as the Underwriter deems necessary or desirable, in its sole discretion in connection with the marketing of the Bonds, and to sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering prices or higher than the yields set forth in the Official Statement. The Underwriter also reserves the right (a) to over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market, and (b) to discontinue such stabilizing, if commenced, at any time. A “bona fide public offering” shall include an offering to institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold.

The City acknowledges and agrees that: (i) the primary role of the Underwriter is to purchase securities for resale to investors in an arms-length commercial transaction between the City and the Underwriter and that the Underwriter has financial and other interests that differ from those of the City, (ii) the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the City or any other person or entity and has not assumed any advisory or fiduciary responsibility to the City with respect to the transaction contemplated hereby and the discussions, undertakings and proceedings leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters), (iii) the only obligations the Underwriter has to the City with respect to the transaction contemplated hereby expressly are set forth in this Contract of Purchase, except as otherwise provided by applicable rules and regulations of the SEC or the rules of the Municipal Securities Rulemaking Board (the “MSRB”), and (iv) the City has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in connection with the transaction contemplated herein. The City acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the MSRB.

2. The City has authorized the Underwriter to use and distribute, in connection with the offer and sale of the Bonds, the Preliminary Official Statement dated _____, 2013 relating to the Bonds, which, together with the cover page and all appendices thereto, is herein called the “Preliminary Official Statement.” The Underwriter hereby represents

that it has received and reviewed the Preliminary Official Statement. The City represents that it deems the Preliminary Official Statement to be final as of its date, except for either revisions or additions to the offering price(s), interest or accretion rate(s), reoffering yield(s) to maturity, selling compensation, aggregate principal amount, principal amount per maturity, delivery date, rating(s) and other terms of the Bonds which depend upon the foregoing as permitted pursuant to Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”).

The Underwriter agrees that prior to the time the final Official Statement relating to the Bonds is available, the Underwriter will send to any potential purchaser of the Bonds, upon the request of such potential purchaser, a copy of the most recent Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail (or other equally prompt means) not later than the first business day following the date upon which each such request is received. The Underwriter covenants to file the Official Statement with the MSRB on a timely basis.

3. At 8:00 a.m., California Time, on _____, 2013, or at such other time or on such other date as shall have been mutually agreed upon by you and us (the “Closing”), you will deliver to us, through the facilities of The Depository Trust Company (“DTC”) in New York, New York, or at such other place as we may mutually agree upon, the Bonds in fully registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC, and at the offices of Jones Hall, A Professional Law Corporation, as bond counsel (“Bond Counsel”), in San Francisco, California, the other documents set forth in Section 7 below.

4. The Indenture, an Escrow Deposit and Trust Agreement, dated as of August 1, 2013 (the “Escrow Agreement”), between the City and U.S. Bank National Association, as escrow agent (the “Escrow Agent”) and a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) with respect to the Bonds shall be executed and delivered substantially in the respective forms heretofore reviewed by the Underwriter, with only such changes therein as shall be mutually agreed upon by the parties hereto.

5. The City represents, warrants and covenants to the Underwriter that:

(a) The City is a municipal corporation and chartered city duly organized and existing pursuant to the Constitution and laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Bonds, the Indenture, the Continuing Disclosure Certificate, the Escrow Agreement and this Purchase Contract, and, when executed and delivered by the respective parties thereto, the Bonds, the Indenture, the Continuing Disclosure Certificate, the Escrow Agreement and this Purchase Contract will constitute legally valid and binding obligations of the City, enforceable in accordance with their respective terms. The Bonds, the Indenture, the Continuing Disclosure Certificate, the Escrow Agreement, this Purchase Contract and the Official Statement are collectively, referred to herein as the “City Documents”.

(b) To the best knowledge of the City, neither the execution and delivery of the City Documents, or the approval and execution of the Official Statement or this Purchase Contract, and compliance with the provisions on the City's part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, materially conflicts with or constitutes a material breach of or default under nor materially contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, including the PERS Contract, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the City Documents.

(c) By all necessary official action, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in, the City Documents, and has approved the use by the Underwriter of the Preliminary Official Statement and the Official Statement (as such terms are defined herein) and, as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded.

(d) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory agency having jurisdiction over the City required for the execution and delivery of the Bonds or the consummation by the City of the other transactions contemplated by the Official Statement and this Purchase Contract.

(e) To the best of the City's knowledge and belief, other than as disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending, or threatened, against the City, nor to the best knowledge and belief of the City is there any basis therefor, to restrain or enjoin the application by the City of the revenues as described in the Official Statement as security for the Bonds, or in any way contesting or affecting the validity of City documents or the PERS Contract, or contesting the powers of the City to enter into or perform its obligations under any of the foregoing.

(f) The Preliminary Official Statement as of its date did not contain any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading and the Official Statement as if its date and as of the Closing date will not contain any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(g) The City agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that in no event shall the

City be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject.

(h) By official action of the City prior to or concurrently with the execution hereof, the City has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Contract.

(i) To the best knowledge of the City, it is not in breach of or default under any material applicable law or administrative regulation of the State of California or the United States or any material applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject and in connection with which the City is obligated to make payments from its own funds, including the PERS Contract, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument the consequence of which could be the materially and adversely affect the performance of the City under the City Documents.

(j) Between the date hereof and the Closing, the City will not have issued, without the prior written consent of the Underwriter, any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Official Statement.

(k) At or prior to the Closing, the City shall have duly authorized, executed and delivered the Continuing Disclosure Certificate on behalf of each obligated person for which financial and/or operating data is presented in the Official Statement. The Continuing Disclosure Certificate shall comply with the provisions of the Rule and be substantially in the form attached to the Preliminary Official Statement and Official Statement as APPENDIX E. Based on a review of its prior undertakings under the rule, and except as otherwise disclosed in the Official Statement, the City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events with respect to the last five years.

(l) The financial statements of, and other financial information regarding the City and its obligations under the PERS Contract contained in the Official Statement fairly present the financial position of the City as of the dates and for the periods therein set forth, (i) the audited financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, (ii) the unaudited financial statements (if any) have been prepared on a basis substantially consistent with the audited financial statements included in the Official Statement and reflect all adjustments necessary to that affect, and (iii) the other financial information has been determined on a basis substantially consistent with that of the City's audited financial statements included in the Official Statement.

(m) The written information supplied by the City to the Underwriter with respect to the financial information relating to the City and its obligations under the PERS

Contract to be financed with the proceeds of the Bonds is true, correct and complete in all material respects for the purposes for which it was supplied.

(n) Substantially all the proceeds from the sale of the Bonds (after deducting the expenses of issuance and sale of the Bonds paid for from such proceeds) will be used to finance and refinance the City's obligations under the PERS Contract, and the City will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided in the Indenture, as amended from time to time.

(o) The City will deliver all opinions, certificates, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Contract.

(p) Any certificate of the City delivered to the Underwriter shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(q) As of the time of acceptance hereof and as of the Closing the City does not and will not have outstanding any indebtedness which is secured by a lien on the City's general fund except as disclosed in the Official Statement.

(r) The City hereby agrees to deliver or cause to be delivered to the Underwriter, not later than the seventh (7th) business day following the date this Purchase Contract is signed, and in any event in sufficient time to accompany customer confirmations requesting payment, copies of a final Official Statement substantially in the form of the Preliminary Official Statement, with only such changes therein as shall have been accepted by the Underwriter and the City (i) in "designated electronic format" (as defined in Rule G-32 of the MSRB) (such Official Statement with such changes, if any, and including the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto being called the "Official Statement"), and (ii) in printed format in such reasonable quantities as may be requested by the Underwriter in order to permit the Underwriter to comply with paragraph (b)(4) of the Rule and with the rules of the MSRB. The City hereby authorizes the Underwriter to use and distribute the Official Statement in connection with the offering and sale of the Bonds.

(s) The City hereby agrees to notify the Underwriter of any event or occurrence that may affect the accuracy or completeness of any information set forth in the Official Statement relating to the City until the date which is twenty-five (25) days following the Closing.

(t) If at any time prior to twenty-five (25) days following the "end of the underwriting period" (as defined in the Rule) or until such time (if earlier) as the Underwriter shall no longer hold any of the Bonds for sale, the City will not adopt any amendment of or supplement to the Official Statement to which, after having been furnished with a copy, the Underwriter shall object in writing or which shall be disapproved by the Underwriter; and if any event relating to or affecting the City shall occur as a result of which it is necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make the

Official Statement not misleading in light of the circumstances existing at the time it is delivered to a purchaser, forthwith prepare and furnish (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance reasonably satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. The City shall be entitled to presume that unless otherwise notified by the Underwriter in writing, the end of the underwriting period shall be the date of the Closing.

6. [Reserved].

7. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and agreements of the City contained herein, and the opinions of Bond Counsel, Counsel to the Trustee, Counsel to the City and Counsel to the Underwriter required hereby. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following further conditions:

(a) At the time of the Closing, the City documents and the PERS Contract (collectively the "Legal Documents") all as described in the Official Statement, shall be in full force and effect as valid and binding agreements between or among the various parties thereto and the Legal Documents and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter, and there shall be in full force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated hereby.

(b) At or prior to the Closing, the Underwriter shall receive the following documents, in each case satisfactory in form and substance to them and their counsel:

(1) The unqualified approving opinion of Bond Counsel, dated the date of the Closing, addressed to the City and the Underwriter (or a reliance letter to the Underwriter), in substantially the form attached as APPENDIX D to the Official Statement;

(2) A supplemental opinion of Bond Counsel, addressed to the Underwriter, in form and substance to the effect that:

(i) The statements and information contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE FINANCING PLAN," "THE BONDS" (except for the information under the captions "The Book Entry System"), "SECURITY FOR THE BONDS," "CONCLUDING INFORMATION – Tax Matters" and "- Validation of Original Issuance," and in APPENDICES B, D and E, insofar as such statements purport to summarize certain provisions of the Bonds, the Legal Documents and such counsel's opinion with respect to the validity of, and certain State of California tax matter relating to, the Bonds, are true and accurate in all material respects;

(ii) The Bonds are exempt from registration under the Securities Act of 1933, as amended (the “1933 Act”), and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended; and

(iii) The City Documents have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other parties thereto, constitute the legal, valid and binding agreements of the City enforceable against it in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting the enforcement of creditors’ rights generally and equitable remedies if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and limitations on remedies against cities, and except as the enforceability of the indemnification or waiver provisions contained in the Purchase Contract may be limited by applicable securities laws or public policy.

(3) An opinion of the City Attorney of the City, dated the Closing Date and addressed to the Underwriter and the City, to the effect that: (i) the City is a municipal corporation and chartered city duly organized and validly existing under the Constitution and laws of the State of California; (ii) the Resolution approving the City Documents was fully adopted at one or more meetings of the City Council, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout; (iii) to the best of such counsel’s knowledge and belief, other than as disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the City, to restrain or enjoin the application of the City’s general fund or in any way contesting or affecting the validity of the City Documents, wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the City’s obligations hereunder or under the City Documents; and (iv) the representations and warranties of the City as set forth in the City Documents are, as to all matters of law and after reasonable investigation, true and accurate on and as of the Closing Date as though made on such date, and such representation and warranties are, as to all other matters, true and accurate to the best knowledge and belief of such counsel on and as of the Closing Date as though made on such date, except that the City Attorney shall not be required to render any opinion regarding the financial condition of the City.

(4) A defeasance opinion of Bond Counsel, dated the date of the Closing addressed to the City and the Underwriter, relating to the Prior Bonds in such form as may be acceptable to the Underwriter.

(5) An opinion of counsel to the Trustee and Escrow Agent (collectively, the “Bank”), dated the Closing Date and addressed to the City and the Underwriter, to the effect that: (i) the Bank has been duly organized and is validly existing and in good standing as a national banking association under the laws of the

United States of America with full corporate power to enter into and perform its obligations under the Indenture and the Escrow Agreement, and to undertake the trust of the Indenture; (ii) the Bank has duly authorized, executed and delivered the Indenture and the Escrow Agreement and by all proper corporate action has authorized acceptance of the trust of the Indenture; (iii) assuming the due authorization, execution and delivery by the other party thereto, the Indenture and the Escrow Agreement constitute the legally valid and binding obligations of the Bank, enforceable against the Bank in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws or equitable principles relating to or limiting creditors' rights generally; (iv) the Bonds have been validly authenticated and delivered by the Bank; (v) exclusive of federal or state securities laws and regulations, other than routine filings required to be made with governmental agencies in order to preserve the Bank's authority to perform a trust business (all such routine filings such counsel believes to have been made), no authorization, approval, consent or other order of any governmental agency or, to such counsel's knowledge, any other person or corporation is required for the valid authorization, approval, consent or other order of any governmental agency or, to such counsel's knowledge, any other person or corporation is required for the valid authorization, execution and delivery of the Indenture and the Escrow Agreement by the Bank or the authentication and delivery of the Bonds; and (vi) the execution and delivery of the Indenture and the Escrow Agreement, and compliance with the provisions thereof, will not conflict with or constitute a breach of or default under, the Bank's duties or obligations under said document or under any law, administrative regulation, court decree, resolution, charter, by-laws, or other agreement to which the Bank is subject or by which it is bound.

(6) An opinion of Jones Hall, A Professional Law Corporation, Disclosure Counsel, dated the Closing Date and addressed to the City and the Underwriter, substantially to the effect that, based upon its participation in the preparation of the Official Statement, Disclosure Counsel advises the City and the Underwriter as a matter of fact and not opinion that, during the course of its role as disclosure counsel with respect to the Bonds, no facts came to the attention of the attorneys in the firm rendering legal services in connection with such role which caused Disclosure Counsel to believe that the Official Statement as of its date contained, or as of the date of Closing contains, any untrue statement of a material fact or as of its date omitted, or as of the date of Closing omits, to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (in each case except for financial statements, the information set forth in the Appendices to the Official Statement (other than Appendices A, C and F), any CUSIP numbers, financial, statistical, economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, or any information about book-entry, tax-exemption, DTC included or referred to therein, which Disclosure Counsel expressly excludes from the scope of such letter and as to which Disclosure Counsel expresses no opinion or view).

(7) A certificate of the Authorized Officer or other designated official of the City, dated the Closing Date, to the effect that (i) the representations and

warranties of the City in this Purchase Contract are true and correct on and as of the Closing Date as if made on and as of the Closing Date, and the City has complied with and performed all of its covenants and agreements in this Agreement to be complied with and performed at or prior to the Closing, and (ii) nothing has come to such officer's attention which would lead such officer to believe that, the information with respect to the City, the PERS Contract, the City's general fund and the Bonds contained in the Official Statement, contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, said certificate otherwise being in form and substance acceptable to Bond Counsel and to the Underwriter.

(8) A no-litigation certificate of the City, dated the Closing Date, to the effect that, other than as disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending, or threatened, against the City, nor to the best knowledge and belief of the City is there any basis therefor, to restrain or enjoin the application by the City of the revenues of its general fund as described in the Official Statement as security for the Bonds, or in any way contesting or affecting the validity of the City Documents or the PERS Contract, or contesting the powers of the City to enter into or perform its obligations under any of the foregoing.

(9) Two executed or certified copies of the Legal Documents.

(10) Two executed copies of the Official Statement.

(11) Two certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of documents such as the Bonds and the Indenture.

(12) Copies of the resolution adopted by the City and certified by the City Clerk authorizing the execution and delivery of the City Documents and the Official Statement.

(13) A certificate of the Bank dated the Closing Date, signed by a duly authorized officer of the Bank, in form and substance satisfactory to the City and the Underwriter, to the effect that: (i) the Bank is a national banking association duly organized and in good standing under the laws of the United States of America and has all necessary power and authority to enter into and perform its duties under the Indenture and the Escrow Agreement; (ii) the Bank is duly authorized to enter into the Indenture and the Escrow Agreement and to authenticate and deliver the Bonds to the Underwriter pursuant to the terms of the Indenture; (iii) the Bonds have been duly authenticated and delivered by the Bank to the Underwriter pursuant to the Indenture; (iv) the Bank is not in breach of or default under any law or administrative rule or regulation of the State of California or the United States of America, or of any department, division, agency or

instrumentality thereof, or any applicable court or administrative decree or order, or any other instrument to which the Bank is a party or is otherwise subject or bound and which would materially impair the ability of the Bank to perform its obligations under the Indenture and the Escrow Agreement; (v) the execution and delivery of the Indenture and the Escrow Agreement and authentication and delivery of the Bonds will not conflict with or constitute a breach of or default under the Bank's duties under such documents, or any law, administrative regulation, court decree, resolution, charter, bylaws or other agreement to which the Bank is subject or by which it is bound; (vi) the representations and agreements of the Bank in the Indenture and the Escrow Agreement are true and correct in all material respects as of the Closing Date; and (vii) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, served on, or, to the best knowledge of such officer, threatened against, the Bank, affecting the existence of the Bank or the titles of its officers to their respective offices, or in any way contesting or affecting the validity or enforceability of the Indenture against the Bank, or contesting the power of the Bank or its authority to enter into, adopt or perform its obligations under the Indenture and the Escrow Agreement, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Indenture and the Escrow Agreement against the Bank or the authentication and delivery of the Bonds.

(14) If required, the written consent of the City auditing firm to the inclusion of its opinions relating to the City's financial statements in the Preliminary Official Statement and the Official Statement.

(15) Evidence as of the Closing satisfactory to the Underwriter that the Bonds have received, at a minimum, a rating of "_____" from Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("S&P"), and that such rating has not been revoked or downgraded.

(16) A copy of the Notice of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the California Government Code.

(17) Such additional legal opinions, certificates, proceedings, instruments and other documents as Bond Counsel and Counsel for the Underwriter may reasonably request to evidence compliance by the Trustee with legal requirements, the truth and accuracy, as of the time of the Closing, of the representations contained herein and in the Official Statement and the due performance or satisfaction by the Trustee, the Authority and the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied.

(c) All matters relating to this Purchase Contract, the Bonds and the sale thereof, the Legal Documents and the consummation of the transactions contemplated by this Purchase Contract shall have been approved by the Underwriter and Counsel for the Underwriter.

If the conditions to the Underwriter's obligations contained in this Purchase Contract are not satisfied or if the Underwriter's obligations shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall have any further obligation hereunder.

8. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of Closing. The Underwriter's obligations under this Purchase Contract are and shall be subject at the option of the Underwriter, to the following further conditions at the Closing:

(a) Representations True. The representations and warranties of the City contained herein shall be true, complete and correct in all material respects at the date hereof and at and as of the Closing, as if made at and as of the Closing, and the statements made in all certificates and other documents delivered to the Underwriter at the Closing pursuant hereto shall be true, complete and correct in all material respects on the date of the Closing; and the City shall be in compliance with each of the agreements made by it in this Purchase Contract;

(b) Obligations Performed. At the time of the Closing, (i) the Official Statement, the City Documents shall be in full force and effect and shall not have been amended, modified or supplemented except as may have been agreed to in writing by us; (ii) all actions which, in the opinion of Bond Counsel shall be necessary in connection with the transactions contemplated hereby, shall have been duly taken and shall be in full force and effect; and (iii) the City shall perform or have performed all of its obligations required under or specified in the City Documents or the Official Statement to be performed at or prior to the Closing;

(c) Adverse Rulings. No decision, ruling or finding shall have been entered by any court or governmental authority since the date of this Purchase Contract (and not reversed on appeal or otherwise set aside), or to the best knowledge of the City, be threatened which has any of the effects described in Section 5(e) hereof or contesting in any way the completeness or accuracy of the Official Statement;

(d) Termination. The Underwriter shall have the right to terminate in its absolute discretion the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the City of its election to do so if, after the execution hereof and prior to the Closing:

(1) any action shall have been taken by the Securities and Exchange Commission or by a court which would require registration of any security under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of the Bonds, or any action shall have been taken by any court or by any governmental authority suspending the offering or sale of the bonds or the use of the Official Statement or any

amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority;

(2) (3) (i) the Constitution of the State of California shall be amended or an amendment shall be proposed, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of California law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State of California by an official, agency or department thereof, affecting the tax status of the City, its property or income, its notes or bonds (including the Bonds) or the interest thereon, which in the reasonable judgment of the Underwriter would make it impracticable to market the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, on the terms and in the manner contemplated in the Official Statement;

(3) (i) trading generally shall have been suspended or materially limited on or by, as the case may be, any of the New York Stock Exchange, the National Association of Securities Dealers, Inc, (ii) trading of any securities of the City shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities, (iv) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred; or (v) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in the judgment of the Underwriter, is material and adverse and in the case of any of the events specified in clauses (i) through (v), such event singly or together with any other such event makes it, in the reasonable judgment of the Underwriter, impracticable to market the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, on the terms and in the manner contemplated in the Official Statement;

(4) the withdrawal or downgrading, or any notice shall have been given of any intended or potential downgrading, of any rating of the City's outstanding indebtedness by a national rating agency which makes it, in the reasonable judgment of the Underwriter, impracticable to market the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, on the terms and in the manner contemplated in the Official Statement;

(5) the purchase of and payment for the Bonds by the Underwriter, or the resale of the Bonds by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; or a court of competent jurisdiction rules that the issuance of the Bonds would not be valid;

(6) Circular 230 of the Department of the Treasury is amended, with an effective date prior to the Closing Date, in a form which would make it impracticable, in the reasonable opinion of the Underwriter, for the Underwriter to sell the Bonds at the prices set forth herein; or

(7) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material adverse respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

9. Performance by the City of its obligations under this Purchase Contract is conditioned upon (i) performance by the Underwriter of its obligations hereunder and (ii) receipt by the Underwriter of all opinions and certificates to be delivered at the Closing by persons and entities other than the City.

10. The City will pay or cause to be paid the expenses incident to the performance of its obligations hereunder and certain expenses relating to the sale of the Bonds, including but not limited to (a) the cost of the preparation and printing or other reproduction of the City Documents; (b) the fees and disbursements of Bond Counsel, Disclosure Counsel, Trustee and Escrow Agent and their counsel and any other experts or other consultants retained by the City; (c) the costs and fees of the credit rating agencies; and (d) the cost of preparing and delivering the definitive Bonds; (e) the cost of providing immediately available funds on the Closing Date. The Underwriter will pay the expenses of the preparation of this Purchase Contract and all other expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including CDIAAC fees and the fee and disbursements of Underwriter's Counsel.

11. Any notice or other communication to be given to the City under this Agreement will be given by delivering the same in writing to the City, at the address set forth above, Attention: City Manager; any notice or other communication to be given to the Underwriter under this Agreement may be given by delivering the same in writing to Stone & Youngberg, One Ferry Building, Suite 275, San Francisco CA 94111, Attention: Sohail Bengali.

12. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors or assigns of the Underwriter) and no other persons, partnership, association or corporation shall acquire or have any right hereunder or by virtue hereof. All covenants and representations of the City in this Purchase Contract shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Bonds.

13. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

14. This Purchase Contract shall be governed by the laws of the State of California applicable to contracts made and performed in such State.

15. This Purchase Contract may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Respectfully submitted,

**STIFEL, NICOLAUS & COMPANY,
INCORPORATED**

By: _____
Sohail Bengali, Managing Director

The foregoing is hereby agreed to and accepted as of the date first above written:

CITY OF SANTA ROSA

By: _____

Title: _____

Time of Execution: _____

EXHIBIT A

MATURITY SCHEDULE

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
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EXHIBIT A