

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

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2016**NEW ISSUE - BOOK-ENTRY ONLY****RATING: S&P: "____"**
See "RATING"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$ _____ *

City of Santa Rosa**2016 Certificates of Participation****(Courthouse Square Project and 2007 Lease Refinancing)****Dated: Date of Delivery****Due: October 1, as shown on inside cover**

Authority for Execution and Delivery. The certificates of participation captioned above (the "Certificates") are being executed and delivered under a Trust Agreement dated as of _____ 1, 2016 (the "Trust Agreement") among the City of Santa Rosa (the "City"), the Public Property Financing Corporation of California (the "Corporation") and [Trustee], as trustee (the "Trustee"). See "THE CERTIFICATES – Authority for Execution and Delivery."

Purpose. The Certificates are being executed and delivered to (i) refinance the City's remaining lease payment obligations under a Lease Agreement dated as of June 1, 2007, by and between the City and Santa Rosa Public Financing Authority, and cause the advance refunding of the City's outstanding certificates of participation that were executed and delivered on June 28, 2007, in the original aggregate principal amount of \$9,960,000, and are outstanding the aggregate principal amount of \$8,505,000 as of July 2, 2016, (ii) finance a portion of the costs of the City's Courthouse Square Reunification project, and (ii) pay certain costs of executing and delivering the Certificates. See "PLAN OF FINANCING."

Security for the Certificates. The Certificates evidence and represent direct, undivided fractional interests in certain payments (the "Lease Payments"), to be made by the City under a Lease Agreement dated as of _____ 1, 2016 (the "Lease Agreement"), between the City and the Corporation, under which the Corporation will lease certain real property to the City in consideration of the payment by the City of the Lease Payments. The Corporation, for the benefit of the Owners of the Certificates, has assigned, among other things, its right to receive Lease Payments to the Trustee. See "SECURITY FOR THE CERTIFICATES."

Terms of the Certificates. The Certificates will be executed and delivered in denominations of \$5,000 principal amount or integral multiples thereof. Interest with respect to the Certificates accrues from their date of delivery and is payable semiannually on March 1 and October 1 of each year, commencing March 1, 2017. See "THE CERTIFICATES – General Certificate Terms."

Book-Entry Only. The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive physical certificates representing their interest in the Certificates. The principal and premium (if any) on and interest with respect to the Certificates will be payable by the Trustee to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Certificates. See "THE CERTIFICATES – Book-Entry System."

Prepayment. The Certificates are subject to optional prepayment and extraordinary mandatory prepayment from the net proceeds of insurance or condemnation proceedings prior to their scheduled payment dates. See "THE CERTIFICATES – Prepayment of the Certificates."

This cover page contains information for general reference only, and 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 that should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Certificates. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth in this Official Statement.

MATURITY SCHEDULE**See inside front cover**

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Certificates are offered when, as and if sold, executed, delivered to and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters will be passed upon for the Authority and the City by the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about _____, 2016.

RAYMOND JAMES®The date of this Official Statement is _____, 2016.

* Preliminary; subject to change.

MATURITY SCHEDULE*\$_____ **Serial Certificates****(Base CUSIP†: [____])**

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					

* Preliminary; subject to change.

† Copyright 2016, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

CITY OF SANTA ROSA, CALIFORNIA

City Council

John Sawyer, *Mayor*
Tom Schwedhelm, *Vice Mayor*
Erin Carlstrom, *Council Member*
Julie Combs, *Council Member*
Chris Coursey, *Council Member*
Ernesto Olivares, *Council Member*
Gary Wysocky, *Council Member*

City Officials

Sean McGlynn, *City Manager*
Gloria Hurtado, *Deputy City Manager*
Deborah Lauchner, *Chief Financial Officer*
Stephanie Williams, *Interim City Clerk*

Special Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Municipal Advisor

The PFM Group
San Francisco, California

City Attorney

Renne Sloan Holtzman Sakai LLP
San Francisco, California

Verification Agent

Escrow Agent

U.S. Bank National Association
San Francisco, California

Trustee

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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

Limited Scope of Information. The City has obtained certain information set forth herein from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement since the date hereof.

All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given them in APPENDIX A.

Involvement of the Underwriter. 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 the information.

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

NO REGISTRATION. THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

City Internet Site. The City maintains a website, but the information presented on the website is not a part this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Proposition 218 - Article XIIC and	
PLAN OF FINANCING	4	Article XIID	24
Prepayment of 2007 Certificates	4	Unitary Property	25
The Courthouse Square Reunification		Proposition 62	26
Project	5	Proposition 1A	26
Estimated Sources and Uses of Funds	5	Proposition 22	26
THE CERTIFICATES	6	Future Initiatives	26
Authority for Execution and Delivery	6	RISK FACTORS	27
General Certificate Terms	6	No Pledge of Taxes	27
Prepayment of the Certificates	7	Additional Obligations of the City	28
Book-Entry System	9	Default	28
Registration, Transfer and Exchange	10	Abatement	28
SCHEDULE OF LEASE PAYMENTS	11	Property Taxes	29
THE LEASED PROPERTY	12	Natural Calamities	30
General	12	Certain Risks Associated with Sales	
Modification of Leased Property	12	Tax Revenues	32
Substitution of Property	13	Limitations on Remedies Available to	
Release of Property	14	Certificate Owners	33
SECURITY FOR THE CERTIFICATES	15	Hazardous Substances	33
General	15	Litigation	34
Lease Payments	15	State Law Limitations on	
Source of Payments; Budget and		Appropriations	34
Appropriation	17	Impact of State Budget on City	
Limited Obligation	17	Revenues	34
Additional Payments	17	Loss of Tax-Exemption	35
Abatement	18	Federal Income Tax Changes	35
Application of Net Proceeds of		Secondary Market for Certificates	35
Insurance and Condemnation	19	TAX MATTERS	36
Covenants to Maintain Insurance	21	CERTAIN LEGAL MATTERS	37
Additional Rental	22	CONTINUING DISCLOSURE	37
CONSTITUTIONAL AND STATUTORY		VERIFICATION OF MATHEMATICAL	
LIMITATIONS ON TAXES AND		ACCURACY	38
APPROPRIATIONS	23	UNDERWRITING	38
Article XIII A of the California		NO LITIGATION	39
Constitution	23	PROFESSIONAL FEES	39
Appropriation Limitation - Article XII B	23	RATING	39
APPENDIX A		SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	
APPENDIX B		CITY OF SANTA ROSA GENERAL FINANCIAL AND DEMOGRAPHIC	
		INFORMATION	
APPENDIX C		AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015	
APPENDIX D		PROPOSED FORM OF FINAL OPINION	
APPENDIX E		FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX F		BOOK ENTRY PROVISIONS	
APPENDIX G		CITY OF SANTA ROSA STATEMENT OF INVESTMENT POLICY	

OFFICIAL STATEMENT

\$ _____ *

City of Santa Rosa
2016 Certificates of Participation
(Courthouse Square Project and 2007 Lease Refinancing)

The purpose of this Official Statement (which includes the cover page and the attached Appendices) is to provide information concerning the execution and delivery of the certificates of participation captioned above (the “**Certificates**”), evidencing and representing direct, undivided fractional interests of the registered owners thereof in certain lease payments (described herein) to be made by the City of Santa Rosa (the “**City**”) to the Public Property Financing Corporation of California (the “**Corporation**”).

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

Capitalized terms used but not defined in this Official Statement have the meanings set forth in APPENDIX A.

INTRODUCTION

The City. 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 175,667 as of January 1, 2016.

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

The City’s audited financial statements for the fiscal year ended June 30, 2015, are attached as Appendix C.

Authority for Execution and Delivery. The Certificates are being executed and delivered under a Trust Agreement dated as of _____ 1, 2016 (the “**Trust Agreement**”), among the City, the Corporation and _____, as trustee (the “**Trustee**”).

Purposes. The Certificates are being executed and delivered to:

- (i) refinance the City’s remaining lease payment obligations under a Lease Agreement dated as of June 1, 2007, by and between the City and Santa Rosa Public Financing Authority (the “**2007 Lease Payments**”), and cause the advance refunding of the City’s outstanding certificates of participation that were executed and delivered on June 28, 2007, in the

* Preliminary; subject to change.

original aggregate principal amount of \$9,960,000, and are outstanding the aggregate principal amount of \$8,505,000 as of July 2, 2016 (the "**2007 Certificates**");

- (ii) finance a portion of the costs of the City's Courthouse Square Reunification project; and
- (iii) pay certain costs of executing and delivering the Certificates .

See "FINANCING PLAN."

Security for the Certificates. In order to provide funds to refinance the 2007 Certificates, the Corporation and the City have entered into a Site and Facilities Lease dated as of _____ 1, 2016 (the "**Site Lease**"), pursuant to which the City will lease certain real property and the improvements thereon (the "**Leased Property**") to the Corporation, and the Corporation and the City have entered into a Lease Agreement dated as of _____ 1, 2016 (the "**Lease Agreement**"), under which the Corporation will lease the Leased Property back to the City in consideration of the payment by the City of semiannual lease payments (the "**Lease Payments**"). See "THE LEASED PROPERTY."

The Corporation will assign its right to receive the Lease Payments to the Trustee under an Assignment Agreement dated as of _____ 1, 2016 (the "**Assignment Agreement**"), between the Authority and the Trustee, in consideration for which the Trustee has agreed to execute and deliver the Certificates. The Certificates evidence and represent direct, undivided fractional interests of the Certificate Owners in the Lease Payments. See "SECURITY FOR THE CERTIFICATES."

No Reserve Fund. The City will not fund a debt service reserve fund for the Certificates.

Acquisition and Construction Fund. The Trustee will establish a special fund designated as the "**Acquisition and Construction Fund**." The Trustee will keep such fund separate and apart from all other funds and moneys held by the Trustee, and will administer such fund as provided in the Trust Agreement. There will be deposited in the Acquisition and Construction Fund from the proceeds of the Certificates the amounts required to be deposited therein pursuant to the Trust Agreement, together with any other amounts from time to time deposited with the Trustee for such purpose as may be identified in writing to the Trustee. See "PLAN OF FINANCING – Acquisition and Construction Fund."

Prepayment. The Certificates are subject to optional prepayment and mandatory prepayment from the net proceeds of insurance or condemnation proceedings prior to their scheduled payment dates. See "THE CERTIFICATES – Prepayment of the Certificates."

Abatement. The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City's use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the Lease Agreement, the Certificate Owners would receive less than the full amount of principal of and interest represented by the Certificates. To the extent proceeds of rental interruption insurance are available, Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See "SECURITY FOR THE CERTIFICATES – Abatement" and "RISK FACTORS – Abatement."

Risk Factors. The Certificates are payable only from Lease Payments made by the City to the Corporation and assigned to the Trustee under the Trust Agreement. For a discussion of some of the risks associated with the purchase of the Certificates, see “RISK FACTORS.”

Limited Obligations. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

PLAN OF FINANCING

The proceeds of the Certificates will be used to (i) refinance the 2007 Lease Payment and cause the advance refunding of the 2007 Certificates, (ii) finance a portion of the City's Courthouse Square Reunification project, and (iii) pay certain costs associated with the delivery of the Certificates.

Prepayment of 2007 Certificates

The 2007 Certificates are outstanding in the aggregate principal amount of \$8,505,000 as of July 2, 2016. Their proceeds were used to (i) finance the acquisition of the real property and improvements located at 631-637 1st Street and at 655 1st Street, Santa Rosa (and any alternative project permitted under the Trust Agreement dated as of June 1, 2007 (the "**2007 Trust Agreement**")), by and among the City, the Santa Rosa Public Financing Authority, and U.S. Bank National Association (the "**2007 Trustee**")), (ii) fund a reserve fund bond for the 2007 Certificates and (iii) to pay certain costs incurred in connection with the execution and delivery of the Certificates.

On the date of issuance of the Certificates (the "**Closing Date**"), the City will cause a portion of the proceeds of the Certificates to be transferred to the 2007 Trustee, for deposit into an escrow fund (the "**Escrow Fund**") established under an Escrow Deposit and Trust Agreement, dated as of _____ 1, 2016, by and among the City, Corporation and 2007 Trustee, as escrow bank ("**Escrow Bank**"), an amount sufficient to prepay the remaining 2007 Lease Payments and cause the advance refunding of the 2007 Certificates on July 1, 2017 (the "**Redemption Date**").

The Escrow Bank will hold the amount deposited into the Escrow Fund in certain Federal Securities, which term is defined in the 2007 Trust Agreement, to mean the following:

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) or obligations the payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

All amounts held in the Escrow Fund will be applied on the Redemption Date to prepay the 2007 Lease Payments and cause the redemption of the 2007 Certificates at a price equal to 100% of their aggregate principal amount, together with accrued interest to the Redemption Date, without premium.

The amounts held and invested by the Escrow Bank are pledged solely to the prepayment of the 2007 Lease Payments and refunding of the 2007 Certificates. Neither the funds deposited into the Escrow Fund nor the interest on the invested funds will be available for the payment of debt service on the Certificates; however, following the prepayment of the 2007 Lease Payments in full and redemption of the 2007 Certificates, the Escrow Bank will transfer any amounts remaining on deposit in the Escrow Fund to the Trustee to be applied to pay interest next coming due and payable on the Certificates.

The sufficiency of the deposits in the Escrow Fund to prepay the 2007 Lease Payments on their respective lease payment dates will be verified by _____ (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY."

The Courthouse Square Reunification Project

A portion of the proceeds of the Certificates will be used to finance a portion of the City's Courthouse Square Reunification project (the "**Project**").

The Project will reunify the existing park areas sat Courthouse Square that are currently bisected by Mendocino Avenue in the City. Hilton Avenue and Exchange Avenue, in the City, would be reinstalled at their former locations on the east and west sides of Courthouse Square. The reunited Courthouse Square will be a gathering place in the City's downtown and be used for events. Construction of the reunification of Courthouse Square commenced on May 23, 2016.

The Project is expected to cost a total of \$9,200,000, of which \$4,200,000 is expected to be financed using proceeds of the Certificates and the remainder will be paid from existing resources of the City (including \$2,443,752 from the General Fund).

Estimated Sources and Uses of Funds

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

SOURCES

Principal Amount of Certificates

Plus/Less: Net Original Issue Premium/(Discount)

Amounts Related to 2007 Certificates _____

Total Sources

USES

Deposit into Escrow Fund [1]

Deposit into Acquisition and Construction Fund [2]

Deposit into Costs of Issuance Account [3]

Underwriter's Discount _____

Total Uses

[1] To be used to defease and refund the 2007 Certificates on the Redemption Date. See "– Refunding of 2007 Certificates."

[2] See "– The Courthouse Square Reunification Project."

[3] Includes fees of Special Counsel, Disclosure Counsel, rating agency, Trustee, Escrow Bank and Verification Agent; title insurance premium; printing costs; and other costs of executing and delivering the Certificates.

THE CERTIFICATES

This section provides summaries of the Certificates and certain provisions of the Trust Agreement. See “APPENDIX A – Summary of Principal Legal Documents” for a more complete summary of the Trust Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Execution and Delivery

The Certificates are being executed and delivered under the Trust Agreement, a resolution of the City Council adopted on July 26, 2016, and a resolution of the Board of Directors of the Corporation adopted on July 26, 2016. Under these resolutions, the Certificates may be executed and delivered in a maximum principal amount of \$15,000,000.

General Certificate Terms

Certificate Terms. The Certificates will be dated as of the date of original delivery, will bear interest at the rates per annum and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. The Certificates will be executed and delivered in fully registered form without coupons in denominations of \$5,000 principal amount or any integral multiple of \$5,000, except that no Certificate will represent principal payable in more than one year.

Interest with respect to the Certificates accrues from their date of delivery and is payable semiannually on March 1 and October 1 of each year, commencing March 1, 2017 (each, an “**Interest Payment Date**”).

Book-Entry Only System. The Certificates, when executed and delivered, 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 with respect to the Certificates will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See “– Book-Entry System” below.

Calculation of Interest. Interest represented by the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless:

- (a) it is executed following a Record Date and on or before the next succeeding Interest Payment Date, in which event interest represented thereby is payable from such Interest Payment Date,
- (b) it is executed on or before the first Record Date, in which event interest represented thereby is payable from the Closing Date, or
- (c) as of the date of any Certificate, interest represented by such Certificate is in default, in which event interest represented thereby will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to such Certificate.

Interest represented by the Certificates is payable on each Interest Payment Date to and including the date of maturity or prepayment, whichever is earlier.

Interest represents the portion of Lease Payments designated as interest and coming due on each of the respective Interest Payment Dates. The share of the portion of Lease Payments designated as interest with respect to any Certificate will be computed by multiplying the portion of Lease Payments designated as principal represented by such Certificate by the rate of interest represented by such Certificate (on the basis of a 360-day year consisting of twelve 30-day months).

Record Date. The Trust Agreement defines the “Record Date” with respect to the Certificates as the close of business on the 15th calendar day of the month immediately preceding each Interest Payment Date, whether or not such 15th calendar day is a Business Day.

Payments of Interest and Principal. Payment of interest represented by any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the applicable Interest Payment Date to such Owner, by first class mail postage prepaid, at such Owner’s address as it appears on the Registration Books.

At the written request of the Owner of Certificates in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee prior to the Record Date preceding any Interest Payment Date, the Trustee will pay interest represented by such Certificates coming due and payable on such Interest Payment Date by wire transfer in immediately available funds to such account in the United States as is specified in such written request.

The principal, interest and prepayment premium, if any, represented by any Certificate at maturity or upon prepayment are payable in lawful money of the United States of America upon surrender of such Certificate at the Office of the Trustee.

Notwithstanding the foregoing, while the Certificates are held in the book-entry only system of DTC, all such payments of principal, premium (if any) of, and interest with respect to, the Certificates will be made to Cede & Co. as the registered owner of the Certificates, for subsequent disbursement to Participant and beneficial owners. See “APPENDIX F – BOOK ENTRY PROVISIONS.”

Prepayment of the Certificates

Optional Prepayment.* The Certificates maturing on or before October 1, 20__, are not subject to optional prepayment before their respective stated maturities.

The Certificates maturing on or after October 1, 20__, are subject to prepayment prior to their respective stated maturities, at the option of the City, in whole, or in part among maturities on such basis as designated by the City and by lot within any one maturity, on October 1, 20__, or on any date thereafter, upon payment of a prepayment price equal to 100% of the principal

* Preliminary; subject to change.

amount to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

Extraordinary Mandatory Prepayment From Net Proceeds of Insurance or Condemnation. The Certificates are subject to extraordinary mandatory prepayment, in whole, on any Business Day, or in part on any Interest Payment Date among maturities on a pro rata basis and by lot within a maturity, from the Net Proceeds of insurance or eminent domain proceedings credited towards the prepayment of the Lease Payments under the Lease Agreement and under the Trust Agreement, at a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest represented thereby to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all Outstanding Certificates of any maturity are called for prepayment, the Trustee will select Certificates of such maturity for prepayment by lot. For the purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. The Trustee will promptly notify the City and the Corporation in writing of the Certificates or portions thereof so selected for prepayment.

Notice of Prepayment. When optional prepayment or extraordinary mandatory prepayment from the Net Proceeds of insurance or condemnation proceedings is authorized or required under the Trust Agreement, the Trustee will give notice of the prepayment of the Certificates on behalf and at the expense of the City. In the case of optional prepayment, the notice may provide that the proposed prepayment is conditional upon the availability of funds and that the City has the right to rescind the notice as provided below.

The Trustee will mail notice of prepayment by first-class mail with postage prepaid, to the Securities Depositories and to the Municipal Securities Rulemaking Board, and to the Owners of Certificates designated for prepayment at their respective addresses appearing on the Registration Books, at least 30 days but not more than 60 days prior to the prepayment date.

Neither the failure to receive any such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment.

However, while the Certificates are subject to DTC's book-entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such prepayment notice to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect, will not affect the validity of the notice of prepayment, or alter the effect of prepayment set forth in the Trust Agreement.

Rescission of Prepayment. The City has the right to rescind any notice of the optional prepayment of Certificates by written notice to the Trustee on or prior to the date fixed for prepayment. Any notice of optional prepayment will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation will not constitute an Event of

Default. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of prepayment.

The Trustee will mail notice of such rescission of prepayment to the respective Owners of the Certificates designated for prepayment at their respective addresses appearing on the Registration Books, and to the Securities Depositories and the Municipal Securities Rulemaking Board.

Effect of Notice of Prepayment. If moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates have been set aside in the Lease Payment Fund, the Certificates will become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Office of the Trustee, those Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus interest accrued and unpaid to the date of prepayment.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to the date of prepayment, are held by the Trustee so as to be available therefor on such date of prepayment, then, from and after the date of prepayment, interest represented by the Certificates will cease to accrue and become payable. All moneys held by the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid, and will be held by the Trustee in cash uninvested.

Purchase of Certificates in Lieu of Prepayment. In lieu of prepayment of Certificates as provided in the Trust Agreement, amounts held by the Trustee for such prepayment may, at the written request of the City Representative received by the Trustee at least 75 days prior to the selection of Certificates for prepayment, be applied by the Trustee to the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid.

Book-Entry System

DTC will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered Certificates registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be executed and delivered for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F—BOOK ENTRY PROVISIONS".

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

Registration, Transfer and Exchange

The provisions of the Trust Agreement regarding the registration, exchange and transfer of the Certificates apply only during any period in which the Certificates are not subject to DTC's book-entry system. While the Certificates are subject to DTC's book-entry system, their registration, exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See APPENDIX F.

Registration. The Trustee will keep or cause to be kept sufficient records for the registration and registration of transfer of the Certificates, which will at all reasonable times be open to inspection by the City and the Corporation upon prior notice, during regular business hours; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as provided in the Trust Agreement.

Transfer of Certificates. The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by duly authorized attorney, upon surrender of such Certificate for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, manually executed. Whenever any Certificate or Certificates is surrendered for registration of transfer, the Trustee will execute and deliver a new Certificate or Certificates representing the same maturity, interest rate and aggregate principal amount, in any authorized denominations. The City will pay all costs of the Trustee incurred in connection with any such transfer, except that the Trustee may require the payment by the Certificate Owner of any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Certificates. Certificates may be exchanged at the Office of the Trustee, for a like aggregate principal amount of Certificates representing other authorized denominations of the same interest rate and maturity. The City will pay all costs of the Trustee incurred in connection with any such exchange, except that the Trustee will require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Limitations on Transfer or Exchange. The Trustee may refuse to transfer or exchange either (i) any Certificate during the period established by the Trustee for the selection of Certificates for prepayment, or (ii) any Certificate which the Trustee has selected for prepayment in whole or in part under the Trust Agreement.

SCHEDULE OF LEASE PAYMENTS

The table below shows the annual Lease Payments, which correspond to the payments of principal and interest with respect to the Certificates.

Rental Period Ending October 1	Principal	Interest	Total Debt Service

THE LEASED PROPERTY

General

Lease Payments will be made by the City under the Lease Agreement for the use and occupancy of the Leased Property, which consists of

Circadian Fire Station. The Circadian Fire Station was originally constructed in 1987 and improved in 2007 to add sheer steel walls and certain seismic upgrades. It contains approximately 19,810 square feet of building space. The Circadian Fire Station is located on a 1.22-acre site.

Rincon Valley Library. The Rincon Valley Library was originally constructed in 1975 and contains approximately 15,000 square feet of building space. The Rincon Valley Library is located on a 4.33-acre site. The Rincon Valley Library is operated and maintained by a joint powers authority formed in 1975 by the County of Sonoma, the City, the City of Healdsburg, the City of Petaluma and the City of Sonoma, but such agreement does not purport to restrict the City's right to use and possession of the Rincon Valley Library. The City may terminate its participation in such joint powers agreement by giving notice to all other parties thereto, in writing, provided however, that such notice must be given to the other parties prior to the 1st day of January in any fiscal year, and such termination shall be effective on the 30th day of June of said fiscal year. The California Library Construction and Renovation Board previously provided certain matching funds for the acquisition of land or provided credit for land for the Rincon Valley Library. Pursuant to Education Code Section 19967 and Title 5 California Code of Regulations Section 20424, the State maintains an interest in that land and such land is required to be used to provide direct public library services for twenty years following the completion date of the project or the useful life of the library building, whichever is longer. Such interest of the State is a Permitted Encumbrance under the Lease.

Fire Station #5. [description to come]

The insured value of the land and improvements that constitute the Leased Property is \$_____.

Modification of Leased Property

Under the Lease Agreement, the City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease Agreement.

Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under the Lease Agreement, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City

under the Lease Agreement; provided that if any such lien is established and the City first notifies the Corporation of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Corporation with full security against any loss or forfeiture that might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

Substitution of Property

Under the Lease Agreement, the City has, and is granted, the option at any time and from time to time to substitute other real property (the "**Substitute Property**") for the Leased Property or any portion thereof (the "**Former Property**"), provided that the City must satisfy all of the requirements set forth in the Lease Agreement that are conditions precedent to such substitution, and which include (among others) the following:

(a) The City must file with the Corporation and the Trustee, and cause to be recorded in the office of the Sonoma County Recorder sufficient memorialization of, an amendment of the Lease Agreement that adds to Appendix A thereto a description of such Substitute Property and deletes therefrom the description of such Former Property, and appropriate amendments to the Site and Facilities Lease and Assignment Agreement that adds thereto a description of such Substitute Property and deletes therefrom the description of such Former Property.

(b) The City must certify in writing to the Corporation and the Trustee that such Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.

(c) The City must file with the Corporation and the Trustee a certificate to the effect that the fair market value and the fair rental value of the Substitute Property and any other property that will be subject to the Lease Agreement and the Site and Facilities Lease are at least equal to the outstanding principal amount of the Certificates, and that the useful life of the Substitute Property at least equals the lesser of (i) the useful life of the Former Property, or (ii) the final Lease Payment Date of the Lease Payments allocable thereto.

Upon the satisfaction of all conditions precedent to substitution under the Lease Agreement, the Term of the Lease Agreement will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property.

The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

The Corporation and the City will execute, deliver and cause to be recorded all documents required to discharge the Lease Agreement, the Site and Facilities Lease and the Assignment Agreement against the Former Property, and to cause the Substitute Property to become subject to all of the terms and conditions of the Lease Agreement, Site and Facilities Lease and the Assignment Agreement.

See APPENDIX A for additional conditions to the substitution of property under the Lease Agreement.

Release of Property

Under the Lease Agreement, City has the option at any time and from time to time to release any portion of the Leased Property from the Lease Agreement and the Site and Facilities Lease (the “**Released Property**”) provided that the City has satisfied all of the requirements of the Lease Agreement that are conditions precedent to such release, and which include (among others) the following:

- (a) The City must file with the Corporation and the Trustee, and cause to be recorded in the office of the Sonoma County Recorder sufficient memorialization of, an amendment of the Lease Agreement that removes the Released Property therefrom, and appropriate amendments to the Site and Facilities Lease and Assignment Agreement that removes therefrom the description of the Released Property.
- (b) The City must certify in writing to the Corporation and the Trustee that the fair market value of the property that remains subject to the Lease Agreement and the Site and Facilities Lease following such removal is at least equal to the outstanding principal amount of the Certificates, and the fair rental value of the property that remains subject to the Lease Agreement and the Site and Facilities Lease following such removal is at least equal to the Lease Payments thereafter coming due and payable under the Lease Agreement.

Upon the satisfaction of all conditions precedent to release under the Lease Agreement, the Term of the Lease Agreement will thereupon end as to the Released Property.

The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release.

The Corporation and the City will execute, deliver and cause to be recorded all documents required to discharge the Lease Agreement, the Site and Facilities Lease and the Assignment Agreement of record against the Released Property.

See APPENDIX A for additional conditions to the release of property from the Lease Agreement and the Site and Facilities Lease.

SECURITY FOR THE CERTIFICATES

This section provides summaries of the security and sources of payment for the Certificates and certain provisions of the Trust Agreement and Lease Agreement. See APPENDIX A for a more complete summary of the Trust Agreement and Lease Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

General

Lease Payments. Each Certificate evidences and represents a direct, undivided fractional interest of the Owner thereof in the Lease Payments to be made by the City under the Lease Agreement.

Assignment to Trustee. Under the Assignment Agreement, the Corporation will transfer, assign and set over to the Trustee, for the benefit of the Owners of all Outstanding Certificates, substantially all of the Corporation's rights under the Lease Agreement and the Site and Facilities Lease, including without limitation:

- (a) the right to receive and collect all of the Lease Payments from the City under the Lease Agreement;
- (b) the right to receive and collect any proceeds of any insurance maintained under the Lease Agreement with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property; and
- (c) the right to exercise such rights and remedies conferred on the Corporation under the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund established under the Trust Agreement, or (ii) otherwise to protect the interests of the Owners in the event of a default by the City under the Lease Agreement.

This assignment will be absolute and irrevocable, and will be without recourse to the Corporation.

Under the Lease Agreement, the City acknowledges that all Lease Payments have been assigned by the Corporation to the Trustee in trust under the Assignment Agreement, for the benefit of the Owners of the Certificates, and the City consents to such assignment. The Corporation directs the City, and the City agrees to pay to the Trustee at its Office, all Lease Payments (including prepayments thereof).

Lease Payments

Obligation to Make Lease Payments. Under the Lease Agreement (subject to the provisions of the Lease Agreement regarding abatement and prepayment), the City will pay to the Corporation, its successors and assigns, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in the Lease Agreement, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates, and to be deposited by the City with the Trustee on each of the Lease Payment Dates.

The Lease Payments payable in any Rental Period are for the use of the Leased Property during such Rental Period.

Credits and Offsets. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole, and other than amounts required for payment of past due principal or interest represented by any Certificates not presented for payment) will be credited towards the Lease Payment then required to be paid.

No Lease Payment need be deposited with the Trustee on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be deposited with the Trustee.

Effect of Prepayment. If the City prepays all Lease Payments in full under the Lease Agreement, and if the City has paid all Additional Payments then due and payable, the City's obligations to make Lease Payments under the Lease Agreement will thereupon cease and terminate.

If the City prepays the Lease Payments in part but not in whole under the Lease Agreement, the principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis that corresponds to the principal maturities of the Certificates that are prepaid; and the interest component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest that would otherwise be payable with respect to the Certificates thereby prepaid under the Trust Agreement.

Rate on Overdue Payments. If the City fails to make any of the Lease Payments, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest represented by any Outstanding Certificate.

Fair Rental Value. The Lease Payments and Additional Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and the City will pay the Lease Payments and Additional Payments in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period.

The Corporation and the City have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property as of the Closing Date, other obligations of the City and the Corporation under this Lease, the uses and purposes that may be served by the Leased Property, and the benefits therefrom that will accrue to the City and the general public.

Source of Payments; Budget and Appropriation

The Lease Payments are payable from any source of legally available funds of the City, subject to the provisions of the Lease Agreement regarding abatement and prepayment.

The City covenants in the Lease Agreement to take such action as may be necessary to include all estimated Lease Payments and all estimated Additional Payments due under the Lease Agreement in each of its final approved budgets. The City further covenants to make all necessary appropriations (including any supplemental appropriations) from any source of legally available funds of the City for all the actual amount of Lease Payments and Additional Payments that come due and payable during the period covered by each such budget.

These covenants on the part of the City are duties imposed by law and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Payments

In addition to the Lease Payments, under the Lease Agreement, the City agrees to pay when due, as additional rental for the Leased Property thereunder, all costs and expenses incurred by the City thereunder or under the Trust Agreement, or incurred by the Corporation to comply with the provisions of the Trust Agreement, including without limitation (a) all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), (b) annual compensation due to the Trustee and all of its reasonable costs and expenses (including amounts payable to the Trustee by virtue of indemnification) payable as a result of the performance of and compliance with its duties under the Trust Agreement, and (c) all reasonable costs and expenses of attorneys, auditors, engineers and accountants engaged by the Corporation or the Trustee in connection with the Leased Property or the performance of their duties under the Lease Agreement or the Trust Agreement.

Abatement

Termination or Abatement Due to Eminent Domain. If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement will cease with respect thereto as of the day possession is so taken.

If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain,

- (a) the Lease Agreement will continue in full force and effect with respect thereto and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and
- (b) there will be a partial abatement of Lease Payments allocated thereto, in an amount to be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. The amount of Lease Payments will be abated during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The amount of such abatement will be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property that are available for use and occupancy.

Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. If any such damage or destruction occurs, the Lease Agreement will continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

Notwithstanding the foregoing, there will be no abatement of Lease Payments to the extent that the proceeds of hazard insurance or rental interruption insurance are available to pay Lease Payments that would otherwise be abated, it being declared that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

Application of Net Proceeds of Insurance and Condemnation

Application of Net Proceeds of Insurance Award. Under the Trust Agreement, any Net Proceeds of insurance collected by the City in the event of accident to or destruction of any component of the Leased Property will be paid to the Trustee under the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund designated as the “**Insurance and Condemnation Fund**” which the Trustee will thereupon establish.

If the City determines and notifies the Trustee in writing of its determination, within 45 days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Leased Property is not economically feasible or in the best interests of the City, then such Net Proceeds will be promptly transferred by the Trustee to the Lease Payment Fund and applied to the prepayment of Lease Payments under the Lease Agreement and the corresponding prepayment of Certificates under the Trust Agreement. This prepayment will be made on the first Interest Payment Date for which notice of prepayment can be timely given.

Notwithstanding the foregoing, the determination of the City to apply Net Proceeds to the prepayment of Certificates is subject to the following:

- (a) if the Leased Property is damaged or destroyed in full, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if such Net Proceeds, together with other available moneys, are sufficient to cause the corresponding prepayment of all Lease Payments allocable to the Leased Property; and
- (b) if the Leased Property is damaged or destroyed in part but not in whole, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if the Lease Payments that result after the corresponding abatement thereof under the Lease Agreement are sufficient to pay the full amount of principal and interest

represented by the Certificates that remain Outstanding after such prepayment.

All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund will be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City.

Notwithstanding any other provision of the Lease Agreement, the Trustee will pay to the City all moneys in the Insurance and Condemnation Fund upon the Trustee's receipt of a written notice executed by a City Representative which states that, pursuant to the Lease Agreement, the City has substituted other real property for the Leased Property that was damaged or destroyed and that there will be no abatement of the Lease Payments as a result of such damage or destruction.

Application of Net Proceeds of Eminent Domain Award. Under the Trust Agreement, if all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom will be deposited with the Trustee in the Insurance and Condemnation Fund and will be applied and disbursed by the Trustee as follows:

- (a) If the City gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest of the City in the Leased Property or the ability of the City to meet any of its financial obligations under the Lease Agreement, and (ii) that such proceeds are not needed for repair, replacement or rehabilitation of the Leased Property, the Trustee will transfer such proceeds to the Lease Payment Fund to be credited towards the payment of the Lease Payments as they become due and payable.
- (b) If the City gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest of the City in the Leased Property or the ability of the City to meet any of its financial obligations under the Lease Agreement, and (ii) such proceeds are needed for repair, replacement or rehabilitation of the Leased Property, the Trustee will pay to the City, or to its order, from said proceeds such amounts as the City may expend for the repair or rehabilitation of the Leased Property.
- (c) If (i) less than all of the Leased Property is taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the City gives written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the interest of the City in the Leased Property or the ability of the City to meet any of its financial obligations under the Lease Agreement, or (ii) all of the Leased Property is taken in such eminent domain proceedings, then the Trustee will transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments under the Lease Agreement and applied to the corresponding prepayment of Certificates under the Trust Agreement. This prepayment will be made on the first prepayment date for which notice of prepayment can be timely given.

In making any such determination whether to repair, replace or rehabilitate the Leased Property under the Trust Agreement, the City may obtain, but is not required to obtain, at its expense, the report of an independent engineer or other independent professional consultant, a copy of which must be filed with the Trustee. Additionally, any such determination must be made within 45 days of the date the funds are deposited with the Trustee. Any such determination by the City is final.

Covenants to Maintain Insurance

Public Liability and Property Damage Insurance. Under the Lease Agreement, the City will maintain or cause to be maintained, throughout the Term of the Lease Agreement, comprehensive general insurance in protection of the Corporation, the City and their respective members, officers, agents, employees and assigns. Such insurance must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such insurance must provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of a program of self-insurance by the City, or in the form of the participation by the City in a joint powers authority or other program providing pooled insurance.

The City will apply the proceeds of such insurance toward extinguishment or satisfaction of the liability with respect to which the net proceeds are paid.

Casualty Insurance. Under the Lease Agreement, the City will procure and maintain, or cause to be procured and maintained, at all times throughout the Term of the Lease Agreement, casualty insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount at least equal to the greater of (a) the replacement value of such buildings, facilities and improvements, or (b) the aggregate principal amount of the Outstanding Certificates.

Such insurance will, as nearly as practicable, cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and must include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the reasonable determination of the City, whose determination is final and conclusive. Such insurance may be subject to such deductibles as the City deems prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The City shall apply the Net Proceeds of such insurance as provided in the Lease Agreement.

Rental Interruption Insurance. Under the Lease Agreement, the City will procure and maintain, or cause to be procured and maintained, at all times throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased

Property, as a result of any of the hazards covered in the casualty insurance required by the Lease Agreement and described above, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive fiscal years during the remaining Term of the Lease Agreement.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance.

The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Lease Payment Fund, and will be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Additional Rental

The City may amend the Lease Agreement, without the consent of the Trustee or any of the Certificate Owners, to obligate the City to pay additional amounts of rental thereunder for the use and occupancy of the Leased Property or any portion thereof, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance public improvements of the City, and (B) the City has filed with the Trustee written evidence that the amendments made under the Lease Agreement will not of themselves cause a reduction or withdrawal of any rating then assigned to the Certificates.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIII A to the State Constitution ("**Article XIII A**"). Article XIII A limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989. Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Appropriation Limitation - Article XIII B

On November 6, 1979, the voters of the State approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the State Constitution. On June 5, 1990, the voters approved Proposition 111, which amended Article XIII B in certain respects.

Under Article XIII B, as amended, state and local government entities each have an annual “appropriations limit” which limits the ability to spend certain monies that are called “appropriations subject to limitation” (consisting of most tax revenues and certain state subventions, together called “proceeds of taxes,” and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriation of monies that are excluded from the definition of “appropriations limit,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by two thirds of the voters.

The “appropriations limit” is adjusted annually for changes in the cost of living and in population, for transfers in the financial responsibility for providing services, and in the case of certain declared emergencies.

If an entity receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the entity’s governing board, increase its appropriations limit to equal that amount (provided that the State has excess appropriations limit of its own in that fiscal year).

Proposition 218 - Article XIII C and Article XIII D

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State 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, State 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 that 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 that 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 that 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 XIIC also removed 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 that 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 Certificates could be adversely affected.

Burden of Proof. Article XIIC 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 XIID 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 XIID.

Impact on City's General Fund. The approval requirements of Articles XIIC and XIID 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.

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: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) 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 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.

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 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because less than two-thirds of the voters voting on the measure had approved the tax.

The City does not believe any of the taxes constituting City revenues are levied in violation of Proposition 62.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources.

Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding.

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.

Proposition 22 has resulted in more stable revenues for the City, and the City expects this to continue to be the case.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218, Proposition 62, Proposition 1A and Proposition 22 were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time, other initiative measures could be adopted, further affecting the City or its revenues or the ability of the City to expend revenues.

RISK FACTORS

The following describes certain special considerations and risk factors affecting the payment of and security for the Certificates. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors in the Certificates are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Certificates. There can be no assurance that other considerations will not materialize in the future.

No Pledge of Taxes

General. The obligation of the City to pay the Lease Payments and Additional Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments and Additional Payments does not constitute a debt or indebtedness of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The City is currently liable on other obligations payable from general revenues, which are described under “APPENDIX B – City of Santa Rosa General Financial and Demographic Information – Long-Term General Fund Obligations.”

Limitations on Taxes and Fees. Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIIC and Article XIID of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved.

The City has assessed the potential impact on its financial condition of the provisions of Article XIIC and Article XIID of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIIC and Article XIID of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected.

Although the City does not currently anticipate that the provisions of Article XIIC and Article XIID of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIIC and Article XIID of the State Constitution on the City’s finances. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218 – Article XIIC and Article XIID.”

Additional Obligations of the City

The City has existing obligations payable from its General Fund. See “APPENDIX B – City of Santa Rosa General Financial and Demographic Information – Long-Term General Fund Obligations.” The City is permitted to enter into other obligations that constitute additional charges against its revenues without the consent of Owners of the Certificates. To the extent that additional obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Leased Property) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

Default

Whenever any event of default referred to in the Lease Agreement happens and continues, the Corporation is authorized under the terms of the Lease Agreement to exercise any and all remedies available under law or granted under the Lease Agreement. See APPENDIX A for a detailed description of available remedies in the case of a default under the Lease Agreement.

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the Certificates or pay principal and interest represented by the Certificates. The Lease Agreement permits the Trustee, as the Corporation's assignee, to take possession of and re-let the Leased Property in the event of a default by the City under the Lease Agreement; however, due to the fact that the Leased Property serves essential governmental purposes, a court may determine to not permit such remedy to be exercised. Even if such remedy may be exercised, no assurance can be given that the Trustee could readily relet the Leased Property for rents which are sufficient to enable it to pay debt service on the Certificates in full when due.

The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Abatement

Under certain circumstances related to damage, destruction, or a taking pursuant to eminent domain which, in any such case, causes a substantial interference with the use and possession of the Leased Property, the City's obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to

pay the principal and interest on the Certificates as and when due. See “SECURITY FOR THE CERTIFICATES – Abatement” and “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Although the City is required under the Lease Agreement to maintain property and liability insurance and rental interruption insurance with respect to the Leased Property, the required insurance coverage is subject to certain conditions and restrictions. See “SECURITY FOR THE CERTIFICATES – Covenants to Maintain Insurance.” However, there is no assurance that the City will receive proceeds of any insurance in time to make Lease Payments when due.

Property Taxes

Levy and Collection. The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease, or any substantial delinquencies in the payment of property taxes, could reduce the City’s property tax revenues, and accordingly, could have an adverse impact on the ability of the City to make Lease Payments when due.

Reduction in Inflationary Rate. Article XIII A of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.” Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation in certain years.

The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future.

Appeals of Assessed Values. There are two types of appeals of assessed values that could adversely impact property tax revenues:

Proposition 8 Appeals. Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

Base Year Appeals. A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the City's property tax revenues.

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.

Severe Drought. California is currently in the midst of the worst drought in its recorded history. On January 17, 2014, Governor Brown declared a drought in the State and requested a 20% reduction in water use statewide. On April 25, 2014, Governor Brown issued an executive order to strengthen the State's ability to manage water and habitat effectively in drought conditions and called on all Californians to redouble their efforts to conserve water.

In addition, on July 15, 2014, the State Water Resources Control Board (“**SWRCB**”) adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions. In April 2015, Governor Brown issued an executive order mandating a 25% statewide reduction in water use in addition to limiting certain water use activities; the mandate initially extended through February 28, 2016, but the Governor issued a further executive order on November 13, 2015, extending the mandate to October 31, 2016.

In May 2015, the SWRCB also issued an emergency regulation, through its adoption of its Resolution No. 2015-0032 (the “**Emergency Regulation**”), containing specific drought reduction targets to individual water suppliers mandating a reduction in residential gallons per capita per day compared to 2013 use. The regulation uses a sliding scale for setting conservation standards, with targets ranging between 4% and 36%. Pursuant to the Emergency Regulation, water suppliers can fine property owners up to \$500 a day for failure to implement the Emergency Regulation's water use prohibitions and restrictions.

In May 2016, Governor Brown issued an executive order that builds on temporary statewide emergency water restrictions to establish longer-term water conservation measures, including permanent monthly water use reporting by urban water suppliers, new permanent water use standards in California communities and bans on clearly wasteful practices such as hosing off sidewalks, driveways and other hardscapes.

The City implemented rate increases for both its water and wastewater utilities in December 2015, partially in response to the ongoing drought conditions, and further rate increases may occur in the future should the drought persist. Significant water rate increases would be outside the scope of City control, and any water or wastewater rate increases could adversely affect economic activity in the City or, depending on the extent of the increases, reduce assessed values in the City.

Certain Risks Associated with Sales Tax Revenues

For fiscal year 2015-16, the City estimates that sales tax revenues were the largest source of revenue to the City. Sales tax revenues are based upon the gross receipts of retail sales of tangible goods and products by retailers with taxable transactions in the City, which could be impacted by a variety of factors.

For example, before final maturity of the Certificates, the City may enter into an economic recession. In times of economic recession, the gross receipts of retailers often decline, and such a decline would cause the sales tax revenues received by the City to also decline.

In addition, changes or amendments in the laws applicable to the City's receipt of sales tax revenues, whether implemented by State legislative action or voter initiative (see “**CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218 – Article XIIC and Article XIID**”), could have an adverse effect on sales tax revenues received by the City. For example, many categories of transactions are exempt from

the statewide sales tax, and additional categories could be added in the future. Currently, most sales of food products for human consumption are exempt; this exemption, however, does not apply to liquor or to restaurant meals. The rate of sales tax levied on taxable transactions in the City or the fee charged by the State Board of Equalization for administering the City's sales tax could also be changed.

Limitations on Remedies Available to Certificate Owners

The ability of the City to comply with its covenants under the Lease Agreement may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Furthermore, any remedies available to the owners of the Certificates upon the occurrence of an event of default under the Lease Agreement or the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Lease Agreement and the Trust Agreement, the rights and obligations under the Certificates, the Lease Agreement and the Trust Agreement, may be subject to the following: the United States 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 equity 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 serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates 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.

Hazardous Substances

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

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

The effect, therefore, should 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 that has an impact on the City's general fund. Although the City maintains certain insurance policies that provide coverage under certain circumstances and with respect to certain types of incidents (see APPENDICES B and C for further information), the City cannot predict what types of liabilities may arise in the future. See also "NO LITIGATION."

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 Certificates 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 – Appropriation Limitation – Article XIII B."

Impact of State Budget on City Revenues

At various times, including recently, the State has experienced significant financial and budgetary stress. State budgets are affected by national and local economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout the State. 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.

For example, declining revenues and fiscal difficulties that arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies.

Although starting with Fiscal Year 2013-14, recent State budgets have been balanced and balanced budgets are projected for the foreseeable future, largely attributable to improvements in the economy, the additional revenues generated due to the passage of Proposition 30 at the November 6, 2012, statewide election, as well as other spending cuts, there can be no certainty that budget-cutting strategies such as those used in prior years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest represented by the Certificates could become includable in gross income for purposes of federal income taxation, retroactive to the date the Certificates were executed and delivered, as a result of future acts or omissions of the City in violation of its covenants in the Lease Agreement and the Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to prepayment and will remain outstanding until maturity or until prepaid under other provisions set forth in the Trust Agreement.

Federal Income Tax Changes

During recent years, legislative proposals have been introduced in the United States Congress, and in some cases enacted, that altered certain federal tax consequences resulting from the ownership of obligations that are similar to the Certificates. In some cases, these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of federal tax consequences may have affected the market value of obligations similar to the Certificates. From time to time, legislative proposals are pending which could have an effect on both the federal tax consequences resulting from ownership of the Certificates and their market value.

No assurance can be given that legislative proposals will not be enacted that would apply to, or have an adverse effect upon, the Certificates. For example, in connection with federal deficit reduction, job creation and tax law reform efforts, proposals have been and others are likely to be made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of the portion of lease payments designated as and comprising interest and received by the owners of obligations that are similar to the Certificates. There can be no assurance that any such legislation or proposal will be enacted, and if enacted, what form it may take. The introduction or enactment of any such legislative proposals may affect, perhaps significantly, the market price for, or marketability of, the Certificates.

Secondary Market for Certificates

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

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

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the Internal Revenue Service and that the market value

of the Certificates might be affected as a result of such an audit (or by an audit of similar securities).

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Certificates. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates.

If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Certificates to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Certificate. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates after the initial offering of a substantial amount of such maturity. Owners of such Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Certificates under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Certificate (said term being the shorter of the Certificate's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Certificate for purposes of determining taxable gain or loss upon disposition.

The amount of original issue premium on a Certificate is amortized each year over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Certificate premium is not deductible for federal income tax purposes. Owners of premium Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Certificates.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

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

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Certificates may have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Certificates other than as expressly described above.

CERTAIN LEGAL MATTERS

The legal opinion of Special Counsel, approving the validity of the Certificates, in substantially the form attached hereto as APPENDIX D, will be made available to purchasers at the time of original delivery of the Certificates. Special Counsel will, as Disclosure Counsel, also deliver a disclosure letter to the City and the Underwriter regarding the contents of this Official Statement. Certain matters will be passed upon for the City by the City Attorney.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City and its general fund (the “**Annual**

Report") and to provide notices of the occurrence of certain listed events ("**Event Notices**"). All Annual Reports and Event Notices are required to be filed electronically with the Municipal Securities Rulemaking Board (the "**MSRB**").

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "**Rule**"). The specific nature of the information to be contained in the Annual Report and the Event Notices is set forth in APPENDIX E.

In the past 5 years, the City and its related entities failed to comply in all material respects with its continuing disclosure undertakings:

- On at least 15 occasions, the City and its related entities failed to file audited financial statements on a timely basis or all required financial and operating data on a timely basis;
- For each of the issuances outstanding in the past 5 years, the City and its related entities failed to file notice of several changes in underlying ratings and insured ratings on a timely basis; and
- On at least one occasion, the City failed to file a notice of redemption on a timely basis.

In addition to the above, certain audited financial statements and annual reports of financial and operating data were posted on emma.msrb.org with incorrect hyperlink labels. Further, certain annual reports of financial and operating data were posted on emma.msrb.org with titles reflecting the fiscal year in which the reports were filed instead of the fiscal year for the applicable reporting period.

The City and its related entities have made all required remedial filings.

The City has retained Fraser & Associates to provide continuing disclosure services to ensure compliance with the continuing disclosure undertakings of the City in the future. To further ensure such compliance, the City has appointed its Chief Financial Officer to coordinate the preparation of annual disclosure reports by Fraser & Associates and the filing of such reports by the City's Finance Department and has adopted policies and procedures related thereto.

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent, upon delivery of the Certificates, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them, which were prepared by the Underwriter, relating to the sufficiency of the anticipated receipts from the moneys deposited in the Escrow Fund to pay the 2007 Lease Payments on their respective lease payment dates.

UNDERWRITING

Raymond James & Associates, Inc. (the "**Underwriter**"), has entered into a Purchase Agreement with the City under which the Underwriter has agreed to purchase the Certificates at

a price of \$_____ (equal to the par amount of the Certificates (\$_____), plus/less an original issue premium/discount of \$_____, and less an Underwriter's discount of \$_____.

The Underwriter will be obligated to take and pay for all the Certificates if any are taken. The Underwriter intends to offer the Certificates to the public at the offering prices shown on the inside cover page of this Official Statement. After the initial public offering, the Underwriter may vary the public offering prices from time to time.

NO LITIGATION

The City is not aware of any pending or threatened litigation concerning the validity of the Certificates or challenging any action taken by the City with respect to the Certificates. 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 Certificates or actions taken with respect to the Certificates. 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 Certificates.

PROFESSIONAL FEES

In connection with the execution and delivery of the Certificates, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Certificates:

- Jones Hall, A Professional Law Corporation, as Special Counsel and Disclosure Counsel;
- Stradling Yocca Carlson & Rauth, a Professional Corporation, as Underwriter's Counsel;
- U.S. Bank National Association, as Escrow Agent; and
- _____, as Trustee.

RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), has assigned its municipal bond rating of "____" to the Certificates.

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

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating 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 Certificates may have an adverse effect on the market price or marketability of the Certificates.

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EXECUTION

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

CITY OF SANTA ROSA

By: _____
City Manager

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B**CITY OF SANTA ROSA GENERAL FINANCIAL AND DEMOGRAPHIC INFORMATION**

The City. The City of Santa Rosa, located in the central portion of Sonoma County (the “County”), covers an area of approximately 41.5 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 67 parks totaling over 558 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 36.28 inches, falling on average 81 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 1,768 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 City as Successor Agency to the Redevelopment Agency of the City of Santa Rosa 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.

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. The Capital Improvement Program budget process runs parallel with the Operations and Maintenance budget process. In order to have a finished budget by June, the City's budget cycle begins in December and proceeds according to these benchmarks:

- December: The Budget and Financial Planning staff begins to compile budget assumptions for all expenditure categories. This includes assumptions for salary increases for bargaining units under contract, estimated benefit costs, and assumptions for increase in supplies and other expenses. A high-level forecast for the upcoming year is prepared. Expenditure assumptions are compared with proposed revenues. Budget guidelines are prepared based on these assumptions and any necessary reductions or additional funding and are forwarded to departments for their use during the budget process.
- January-February: The City holds a public hearing and conducts an online Budget Priorities Survey to solicit information from City residents on their budget priorities. The survey results are provided to the departments for their use in developing the budget.
- February-March: Departments prepare their operations and maintenance budgets based on the budget guidelines, public feedback, city Council goals and priorities, and Strategic Planning initiatives.
- March-April: The Budget and Financial Planning staff reviews each department's budget and prepares the budget for the Chief Financial Officer's review. The Chief Financial Officer and City Manager review the requests and make adjustments as needed.
- May: The proposed budget requests are reviewed by the full City Council during study sessions.
- June: Around June 1st, the Budget and Financial Planning staff prepares a draft budget document that is made available to the public around June 1st. The City Council holds public hearings in mid-June and generally adopts the budgets once the hearings have concluded. The final budget document is then printed and distributed.

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 quarterly 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 2014-15, audited actual figures for fiscal year 2014-15 and General Fund adopted budget figures for fiscal years 2015-16 and 2016-17 are set forth in the following table. The City's audited financial statements for the fiscal year ended June 30, 2015, are included as APPENDIX C to this Official Statement.

Table B-1
CITY OF SANTA ROSA
General Fund Adopted Budgets
For Fiscal Years 2014-15 and 2015-16
(Dollars in Thousands)

	Adopted Budget 2014-15	Actual 2014-15	Adopted Budget 2015-16	Adopted Budget 2016-17
Property taxes	\$20,341	\$23,118	\$23,770	\$25,228
Sales taxes	41,584	43,338	44,647	50,795
Utility users taxes	9,859	9,778	9,157	9,155
Other taxes ⁽¹⁾	29,499	31,429	31,465	34,467
Licenses and permits	1,866	1,407	1,782	1,569
Charges for services	22,282	22,318	23,434	21,790
Intergovernmental	2,725	3,584	3,463	627
Fines and forfeitures	1,740	1,933	1,723	1,629
Investment earnings	145	249	123	123
Net change in fair value of investments	-	-	-	-
Other	2,029	4,293	2,237	3,415
Total revenues	132,070	141,447	141,801	148,798
<u>Expenditures:</u>				
Current:				
General government	27,259	24,379	27,217	32,091
Public safety	75,285	73,786	77,209	80,520
Public works	10,782	11,117	11,747	14,316
Recreation and parks	15,147	14,410	16,550	13,093
Other	975	380	813	3,292
Capital outlay	710	741	170	75
Debt service: principal	438	283	558	416
Debt service: interest	12	12	48	40
Total expenditures	130,608	125,108	134,312	143,843
Excess of revenues over (under) expenditures	1,462	16,339	7,489	4,955
Other financing sources (uses):				
Proceeds from sale of capital assets	108	30	108	30
Capital Lease Financing	-	1,048	-	-
Transfers in	37	155	38	276
Transfers out	(9,111)	(7,867)	(12,931)	(8,174)
Total other financing sources (uses)	(8,966)	(6,634)	(12,785)	(7,868)
Net change in fund balance	(7,504)	9,705	(5,296)	(2,913)
Fund balance - July 1	48,848	48,848	58,553	53,257
Fund balance - June 30	41,344	58,553	53,257	\$50,344

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

Source: City of Santa Rosa.

Adopted Budget for Fiscal Year 2015-16

The General Fund revenue for fiscal year 2015-16 is estimated at \$138.8 million in revenue in addition to \$2.8 million of transfers-in for a total of \$141.6 million. Expenditures are

estimated at \$136.7 million with transfers-out of \$5.3 million, totaling \$142.0 million.

The City continues to experience steady economic recovery. Increasing revenues are driven primarily by growth in sales tax, bolstered by both retail sales and new car sales. Sales Tax also continues to be augmented in the amount of approximately \$8 million by Measure P, a quarter-cent general Sales Tax increase passed by the voters in 2010. In addition, the City is experiencing growth in Property Tax and Real Property Transfer Tax, as well as growth in building and construction-related revenue. Some of this revenue is a result of increased fees for building permits and other related services.

While this information is positive, it is tempered by projections of Property Tax revenues plateauing for future years, and the perceived inability for new car sales to continue to drive Sales Tax increases. The City projects a loss of approximately \$0.7 million in Utility User Tax (“UUT”) revenue. This is due to a change in the IRS code that restricts the City from collecting UUT on certain telephone services. Additionally, Measure P expires on March 31, 2019, leaving a significant gap in General Fund revenue.

Approximately 78.6% of the General Fund budget is comprised of personnel costs due to the fact that public services are directly delivered through personnel at the counter and in the field. The year over year increase of \$8.7 million in the Salary and Benefit categories of the budget reflect adding back some positions that were cut during the recession, salary increases set forth in the Memoranda of Understanding for the City’s bargaining units, and increases in benefit costs, primarily in healthcare and pension costs. General Fund services and supplies including projects show a decrease of almost \$1 million compared to last year’s adopted budget. This is due to a one-time shift of budget from the services and supplies category (Professional Services line item) to the salary category as a result of labor negotiations.

The City, working with all employee groups, put in place several actions in recent years that are controlling some of these costs. These actions continue in this budget and will be in place moving forward. They include: adoption of reduced tiers of pension benefits for new employees; employee cost sharing of pension costs; and the redesign of healthcare plans with increased cost sharing.

Adopted Budget for Fiscal Year 2016-17

The General Fund budget is balanced for fiscal year 2016-17 with \$148 million in revenue; transfers into the General Fund totaling \$2.8 million for total General Fund revenues of \$150.8 million. General Fund expenditures are \$145.2 million, with \$5.5 million of Transfers out of the General Fund, for total expenditures of \$150.7 million.

The General Fund is showing growth in revenue, although approximately \$4 million will be one-time sales tax paid to the City as the State of California transitions off of its temporary “Triple Flip” formula, and returns to the more traditional sales tax formula. With that said, the City is projecting 4% growth in sales tax, 2% growth in Property Tax, and 4% growth in Transient Occupancy Tax.

There are also challenges to contend with in the General Fund. Of primary concern is the potential loss of Measure P revenue beginning in the last quarter of fiscal year 2018-19. Measure P is quarter-cent general sales tax increase that was approved by the voters in 2010, and expires on March 31, 2019. The projected annual sales tax generated by Measure P is approximately \$9 million. Losing this source of revenue would have a devastating effect on

General Fund operations. The City must also manage volatility in health insurance costs and the continued increase in pension costs (although the new smoothing formula from CalPERS makes this more predictable).

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 estimated General Fund reserve as of June 30, 2016 [**confirm**], is \$32.1 million, or 22.0%, of General Fund expenditures. The proposed fiscal year 2016-17 General Fund budget is balanced and continues the goal of stabilizing core programs and City operations.

State Budget and Its Impact on the City

General. General. Information about the fiscal year 2015-16 adopted State budget, the fiscal year 2016-17 revised State budget and other State budgets is regularly available at various State-maintained websites. An impartial analysis of the budget is posted by the Legislative Analyst Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. *The information referred to in this paragraph is prepared by the respective State agency maintaining each website and not by the City or Underwriter, and the City and Underwriter take no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated in this Official Statement by these references.*

See “RISK FACTORS - Impact of State Budget on City Revenues.”

Proposition 30. 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 (“**Proposition 30**”). Proposition 30 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 \$0.0025 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 contained reductions in expenditures from prior years spending totaling \$8.1 billion.

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 Certificates.

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 (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) 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 36 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 35 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.

In fiscal year 2014-15, the City implemented GASB Statements No. 68 and 71. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and pension plan expenses. GASB Statements No. 68 and No. 71 do not change the pension funding obligations of the City and have had no effect on the General Fund.

The City’s most recent audited financial statements are included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, which is attached as APPENDIX C to this Official Statement. The financial statements were prepared by the City and audited by Macias Gini & O’Connell LLP (the “**Auditor**”).

The Financial Statements should be read in their entirety. The City has neither requested nor obtained 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 or General Fund. In addition, the Auditor has not reviewed this Official Statement.

Set forth on the following pages are (i) a general fund balance sheet for fiscal years 2011-12 through 2014-15 and (ii) a statement of revenues, expenditures and changes in fund balances for the City's general fund for the same period, along with adopted budget figures for fiscal years 2015-16 and 2016-17.

Table B-2
CITY OF SANTA ROSA
General Fund Balance Sheet
(Dollars in Thousands)

	<u>Audited</u> <u>2011-12</u>	<u>Audited</u> <u>2012-13</u>	<u>Audited</u> <u>2013-14</u>	<u>Audited</u> <u>2014-15</u>
<u>ASSETS:</u>				
Cash and cash equivalents	\$ 18,562	\$ 23,919	\$ 31,756	\$ 36,640
Receivables (net of allowances for uncollectibles)				
Accounts	2,481	2,764	3,148	3,435
Interest	57	54	56	93
Intergovernmental	6,301	11,899	10,992	11,706
Assessments	121	216	186	223
Due from other funds	3,289	1,358	2,297	6,136
Inventory of supplies	772	790	814	767
Prepaid items	59	71	66	1,086
Restricted cash and investments	-	-	1,468	-
Advances to other funds	5,876	6,311	6,368	6,501
Total assets	\$ 37,518	\$ 47,382	\$ 57,151	\$ 66,587
<u>LIABILITIES:</u>				
Accounts payable and other current liabilities	\$ 2,783	\$ 2,742	\$ 2,680	\$ 2,299
Unearned revenue	1,232	5,384	723	744
Deposits	2	2	2	2
Total liabilities	4,017	8,128	3,405	3,045
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	4,898	4,989
Fund Balances:				
Nonspendable				
Advances	5,876	5,460	5,334	5,277
Inventory of supplies	772	790	814	767
Prepaid items	59	71	66	1,086
Restrictedfor Public safety			1,468	-
Assigned				
Carryover of appropriations	8,818	9,404	11,984	16,364
RDA dissolution	-	607	607	,
Community development		-	173	
Unassigned	17,976	22,922	28,402	35,059
Total fund balances	33,501	39,254	48,848	58,553
Total liabilities and fund balances	\$ 37,518	\$ 47,382	\$ 57,151	\$ 66,587

Source: City of Santa Rosa Comprehensive Annual Financial Reports.

Table B-3
CITY OF SANTA ROSA
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
(Dollars in thousands)

	<u>Audited</u> <u>2011-12</u>	<u>Audited</u> <u>2012-13</u>	<u>Audited</u> <u>2013-14</u>	<u>Audited</u> <u>2014-15</u>	<u>Adopted</u> <u>Budget</u> <u>2015-16</u>	<u>Adopted</u> <u>Budget</u> <u>2016-17</u>
<u>Revenues:</u>						
Property taxes	\$19,833	\$21,639	\$21,038	\$23,118	\$23,770	\$25,228
Sales taxes	36,017	38,565	41,331	43,338	44,647	50,795
Utility users tax	8,931	9,603	9,645	9,778	9,157	9,155
Other taxes ⁽¹⁾	26,606	28,425	28,948	31,429	31,465	34,467
Licenses and permits	1,379	1,496	1,569	1,407	1,782	1,569
Charges for services	20,934	20,962	22,127	22,318	23,434	21,790
Intergovernmental	1,229	1,626	2,576	3,584	3,463	627
Fines and forfeitures	1,842	1,700	2,017	1,933	1,723	1,629
Investment earnings	165	145	124	249	123	123
Net change in fair value of investments	22	(47)	26	-	-	-
Other	1,795	1,738	1,860	4,293	2,237	3,415
Total revenues	118,753	125,852	131,261	141,447	141,801	148,798
<u>Expenditures:</u>						
Current:						
General government	21,019	21,237	22,282	24,379	27,217	32,091
Public safety	65,512	67,936	69,916	73,786	77,209	80,520
Public works	9,804	10,247	10,530	11,117	11,747	14,316
Recreation and parks	13,089	13,745	13,541	14,410	16,550	13,093
Other	41	21	1,149	380	813	3,292
Capital outlay	473	440	786	741	170	75
Debt service: principal	216	225	407	283	558	416
Debt service: interest	21	13	8	12	48	40
Total expenditures	110,175	113,864	118,619	125,108	134,312	143,843
Excess of revenues over (under) expenditures	8,578	11,988	12,642	16,339	7,489	4,955
Other financing sources (uses):						
Proceeds from sale of capital assets	132	103	31	30	108	30
Capital Lease Financing	-	-	1,957	1,048	-	-
Transfers in	94	162	75	155	38	276
Transfers out	(3,839)	(6,500)	(5,111)	(7,867)	(12,931)	(8,174)
Total other financing sources (uses)	(3,613)	(6,235)	(3,048)	(6,634)	(12,785)	(7,868)
Net change in fund balance	4,965	5,753	9,594	9,705	(5,296)	(2,913)
Fund balance - July 1	28,536	33,501	39,254	48,848	58,553	53,257
Fund balance - June 30	\$33,501	\$39,254	\$48,848	\$58,553	\$53,257	\$50,344

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

Source: City of Santa Rosa Comprehensive Annual Financial Reports.

Major Revenues

General. Taxes and other sources of revenue received by the City are listed in the table below. Certain general taxes currently imposed by the City are affected by Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218 – Article XIIC and Article XIID.”

The following table presents the tax revenues of the City’s General Fund for the last four fiscal years:

Table B-4
CITY OF SANTA ROSA
Major Tax Revenues by Source - General Governmental Activities
(Dollars in thousands)

	<u>Audited</u> <u>2011-12</u>	<u>Audited</u> <u>2012-13</u>	<u>Audited</u> <u>2013-14</u>	<u>Audited</u> <u>2014-15</u>	<u>Estimated</u> <u>2015-16</u>	<u>% of</u> <u>2015-16</u> <u>Total</u>
Property Taxes	\$19,833	\$21,639	\$21,038	\$23,118	\$26,482	21.1%
Sales and Use Taxes	43,054	46,041	49,339	51,483	55,493	44.3
Utility Users Tax	8,931	9,603	9,645	9,778	9,805	7.8
Motor Vehicle In-Lieu Fees	10,391	10,292	10,577	11,554	12,421	9.9
Business Tax	3,666	3,795	3,652	3,973	4,126	3.3
Real Property Transfer Tax	1,859	2,787	2,673	2,966	3,643	2.9
Transient Occupancy Tax	3,654	4,285	4,559	5,208	5,417	4.3
Other Taxes	7,036	7,266	7,487	7,728	7,994	6.4
Total Taxes	\$98,424	\$105,708	\$108,970	\$115,808	\$125,381	100.0%

Source: City of Santa Rosa Comprehensive Annual Financial Reports; fiscal year 2015-16 estimates per fiscal year 2015-16 O&M Budget.

Sales and Use Taxes

Sales and use taxes represent the largest source of tax revenue to the City (approximately 44.5% of the governmental funds tax revenues in fiscal year 2014-15). This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State of California. The City estimates that it will receive \$55,493,511 in sales tax revenue for fiscal year 2015-16 and has budgeted to receive \$59,845,757 in sales tax revenue for fiscal year 2016-17.

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.

At an election held on November 2, 2010, the voters of the City approved Measure P (by a majority vote), a measure to increase the sales tax in the City by a quarter-cent, to be used by the City for general purposes. The additional sales tax is estimated to have generated \$8,516,929 in fiscal year 2015-16 and \$8,857,606 in fiscal year 2016-17. It is available to fund any General Fund activity; however, Measure P will expire on March 31, 2019.

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 B-5
CITY OF SANTA ROSA
Sales Tax Rates
Fiscal Year 2015-16**

<u>Component</u>	<u>Rate</u>
State-Wide Tax Rate	7.5000%
Sonoma County Transportation Authority	0.2500
Sonoma-Marin 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 ⁽²⁾	<u>0.2500</u>
 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%). The tax will terminate at the end of fiscal year 2024-25
- (2) Incremental sales tax is available for any governmental purpose and 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 B-6
CITY OF SANTA ROSA
Taxable Sale by Category
(Dollars in thousands)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Apparel stores	\$ 145,129	\$ 156,508	\$167,914	\$170,604	\$173,961
Auto dealers and supplies	346,149	396,309	461,382	537,717	609,889
Building materials and farm tools	213,275	225,867	257,930	281,609	268,043
Drug stores	40,266	40,646	39,975	39,716	38,397
Eating and drinking places	217,946	232,610	258,020	279,352	305,680
Food stores	148,193	159,378	170,970	178,767	182,327
General merchandise	346,614	350,586	358,202	344,783	357,516
Home furnishing & appliances	158,788	159,317	169,301	173,175	178,463
Other retail	340,307	359,245	355,545	356,663	366,675
Packaged liquor stores	22,783	24,686	26,182	27,899	30,825
Service stations	258,881	268,652	257,235	263,272	217,586
All other outlets	<u>252,231</u>	<u>316,903</u>	<u>303,824</u>	<u>343,930</u>	<u>380,567</u>
Total	\$2,490,562	\$2,690,707	\$2,826,480	\$2,997,487	\$3,109,929

Source: City of Santa Rosa Comprehensive Annual Financial Reports

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 21% of governmental fund tax revenues in fiscal year 2015-16). The City estimates that it will receive \$26,481,650 of property tax revenues in fiscal year 2015-16 and has budgeted to receive \$25,227,841 in property tax revenue for fiscal year 2016-17. 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 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.

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 countywide 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 a ten-year history of the City's assessed valuation.

Table B-7
CITY OF SANTA ROSA
Assessed Value and Estimated Actual Value of Taxable Property
Fiscal Years 2005-06 to 2014-15
(in thousands)

Fiscal Year	Real Property Assessed/Market Value	Personal Property Assessed /Market Value	Total Assessed/Market Value	Percentage of Change in Market Value	Basic Direct Tax Rate
2005-06	\$15,725,609	\$589,269	\$16,314,878	9.5%	1.00%
2006-07	17,523,321	621,807	18,145,128	11.2	1.00
2007-08	18,952,212	657,821	19,610,033	8.1	1.00
2008-09	19,086,678	693,812	19,780,490	0.9	1.00
2009-10	18,199,746	683,473	18,883,219	(4.5)	1.00
2010-11	17,343,038	673,858	18,016,896	(4.6)	1.00
2011-12	16,941,806	697,590	17,639,396	(2.1)	1.00
2012-13	17,275,509	701,986	17,977,495	1.9	1.00
2013-14	18,917,904	737,755	19,655,659	9.3	1.00
2014-15	20,431,941	713,888	21,145,829	7.6	1.00

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.

Major Property Taxpayers. The following table shows the principal property taxpayers in the City as determined by their secured assessed valuations in fiscal year 2014-15.

Table B-8
CITY OF SANTA ROSA
Principal Property Tax Payers
(in thousands)

<u>Taxpayer</u>	<u>Fiscal Year 2014-15</u>		<u>Percentage of</u>
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Total City Taxable Assessed Value</u>
Keysight Technologies/Agilent Technologies	\$178,392	1	0.84%
Varennia At Fountaingrove LLC	78,496	2	0.37
EMI Santa Rosa LP	63,575	3	0.30
Coddington LLC	58,004	4	0.27
OSL SR Fountaingrove LLC et al	54,436	5	0.26
Arterial Vascular Engineering Inc. (Medtronic)	48,639	6	0.23
Donahue Schriber Realty Group	44,808	7	0.21
FIT REN Paulen Creek LP	43,710	8	0.21
Behringer Harvard Santa Rosa LP/Aracia	42,042	9	0.20
Apple Creek LLC	<u>40,855</u>	10	<u>0.19</u>
Total	\$652,957		3.08%

(1) Fiscal Year 2014-15 Local Secured Assessed Valuation: \$_____.

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 (“MVLF”) is a State tax levied annually on the value of motor vehicles registered in the State. Under the State Constitution, MVLF revenues are allocated to cities and counties pursuant to State statute. In fiscal year 2004-05, the MVLF 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 MVLF 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 MVLF rate is reduced below 0.65%, then the State must replace the corresponding revenues to cities and counties. The City received \$11,553,426 of MVLF in fiscal year 2014-15 and estimates that it will receive [\$12,421,000][confirm full number] in fiscal year 2015-16.

Utility Users 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 B-9
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 2007 Certificates being refunded).

2005 Certificates of Participation. In September 2005, the City caused execution and delivery of \$3,850,000 Series A Certificates of Participation (Bennett Valley Golf Course Project) ("**2005 Series A Certificates**") and \$1,725,000 2005 Series B (Taxable) Certificates of Participation (Bennett Valley Golf Course Project) ("**2005 Series B Certificates**") 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 2005 Series A Certificates and 2005 Series B Certificates were outstanding in the aggregate principal amount of \$2,735,000 and \$1,275,000, respectively, as of July 1, 2016.

Lease Payment Obligations. In December 2013, the City entered into a lease agreement as lessee for financing the construction of a fire station at a total cost of \$3,590,000. In May 2014, the City entered into another lease agreement as lessee for financing the acquisition of fire engines at a total cost of \$1,956,626. In June 2015, the City entered into another lease agreement as lessee for financing the acquisition of any aerial fire truck at a total cost of \$1,048,136. The outstanding principal amount of the leases was approximately \$2,863,140, \$1,117,182, and \$911,212, respectively, as of June 30, 2016.

Pension Obligation Refunding Bonds. In August 2013, the City issued its bonds captioned "\$32,715,000 Pension Obligation Refunding Bonds (Federally Taxable), Series 2013" (the "**Pension Obligation Bonds**") in order to refund two outstanding series of pension obligation bonds previously issued by the City. The aggregate outstanding principal amount of the Pension Obligation Bonds was \$27,315,000 as of September 1, 2015.

Employee Relations

The City had 1,249.65 authorized positions at the beginning of fiscal year 2016-17, of which 171 were sworn Police personnel and 138 were sworn Fire personnel. The City's employees are represented by 19 labor groups.

<u>Labor Group</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u> ⁽¹⁾
Fire	130.00	6/30/16
Maintenance	139.50	6/30/16
Support	79.85	7/31/16
Police	139.00	6/30/17
Professional	83.00	7/31/16
Technical	272.65	7/31/16
Transit	61.00	6/30/16
Fire Mgmt	7.00	6/30/16
Police Mgmt	9.00	6/30/17
Sgts	22.00	6/30/17
Executive Management	10.00	6/30/16
Safety	2.00	6/30/16
Management Confidential	16.00	6/30/16
Confidential	20.90	6/30/16
Police Technical	58.75	6/30/16
City Manager/City Attny	2.00	6/30/16
USO	59.00	6/30/16
Attorney	6.00	6/30/16
Management	132.00	6/30/16

(1) Upon expiration, contract continues on existing terms until renegotiated. **[Confirm.]**

There have been no work stoppages by City employees. **[Confirm.]**

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 11 in the City's fiscal year 2014-15 audited financial statements, which are attached to this Official Statement as Appendix C, for additional information about the City's risk management practices.

Employee Retirement System

This caption contains certain information relating to California Public Employees' Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not

independently verified the information provided by CalPERS and makes no representations and expresses no opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference in this Official Statement. None of the Authority, City or Underwriter can guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Plan Description. All permanent employees of the City 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 memoranda of understanding with bargaining units.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The provisions and benefits of each plan that were in effect at June 30, 2015, are summarized as follows:

Miscellaneous Plan

	Prior to July 8, 2012 Tier I	July 8, 2012-Dec. 31, 2012 Tier II	On or After Jan. 1, 2013 Tier III (PEPRA)
Benefit	3.0% @ 60	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-60	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	2.0% to 2.5%	1.0 to 2.5%
Required employee contribution rates	8% ⁽¹⁾	8%	6.25%

[(1) The City contributes ____% of the Tier I employee contribution.]

Safety-Police Plan

	Prior to July 8, 2012 Tier I	July 8, 2012-Dec. 31, 2012 Tier II	On or After Jan. 1, 2013 Tier III (PEPRA)
Benefit	3.0% @ 60	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50-55	50-55
Monthly benefits, as a % of eligible compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	9% ⁽¹⁾	9%	9%

[(1) The City contributes ____% of the Tier I employee contribution.]

Safety-Fire Plan

	Prior to July 8, 2012 Tier I	July 8, 2012-Dec. 31, 2012 Tier II	On or After Jan. 1, 2013 Tier III (PEPRA)
Benefit	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50-55	50-57
Monthly benefits, as a % of eligible compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	9% ⁽¹⁾	9%	9%

[(1) The City contributes ____% of the Tier I employee contribution.]

The City is required to contribute at an actuarially determined rate of annual covered payroll. The actuarially determined rates for each plan for the fiscal years ended June 30, 2015, through June 30, 2017, are as follows:

City's Required Employer Contribution Rate

	Fiscal Year <u>2014-15</u>	Fiscal Year <u>2015-16</u>	Fiscal Year <u>2016-17</u>
Miscellaneous Plan Tiers I, II, and III	17.942%	19.862%	21.774%
Safety-Police Plan Tiers I, II, and III	32.585	34.605	38.251
Safety-Fire Plan Tiers I, II, and III	31.508	33.019	35.701

Source: CalPERS Actuarial Reports dated October 2014 and October 2015.

The City's total contributions to each plan in fiscal years 2012-13, 2013-14 and 2014-15, including amounts contributed to cover a portion of the Tier I employee contributions, were as follows (amounts in thousands):

Miscellaneous Plan

<u>Fiscal Year</u>	<u>Total City Contribution</u>	<u>Portion of Total City Contribution for 8% Employee Contribution</u>
2012-13	\$9,535	[]
2013-14	9,288	
2014-15	10,948	

Safety-Police Plan

<u>Fiscal Year</u>	<u>Total City Contribution</u>	<u>Portion of Total City Contribution for 9% Employee Contribution</u>
2012-13	\$5,398	[]
2013-14	5,427	
2014-15	6,058	

Safety-Fire Plan

<u>Fiscal Year</u>	<u>Total City Contribution</u>	<u>Portion of Total City Contribution for 9% Employee Contribution</u>
2012-13	\$4,280	[]
2013-14	4,480	
2014-15	4,673	

Funded Status. The following table sets forth the schedule of funding for the City's Miscellaneous, Safety-Police, and Safety-Fire pension plans for the fiscal years ended June 30, 2012, 2013, and 2014.

Miscellaneous Plan

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2012	\$508,583,563	\$379,342,063	\$129,241,500	74.6%	\$60,996,189
2013	531,753,751	421,551,300	110,202,451	79.3	59,160,904
2014	585,793,774	485,987,194	99,806,580	83.0	59,877,729

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated October 2015.

Safety-Police Plan

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2012	\$204,387,171	\$138,702,401	\$65,684,770	67.9%	\$18,681,348
2013	215,293,612	154,369,994	60,923,618	71.7	18,051,969
2014	234,540,941	177,986,738	56,554,203	75.9	17,572,946

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated October 2015.

Safety-Fire Plan

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2012	\$164,380,503	\$108,293,916	\$56,086,587	65.9%	\$14,828,649
2013	174,525,320	121,098,045	53,427,275	69.4	15,224,554
2014	188,882,240	140,197,491	48,684,749	74.2	14,729,041

(1) Based on the market value of assets.

Source: CalPERS Actuarial Report Dated October 2015.

Recent Actions Taken by CalPERS. At its April 17, 2013, meeting, CalPERS' Board of Administration (the "**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 that 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 was used for the first time in the June 30, 2013, actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the CalPERS Board approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The Board of Administration also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60,

which will increase costs for those groups. As a result of these changes, rates will increase beginning in fiscal year 2016-17 (based on the June 30, 2014 valuation) with full impact in fiscal year 2020-21.

On November 18, 2015, the CalPERS Board adopted a funding risk mitigation policy intended to incrementally lower its discount rate - its assumed rate of investment return - in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.5%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through CalPERS' web site at the following website address: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy>. *The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

Other Post Employment Benefits ("OPEB")

Description of Postretirement Healthcare Benefits (OPEB). The City sponsors a single-employer defined-benefit postemployment healthcare 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 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.

The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015, and in particular Note 9 thereto, includes information about the City's postemployment healthcare liabilities and funding.

Funding Policy. The City currently contributes to the various stipend plans based on a percentage of payroll, which varies by bargaining group and is determined by their respective Memorandum of Understanding ("**MOU**"). For fiscal year 2014-15, the City's actuarially determined contribution rates were 5.6% for the Stipend Plan and 2.3% for the PEMHCA plan, which was based on the June 30, 2013, actuarial valuations. 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 42% 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 2014-15, the City contributed \$1,956,000 in benefit payments (\$163,000 for the PEMHCA minimum and \$1,793,000 for the stipend plans). As of June 30, 2015, the total fair value of the funds set aside in irrevocable plan trusts for the stipend plans was \$21,526,000.

Annual OPEB Cost and Net Obligation. The City's annual OPEB cost is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for fiscal year 2014-15, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (asset):

OPEB Components for Fiscal Year 2014-15

	Net OPEB Obligation (Asset)
Annual required contribution	\$ 5,277,000
Interest on net OPEB obligation ⁽¹⁾	326,000
Adjustment to annual required contribution	<u>(362,000)</u>
Annual OPEB cost (expense)	5,241,000
Actual contributions made	<u>(1,956,000)</u>
Decrease in net OPEB obligation	3,285,000
Net OPEB Obligation - beginning of year	<u>7,783,000</u>
Net OPEB Asset - end of year	<u>\$ 11,068,000</u>

Source: City of Santa Rosa Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the year ended June 30, 2015 and the two preceding years, were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Benefit Payments/ Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	\$4,321	\$1,716	39.7%	\$4,638
2014	4,971	1,826	36.7	7,783
2015	5,241	1,956	37.3	11,068

OPEB Funded Status. As of January 1, 2013 [**confirm latest actuarial valuation**], the most recent actuarial valuation date, the plan was funded as follows:

	<u>PEMHCA</u>	<u>Stipend</u>
Actuarial Accrued Liability	\$10,901	\$47,059
Actuarial Value of Assets	--	(16,238)
Unfunded Actuarial Accrued Liability	\$10,901	\$30,821
Funded Ratio (Actuarial value of plan assets/AAL)	--	34.5%
Covered Payroll	46,133	73,206
UAAL as a Percentage of Covered Payroll	23.6%	42.1%

Actuarial Methods and Assumptions. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. 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, 2013, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included at 3% inflation rate and a 4.6% and 4.0% investment rate of return (net of administrative expenses) for the stipend plan and PEMHCA 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.

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 cannot be less than 80% or more than 120% of market value.

The UAAL was amortized over a 26-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 seq). 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 a 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 May 31, 2016, the City has invested funds as set forth in the table below.

Table B-10
CITY OF SANTA ROSA
Investment Portfolio as of May 31, 2016

	Par Value	Amortized Cost Value ⁽¹⁾	Market Value ⁽¹⁾	% of Portfolio ⁽³⁾
Treasury Coupon Securities	\$109,344,000	\$110,449,017	\$110,725,479	29%
Federal Agency	42,910,000	42,938,137	42,960,356	11
Federal Agency Mortgage-Backed	5,829,072	5,874,071	5,861,255	2
Negotiable CD	64,700,000	64,870,831	64,934,655	17
FDIC-Insured CD	1,232,145	1,234,098	1,229,961	<1
Corporate Notes	78,880,000	79,237,938	79,540,630	21
Commercial Paper	15,262,000	15,244,059	15,248,360	4
Municipal Bonds	350,000	350,636	351,420	1
Liquid Funds ⁽²⁾	55,749,123	55,749,123	55,749,123	15
Total	\$374,256,341	\$375,947,910	\$376,601,239	100%

(1) Security market values include accrued interest as of trade date.

(2) Liquid Funds include the City's LAIF, PFM Funds-Prime Money Market Fund, Wells Fargo Sweep Account, and custody account cash balances.

(3) % of Portfolio is based on Market Value plus accrued interest.

Source: PFM Asset Management May 2016 Investment Report and Account Statements..

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 B-11
COUNTY OF SONOMA
Population

<u>Area</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Cloverdale	8,641	8,636	8,641	8,708	8,825
Cotati	7,286	7,282	7,288	7,346	7,153
Healdsburg	11,458	11,465	11,541	11,687	11,699
Petaluma	58,245	58,581	59,000	59,540	60,375
Rohnert Park	40,725	40,700	40,722	41,077	42,003
Santa Rosa	169,069	169,452	170,236	173,071	175,667
Sebastopol	7,415	7,417	7,440	7,507	7,527
Sonoma	10,680	10,691	10,801	10,933	10,865
Windsor	27,041	27,028	27,104	27,335	27,031
Unincorporated	<u>147,111</u>	<u>147,328</u>	<u>147,713</u>	<u>149,049</u>	<u>150,814</u>
County Total	487,671	488,580	490,486	496,253	351,145

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

Employment

The City's major employers are set forth below:

Table B-12
CITY OF SANTA ROSA
Major Employers
(As of June 30, 2015)

<u>Company Name</u>	<u>Category</u>	<u>Employment</u>
County of Sonoma	Government	4,058
Kaiser Permanente	Health Care	2,555
Sutter Medical Center of Santa Rosa	Health Care	1,797
St. Joseph Health System	Health Care	1,740
Santa Rosa Junior College	Education	1,589
Santa Rosa School District	Public Education	1,502
City of Santa Rosa	Government	1,250
Keysight/Agilent Technologies	Electronics, Communications	1,200
Amy's Kitchen	Frozen Food Processors (Mfrs)	870
Medtronic/ Arterial Vascular Eng	Engineering	840

Source: City of Santa Rosa Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015.

The County's major employers are set forth below.

Table B-13
COUNTY OF SONOMA
Major Employers
(As of March 2015)

Employer Name	Location	Industry
Aa Balat Fine & Rare Wines	Petaluma	Wines-Wholesale
Agilent Technologies Inc	Santa Rosa	Instruments-Measuring (mfrs)
Agilent Technologies Inc	Santa Rosa	Instruments-Measuring (mfrs)
Amica Mutual Insurance Co	Petaluma	Insurance
Amy's Kitchen Inc	Santa Rosa	Frozen Food Processors (mfrs)
Amy's Kitchen Inc	Santa Rosa	Frozen Food Processors (mfrs)
Army National Guard Recruiter	Santa Rosa	Government Offices-State
Enphase Energy Inc	Petaluma	Semiconductors & Related Devices (mfrs)
Fairmont-Sonoma Mission Inn	Sonoma	Hotels & Motels
Fairmont-Sonoma Msn Inn & Spa	Sonoma	Hotels & Motels
Friedman's Home Improvement	Santa Rosa	Hardware-Retail
Ghilotti Construction Co	Santa Rosa	Excavating Contractors
Keiser Medical Ctr	Santa Rosa	Hospitals
Korbel Champagne Cellars	Guerneville	Wineries (mfrs)
Medtronic Inc	Santa Rosa	Engineering
Petaluma Valley Hospital	Petaluma	Hospitals
Protransport-1	Cotati	Transportation Services
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Sonoma County Fire & Emergency	Santa Rosa	Government Offices-County
Sonoma County Radio Mntnc Shop	Santa Rosa	Government Offices-County
Sonoma County Sheriff	Santa Rosa	Government Offices-County
State-Ca-Dept-Developmental	Eldridge	Cognitive Disability-Dev Disability Svcs
Sutter Santa Rosa Regl Hosp	Santa Rosa	Hospitals
US Coast Guard	Petaluma	Federal Government-National Security
Viavi Solutions Inc	Santa Rosa	Fiber Optics

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2016 1st Edition.

The City is included in the Santa Rosa Metropolitan Statistical Area (“MSA”), which consists of the County. The unemployment rate in Sonoma County was 4.1 percent in February 2016, down from a revised 4.3 percent in January 2016, and below the year-ago estimate of 5.0 percent. This compares with an unadjusted unemployment rate of 5.7 percent for California and 5.2 percent for the nation during the same period.

The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2011 through 2015.

Table B-14
Civilian Labor Force, Employment and Unemployment, Unemployment by Industry
(March 2015 Benchmark)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Civilian Labor Force ⁽¹⁾	249,100	249,800	252,700	258,300	260,300
Employment	223,900	227,900	235,100	243,900	248,700
Unemployment	25,200	21,900	17,600	14,300	11,700
Unemployment Rate	10.1%	8.8%	7.0%	5.6%	4.5%
<u>Wage and Salary Employment ⁽²⁾</u>					
Agriculture	5,800	6,000	6,300	6,200	6,000
Mining and Logging	200	200	200	300	200
Construction	8,600	8,800	9,900	10,500	11,500
Manufacturing	20,200	19,700	20,100	20,400	21,800
Wholesale Trade	6,600	6,900	7,400	7,700	7,500
Retail Trade	22,000	22,700	23,700	24,300	24,600
Transportation, Warehousing and Utilities	3,800	3,900	4,100	4,300	4,300
Information	2,500	2,600	2,600	2,700	2,700
Finance and Insurance	4,700	4,600	4,700	4,800	4,900
Professional and Business Services	18,100	18,200	19,300	20,200	20,700
Educational and Health Services	27,300	28,800	30,700	32,100	32,200
Leisure and Hospitality	20,500	21,800	22,800	24,000	24,600
Other Services	6,100	6,300	6,600	6,700	7,000
Federal Government	1,600	1,500	1,400	1,400	1,300
State Government	4,700	4,700	4,600	5,000	5,100
Local Government	22,100	21,900	22,900	24,900	25,400
Total, All Industries ⁽³⁾	177,600	181,100	189,900	198,200	202,900

(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.

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 2010 through 2014:

Table B-15
CITY OF SANTA ROSA
Effective Buying Income
2010 through 2014

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
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
2012	City of Santa Rosa	\$3,630,260	\$42,715
	Sonoma County	11,312,430	45,164
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Santa Rosa	\$4,139,593	\$49,267
	Sonoma County	12,795,860	51,899
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Santa Rosa	\$4,339,873	\$50,465
	Sonoma County	13,365,133	53,069
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: The Nielsen Company (US), Inc.

Commercial Activity

Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables. Annual figures are not yet available for calendar years 2014 or 2015.

Total taxable sales during the first three quarters of calendar year 2014 in the City were reported to be \$2,244,191,000, a 6.70% increase over the total taxable sales of \$2,103,000,000 reported during the first three quarters of calendar year 2013.

Table B-16
CITY OF SANTA ROSA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	2,928	\$1,944,429	4,596	\$2,326,477
2010	2,975	2,024,801	4,614	2,414,078
2011	3,047	2,164,876	4,710	2,616,018
2012	3,152	2,274,177	4,837	2,744,427
2013	3,420	2,401,094	5,144	2,907,024

Source: State of California, Board of Equalization.

Total taxable sales during the first three quarters of calendar year 2014 in the County were reported to be \$6,225,457,000, a 6.48% increase over the total taxable sales of \$5,846,509,000 reported during the first three quarters of calendar year 2013.

Table B-17
SONOMA COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	10,645	\$4,413,001	16,810	\$6,263,829
2010	10,997	4,583,801	17,303	6,485,950
2011	10,799	4,895,477	16,972	6,962,114
2012	11,105	5,228,062	17,311	7,382,997
2013	11,586	5,618,188	17,788	8,017,882

Source: State of California, Board of Equalization.

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City and the County. Annual figures are not yet available for calendar year 2015.

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

<u>Permit Valuation</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
New Single-family	\$16,842.8	\$42,075.9	\$23,963.3	\$30,912.3	\$38,616.3
New Multi-family	15,183.8	7,087.8	24,998.2	43,091.6	6,475.3
Res. Alterations/Additions	<u>12,493.8</u>	<u>16,152.1</u>	<u>12,194.6</u>	<u>15,752.1</u>	<u>17,349.9</u>
Total Residential	44,520.4	65,315.8	61,156.1	89,756.0	62,441.5
 New Commercial	 971.9	 212.2	 11,324.2	 21,853.7	 10,726.1
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	6,793.0	0.0	0.0	0.0	1,911.5
Com. Alterations/Additions	<u>36,251.4</u>	<u>29,700.3</u>	<u>35,185.9</u>	<u>18,597.4</u>	<u>29,499.3</u>
Total Nonresidential	44,016.3	29,912.5	46,510.1	40,451.1	42,136.9
 <u>New Dwelling Units</u>					
Single Family	86	184	103	125	186
Multiple Family	<u>138</u>	<u>71</u>	<u>136</u>	<u>359</u>	<u>64</u>
TOTAL	224	255	239	484	250

Source: Construction Industry Research Board, Building Permit Summary.

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

<u>Permit Valuation</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
New Single-family	\$68,353.1	\$114,931.4	\$81,742.3	\$91,419.1	\$69,788.4
New Multi-family	19,869.4	16,401.6	50,309.2	51,210.7	91,806.3
Res. Alterations/Additions	<u>54,555.7</u>	<u>63,334.6</u>	<u>41,061.7</u>	<u>59,124.5</u>	<u>64,228.0</u>
Total Residential	142,778.3	194,667.6	173,113.2	201,754.3	225,822.7
 New Commercial	 1,482.3	 5,855.3	 43,428.1	 60,889.7	 55,718.9
New Industrial	0.0	0.0	2,001.3	0.0	0.0
New Other	23,433.4	4,902.2	0.0	9,776.3	8,657.2
Com. Alterations/Additions	<u>65,119.6</u>	<u>69,301.5</u>	<u>76,946.1</u>	<u>55,293.2</u>	<u>70,889.7</u>
Total Nonresidential	90,035.2	80,059.0	122,375.5	125,959.2	135,265.8
 <u>New Dwelling Units</u>					
Single Family	280	443	279	295	292
Multiple Family	<u>190</u>	<u>184</u>	<u>318</u>	<u>732</u>	<u>214</u>
TOTAL	470	627	597	1,027	506

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. Northwestern Pacific Railroad provides rail transportation with the County with connections to major rail interchanges. 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 bisect the County; the major freeway is U.S. Highway 101, which runs north-south. State Highway 12 is the major east-west thoroughfare.

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.

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 C

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

APPENDIX D
PROPOSED FORM OF FINAL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
City of Santa Rosa
2016 Certificates of Participation
(Courthouse Square Project and 2007 Lease Refinancing)

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 certificates of participation captioned above (the “**Certificates**”). The Certificates evidence the direct, undivided fractional interests of the owners thereof in lease payments to be made by the City under a Lease Agreement dated as of _____ 1, 2016 (the “**Lease Agreement**”) between the Public Property Financing Corporation of California (the “**Corporation**”), as lessor, and the City as lessee. The Certificates will be delivered under a Trust Agreement dated as of _____ 1, 2016 (the “**Trust Agreement**”) among the City, the Authority and [Trustee], as trustee (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 Certificates and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, 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.

“*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 [Trustee], 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).

“*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 dated _____, 2016, executed by the City in connection with the issuance of the Certificates.

“Participating Underwriter” means Raymond James & Associates, Inc., as the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“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, 2016, with the report for the 2014-15 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. 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; 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 and the Participating Underwriter, 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) Audited Financial Statements of the City 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 time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial

statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following information for the most recently completed fiscal year:

(i) An update to Table B-3 in the Official Statement entitled "Statement of Revenues, Expenditures and Changes in Fund Balance General Fund."

(ii) An update to Table B-4 in the Official Statement entitled "Major Tax Revenues by Source - General Governmental Activities."

(iii) An update to Table B-7 in the Official Statement entitled "Assessed Value and Estimated Actual Value of Taxable Property."

(iv) An update to Table B-8 in the Official Statement entitled "Principal Property Tax Payers."

(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 Certificates:

- (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, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, 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, and the Participating Underwriter 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 Certificates under the Trust Agreement.

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 Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. 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. Any Dissemination Agent may resign by providing 30 days' written notice to the City. The initial Dissemination Agent is [Trustee].

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 Certificates, 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 Certificates, 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 Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement 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 Certificates.

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 Certificates 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 Trust Agreement, 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. 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 Certificates, and shall create no rights in any other person or entity.

Section 13. 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: _____, 2016

CITY OF SANTA ROSA

By _____
City Manager

ACCEPTED AND AGREED:

[Trustee],
as Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Santa Rosa

Name of Issue: \$_____ City of Santa Rosa
2016 Certificates of Participation
(Courthouse Square Project and 2007 Lease Refinancing)

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the City of Santa Rosa has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate dated as of _____, 2016, executed by the City of Santa Rosa. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SANTA ROSA

By _____
Name:
Title:

APPENDIX F

BOOK ENTRY PROVISIONS

The following description of the Depository Trust Company, New York, New York (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments with respect to the Certificates to DTC Direct and Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates and other related transactions by and between DTC, DTC’s Direct and Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC’s Direct and Indirect 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 DTC’s Direct and Indirect Participants, as the case may be.

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

No assurances can be given that DTC, DTC’s Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC’s Direct Participants or 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’s Direct Participants and Indirect Participants are on file with DTC.

1. DTC 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. *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.

APPENDIX G

CITY OF SANTA ROSA STATEMENT OF INVESTMENT POLICY