NEW ISSUE — BOOK-ENTRY ONLY **RATINGS: Moody's: “”**
S&P: “”
(See “CONCLUDING INFORMATION — Ratings” herein.)

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

$____________
CITY OF SAN LEANDRO
2012 TAXABLE PENSION OBLIGATION BONDS

Dated: Date of Delivery **Due: June 1; see inside cover**

The Bonds. The Bonds will be issued as fully registered bonds in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company (“**DTC**”), New York, New York. Individual purchases of the Bonds will be in principal amounts of $5,000 or in any integral multiples of $5,000. Interest on the Bonds will be payable on [June 1 and December 1] of each year, commencing [June 1, 2012], and principal payable on the Bonds will be paid on [June 1] in the years set forth on the maturity schedule on the inside cover of this Official Statement. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, as trustee (the “**Trustee**”), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS”.

Purpose. The Bonds are being issued pursuant to (i) the provisions of an Indenture of Trust, dated as of _________ 1, 2012 (the “**Indenture**”), between the City and U.S. Bank National Association, as trustee (the “**Trustee**”) and (ii) a resolution of the City Council of the City of San Leandro (the “**City**”), adopted on September 19, 2011. The Bonds are being issued to (i) refund the “side fund” obligations of the City to the California Public Employees’ Retirement System (“**PERS**”) with respect solely to the City’s Public Safety Plan and (ii) pay costs of issuing the Bonds. See “PLAN OF FINANCING”.

Redemption. The Bonds are subject to optional redemption prior to maturity. [The Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity.] See “THE BONDS – Redemption of Bonds.”

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

MATURITY SCHEDULE
(See inside cover)

THE BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE PAYMENTS ON THE BONDS CONSTITUTES AN 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.

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

The Bonds are offered when, as and if sold and issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriters by Lofton & Jennings, San Francisco, California, Underwriters' Counsel. It is anticipated that the Bonds in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about __________, 2012.

MORGAN KEEGAN & COMPANY, INC. **WEDBUSH SECURITIES, INC.**

Dated: __________ 1, 2012

$____________

CITY OF SAN LEANDRO
2012 TAXABLE PENSION OBLIGATION BONDS

MATURITY SCHEDULE
(Base CUSIP:†)

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†

$_______ ___% Term Bonds due _______, Price: ____% CUSIP:

____

† Copyright 2012, 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. None of the City or the Underwriters assume any responsibility for the accuracy of these CUSIP data.

CITY OF SAN LEANDRO, CALIFORNIA

CITY COUNCIL

Stephen H. Cassidy, *Mayor*
Michael J. Gregory, *Vice Mayor*
Pauline Russo Cutter, *Councilmember*
Jim Prola, *Councilmember*
Ursula Reed, *Councilmember*
Diane M. Souza, *Councilmember*
Joyce R. Starosciak, *Councilmember*

CITY STAFF

Lianne Marshall, *Interim City Manager*
Jim O'Leary, *Interim Finance Director*
Carla Rodriguez, *Deputy Finance Director*
Marian Handa, *City Clerk*
Jayne Williams, *City Attorney*

SPECIAL SERVICES

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

Actuarial Services

Bartel Associates, LLC
San Mateo, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

Stabilization of Prices**.** In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds 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 Underwriters.

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

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

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

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Location Map

$___________
CITY OF SAN LEANDRO
2012 TAXABLE PENSION OBLIGATION BONDS

INTRODUCTION

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

General

The purpose of this Official Statement (which includes the cover page, inside cover page and the Appendices) is to provide information concerning the issuance of the captioned 2012 Taxable Pension Obligation Bonds (the "**Bonds**").

The City

The City of San Leandro (the "**City**") is located in central Alameda County, California, approximately 20 miles southeast of San Francisco. Its neighboring cities include Oakland and Hayward. The City was incorporated in 1872 and established as a charter city in 1978. The City has an area of 15 square miles. The estimated population of the City as of January 1, 2011 was 85,490.

For other selected information concerning the City, see "APPENDIX A - City of Leandro General Demographic and Financial Information."

Authority for the Bonds

The Bonds are being issued pursuant to (i) the provisions of an Indenture of Trust, dated as of __________ 1, 2012 (the "**Indenture**"), between the City and U.S. Bank National Association, as trustee (the "**Trustee**") and (ii) a resolution of the City Council of the City, adopted a regularly scheduled meeting of the City Council on September 19, 2011, by a unanimous vote of the City Council members who were present (the "**Resolution**").

Purpose

The proceeds of the sale of the Bonds will be used to (i) refund the City's outstanding "side fund" obligations to the California Public Employees' Retirement System (**"PERS"**) with respect to the City's public safety plan, which are due pursuant to a contract between the City and the Board of Administration of PERS, effective July 1, 1944, as amended (the **"PERS Contract"**), and (ii) pay costs of issuance of the Bonds. See "PLAN OF FINANCING."

Security for the Bonds

The obligations of the City under the Bonds, including the obligation to make all payments of principal of and interest on the Bonds when due and the obligation of the City to make the deposits required for the security of the Bonds, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim.

The City covenants pursuant to the Indenture to take such action as may be necessary to include in each of its annual budgets the payments required to be made by the City under the Indenture, and to make the necessary annual appropriations for all such payments. If any payment of Debt Service requires the adoption by the City of a supplemental budget or appropriation, the City covenants to promptly adopt the same.

The City is not funding a debt service reserve fund for the Bonds.

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

Redemption

The Bonds are subject to redemption prior to their stated maturity, at the option of the City, in whole or in part, as described in this Official Statement. [The Bonds maturing on June 1, 20__ are also subject to mandatory redemption as described in this Official Statement.] See “THE BONDS – Redemption of the Bonds”.

Limited Obligations

The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make payments on the Bonds constitute an indebtedness of the City, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Summaries Not Definitive

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

Copies of the documents described in this Official Statement will be available at the City Manager’s office, City of San Leandro, 835 East 14th Street, San Leandro, California 94577-3767.

PLAN OF FINANCING

General

The Bonds are being issued to: (i) refund the City's obligation to PERS with respect to the "side fund" obligation of its public safety plan evidenced by the PERS Contract and (ii) pay the costs of issuance of the Bonds.

Refunding of Obligations Under the PERS Contract

City Pension Plans in General. PERS maintains two pension plans for the City, a Public Safety Plan (the **"Safety Plan"**) and a Miscellaneous Plan (the **"Miscellaneous Plan"** and, together with the Safety Plan, the **"PERS Plans"**). The City contributes to PERS amounts equal to the recommended rates for the PERS Plans determined by the PERS actuary multiplied by the payroll of those employees of the City who are eligible under PERS. See "THE CITY'S PENSION PLAN" below for additional information. The City is not refunding any other of its obligations with respect to the Safety Plan or the obligations of the City with respect to the Miscellaneous Plan with proceeds from the sale of the Bonds.

Side Funds in General. Since the June 30, 2003 PERS valuation, when a pension plan has less than 100 members, PERS includes such members in a risk pool with other public agency plans. When a local agency enters a risk pool and has an existing unfunded actuarial accrued liability (the "**Prior UAAL**"), the Prior UAAL is put in a side fund (the "**Side Fund**") for the individual agency to pay outside the risk pool. The Side Fund functions like a loan. The loan repayment schedule to pay off the Prior UAAL is developed by PERS: the loan is amortized over a fixed number of years at the current interest rate of 7.75%.

The City's Side Fund. The Safety Plan has a Prior UAAL in a Side Fund. The Miscellaneous Plan does not have a Side Fund.

Purpose of the Bonds. ***The Bonds are being issued solely for the purpose of refunding the Prior UAAL of the City's Safety Plan which has been placed in a Side Fund.***

The City will pay off its Safety Plans Side Fund balance with proceeds of the Bonds. Based upon "pay-off" letters provided by PERS, the lump sum payment due with respect to the Safety Plan Side Fund on __________ 1, 2012 is $[_____]. [CONFIRM - TO COME FROM PERS]. See "CITY'S PENSION PLAN."

The PERS Contract is an absolute and unconditional obligation imposed upon the City by law, and is not limited as to payment from any source of funds of the City. Upon the refunding of the PERS Contract with the proceeds of the Bonds, the City's obligation with respect to Bonds will also be an absolute and unconditional obligation imposed upon the City by law, and will not be limited as to payment to any special source of funds of the City. See "SECURITY FOR THE BONDS" and "JUDICIAL VALIDATION."

Estimated Sources and Uses of Funds.

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

SOURCES OF FUNDS:	
Principal Amount of Bonds	$
Less Original Issue Discount	( )
Total Sources:	$
USES OF FUNDS:	
Payment of Side Fund balance	$
Costs of Issuance Fund[(1)]	
Total Uses:	$

(1) Includes Underwriters' discount, legal fees, trustee fees, printing expenses, [actuarial costs] and other costs of issuing the Bonds.

THE BONDS

General

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

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

Interest on the Bonds is payable on [June 1 and December 1] of each year, commencing [June 1, 2012], and continuing to and including the date of maturity or redemption, whichever is earlier.

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

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

Bonds may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The

Trustee may charge the Owner a reasonable sum for each new Bond issued upon any exchange and the Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee is not required to register the transfer or exchange of any Bond during the period the Trustee is selecting Bonds for redemption or any Bond selected for redemption.

Redemption of the Bonds

[Optional Make-Whole Redemption. The Bonds are subject to redemption prior to their stated
maturity, at the option of the City, in whole or in part (and if in part, to be selected as described below), on any Business Day, at the respective Make-Whole Redemption Price (as defined below) for such maturity.

The "Make-Whole Redemption Price" for a particular maturity means the greater of:

(i) 100% of the initial public offering price of such maturity, but in no case less than principal amount of the Bonds of such maturity to be redeemed, or

(ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds of such maturity to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "Comparable Treasury Issue Rate" plus [__] basis points,

plus, in each case, accrued and unpaid interest with respect to the Bonds of such maturity to be redeemed on the redemption date.

The Make-Whole Redemption Price will be determined on the Valuation Date by an independent accounting firm, investment banking firm, or financial advisor retained by the City, at the City's expense, to make such calculation. The Trustee and the City may conclusively rely on such determination and will not be liable for such reliance.

For the purpose of determining the Make-Whole Redemption Price, the definitions of "Comparable Treasury Issue", "Comparable Treasury Issue Rate" and "Valuation Date" set forth in the Indenture shall apply.

Optional Redemption at Par. The Bonds maturing on or after June 1, 20__ are also subject to redemption at the option of the City prior to their respective maturity dates in whole or in part (and if in part, to be selected as described in the Indenture), on any Business Day on or after June 1, 20__, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued but unpaid interest to the date fixed for redemption, without premium.

The City shall give the Trustee written notice of its intention to redeem Bonds under the Indenture, and the manner of selecting such Bonds for redemption from among the maturities thereof and the amount of the redemption premium thereon, at least 45 days prior to the date set for redemption to enable the Trustee to give notice of such redemption in accordance with the Indenture.]

Mandatory Sinking Fund Redemption. The Bonds with a maturity date of June 1, 20__ (the "**Term Bonds**") are subject to mandatory redemption, within a maturity on a pro rata basis among the Beneficial Owners of the Term Bonds of such maturity, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following table.

Term Bonds Maturing
June 1, 20__

Sinking Fund Redemption Date (June 1)	Principal Amount To Be Redeemed
(Maturity)	

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a maturity, the Trustee shall select the Bonds to be redeemed on a pro rata basis among the Beneficial Owners of the Bonds of such maturity. For purposes of such selection, all Bonds will be deemed to be comprised of separate $5,000 denominations and such separate denominations will be treated as separate Bonds which may be separately redeemed. If only a portion of a Bond is called for redemption, then upon surrender of such Bond the City will execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

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

Notice of Redemption. The Trustee on behalf and at the expense of the City will mail (by first class mail) notice of any redemption to the respective owners of Bonds designated for redemption at their respective addresses appearing on the registration books, to the Bond Insurer, the Securities Depositories and the Municipal Securities Rulemaking Board, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however,* that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice must state the date of the notice, the redemption date, the redemption place and the redemption price and must designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and must require that such Bonds be then surrendered at the office of the Trustee identified in such notice for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Book-Entry System

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

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

DEBT SERVICE SCHEDULE

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

CITY OF SAN LEANDRO
2012 Taxable Pension Obligation Bonds
Debt Service Schedule

Period Ending	Principal	Interest	Total Debt Service

SECURITY FOR THE BONDS

Source of Payment

The City is obligated to satisfy its obligations under the Bonds from any legally available funds. The obligations of the City under the Bonds, including the obligation to make all payments of principal of and interest on the Bonds when due and the obligation of the City to make the deposits required under the Indenture for the security of the Bonds, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The City has other obligations payable from its General Fund, and the Indenture does not limit the amount of General Fund obligations that the City may incur.

The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligations of the City to make payments on the Bonds constitute an indebtedness of the City, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Pursuant to the Indenture, the City covenants to take such action as may be necessary to include in each of its annual budgets the payments required to be made by the City to pay principal of and interest on the Bonds, and to make the necessary annual appropriations for all such payments. If any payment of debt service requires the adoption by the City of a supplemental budget or appropriation, the City has covenanted in the Indenture to promptly adopt the same. The covenants on the part of the City are deemed to constitute 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 Indenture.

As required pursuant to the Indenture, each year promptly following the adoption of an annual budget which includes the appropriations required with respect to payment of debt service on the Bonds, but in any event not later than July 15 in each fiscal year, the City must certify to the Trustee that it has complied with the requirements of the Indenture with respect to the annual budget and appropriation of annual debt service payments on the Bonds with respect to such fiscal year.

The assets of PERS are not available for payment of the Bonds and the Bonds do not constitute an obligation of PERS. Moreover, any changes in future pension plan benefits and any pension reform measures will not impact the obligation of the City to pay the Bonds, which obligation is absolute and unconditional.

Debt Service Fund

Pursuant to the Indenture, the City will transfer an amount of legally available funds to the Trustee for deposit in the debt service fund established pursuant to the Indenture (the **"Debt Service Fund"**) at the times and in the amounts sufficient to pay debt service on the Bonds.

The Debt Service Fund will be held by the Trustee and so long as any Bonds are outstanding, the amounts on deposit therein will be used to pay principal of, premium, if any, and interest on the Bonds.

Not later than the third Business Day immediately preceding each Interest Payment Date, the City is required to transfer to the Trustee for deposit in the Interest Account and the Principal Account, as applicable, of the Debt Service Fund, an amount which, when added to the amount then on deposit in the such Account, equals the aggregate amount coming due and payable on the Bonds on such date.

Funds held by the Trustee may be invested in Permitted Investments (as defined in the Indenture) specified by the City. In the absence of any such direction from the City, the Trustee will invest any such amounts in Permitted Investments consisting of money market funds.

The Bonds are not Lease Revenue Bonds

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

PERS PENSION PLANS

General. The following information concerning PERS is excerpted from publicly available sources, which the City believes to be accurate. PERS is not obligated in any manner for payment of debt service on the Bonds, and the assets of PERS are not available for such payment. PERS should be contacted directly at CalPERS, Lincoln Plaza, 400 P Street Sacramento, California 95814 or (888) 225-7377 for other information, including information relating to its financial position and investments.

The City provides retirement benefits to certain of their employees through contracts with PERS, a multiple-employer public sector employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS maintains more than one pension plan for cities based on the type of employee (i.e. a city may have a plan for "Safety Employees" and a separate plan for "Miscellaneous Employees"). The City contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the City who are eligible under PERS.

Actuarial Valuations. The staff actuaries at PERS prepare annually an actuarial valuation which covers a fiscal year ending approximately 15 months before the actuarial valuation is prepared. The actuarial valuations express the City's required contribution rates in percentages of payroll, which percentages the City must contribute in the fiscal year immediately following the fiscal year in which the actuarial valuation is prepared. PERS rules require the City to implement the actuary's recommended rates.

In calculating the annual actuarially recommended contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the PERS Plans, which includes two components, the normal cost and the unfunded actuarial accrued liability (the "**UAAL**"). The normal cost represents the actuarial present value of benefits that PERS will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that PERS will fund under the PERS Plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the PERS City owe to PERS under their respective PERS Plans.

In each actuarial valuation, the PERS actuary estimates the actuarial value of the assets (the **"Actuarial Value"**) of the PERS Plans at the end of the fiscal year. The PERS actuary assumes, among other things, that the rate of return during that fiscal year, which assumed rate of return is established by PERS and the City has no ability to predict the assumed rate of return from time to time. The PERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies changed significantly in April 2005, affecting the Actuarial Value calculation for Fiscal Year 2006-07 and beyond.

PERS Actuarial Assumptions and Policies. As a result of the economic downturn in 2008 and 2009, PERS experienced a negative investment return of approximately 24% for its fiscal year ended on June 30, 2009. The PERS Board has adopted policies aimed at stabilizing rising employer costs and mitigating the impact of such investment declines. These policies are used to set employer contribution rates for each city. Current policies, as described in Circular Letter #200-056-09 dated August 25, 2009, include, but are not limited to:

- Using a 3-year phase in for Fiscal Year 2008-09 investment losses and allowing time for the economy to recover. This phased in approach will be achieved by temporarily relaxing the constraints on the smoothed value of assets around the actual market value of assets. This corridor which constrains the smoothed value of assets will be allowed to expand and then contract with the following conditions:

    1. Increase the corridor limits for the actuarial value of assets from 80-120% of the market value of 60-140% of market value on June 30, 2009, which impacts the Fiscal Year 2011-12 contribution rate.

    2. Reduce the corridor limits for the actuarial value of assets to 70-130% of market value on June 30, 2010, which impacts the Fiscal Year 2012-13 contribution rate.

3. Return to the 80-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter which impacts the Fiscal Year 2013-14 and fiscal years beyond contribution rates.

- Isolate the asset loss outside of the 80-120% corridor and pay for it with a disciplined fixed and certain 30 year amortization schedule.

The City, as advised by its provider of Actuarial Services, is not aware of any measures similar to those provided in Circular Letter #200-056-09 that have been utilized by PERS to mitigate the impact of any prior economic downturns.

For complete updated inflation and actuarial assumptions, please contact PERS at the above-referenced address.

THE CITY'S PENSION PLAN

The City's PERS Plan Generally. The PERS Contract represents the City's contractual and statutory obligation to make such payments to PERS on behalf of plan participants. Payments under the PERS Contract are an absolute and unconditional obligation imposed upon the City and enforceable against the City and are not limited as to payment as to any special source of funds of the City.

As described in "PLAN OF FINANCING,", PERS maintains two pension plans for the City: the Safety Plan and the Miscellaneous Plan. The City contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the City who are eligible under PERS. See "PERS PENSION PLANS."

As described in "PLAN OF FINANCING," above, because the Safety Plan has less than 100 members, a Side Fund was created for it in 2003. This Side Fund is being repaid over an amortization period ending in Fiscal Year 2024, currently bearing interest at 7.75% per annum.

The Bonds are being issued for the purpose of refunding the Side Fund obligations of the City's Safety Plan. See "PLAN OF FINANCING." ***It is important to be aware that the City is only refinancing the Side Fund obligations related to its Safety Plan; it is not refinancing the other pension obligations of the City with respect to its Safety Plan or the Miscellaneous Plan.*** For information regarding the City's Miscellaneous Plan and its funded status, see "APPENDIX A – CITY OF SAN LEANDRO GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION – Employee Retirement System."

Safety Plan. Certain key trends with respect to the City's Safety Plan as identified in the actuarial valuations prepared by PERS for the Safety Plan are summarized in the tables below. The Safety Plan Side Fund, the balance of which is being refunded with proceeds of the Bonds, has a final amortization date in Fiscal Year 2023-24.

Table 1
CITY OF SAN LEANDRO
Safety Plan
Employer Contribution Rates

Fiscal Year	Pool's Employer Normal Cost	Pool's Payment on Amort. Bases	Surcharge Benefits	Phase Out of Normal Cost Difference	Amortization of Side Fund[(1)]	Total Employer Contribution	Total Employer Contribution Rate[(2)]
2009-10	$1,690,097	$186,632	$291,545	$5,853	$2,330,249	$4,504,376	41.560%
2010-11	1,741,616	273,877	299,712	0	2,405,982	4,721,187	42.579%
2011-12	2,044,521	706,005	325,189	0	2,484,177	5,559,892	46.676%
2012-13	n/a	n/a	n/a	n/a	n/a	n/a	47.9%

(1) A negative Side Fund (see Table 2 below) causes the employer contribution rate to be increased by this amount; PERS assumes a certain amortization period, following which the Side Fund will be fully paid.
(2) Expressed as a percentage of payroll. 2012-13 projected by PERS.
Sources: PERS actuarial valuations dated as of June 30, 2008 and and as of June 30, 2009.

"n/a" data is presently not available. Bianca Lin will provide from the 6/30/10 PERS report within the next several weeks.

Table 2
CITY OF SAN LEANDRO
Safety Plan
Funded Status of Side Fund

Valuation Date (June 30)	Safety Side Fund
2007	$(26,006,864)
2008	(25,753,414)
2009	(25,406,581)
2010	(24,956,730)
2011	(24,393,402)

Sources: PERS actuarial valuations dated as of June 30,2008 and as of June 30, 2009.

Safety Plan Side Fund Balance Pay-off. The City will pay off its Safety Plan Side Fund balance with proceeds of the Bonds, based upon "pay-off" letters provided by PERS. The lump sum payment due with respect to the Police Safety Plan on __________ 1, 2012 is $[24,393,402]. [CONFIRM - TO COME FROM PERS].

RISK FACTORS

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

Limitations on Remedies Available; Bankruptcy

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

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

Assessed Value of Taxable Property; Delinquent Payment of Property Taxes

Natural and economic forces can affect the assessed value of taxable property within the City. The City is located in a seismically active region, and damage from an earthquake in or near the area could cause moderate to extensive damage to taxable property. Other natural or manmade disasters, such as flood, fire, toxic dumping, coastal erosion or acts of terrorism, could cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the regional economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Reductions in the market values of taxable property may cause property owners to appeal assessed values and may also be associated with an increase in delinquency rates for taxes. Section 2(b) of Article XIII A of the California Constitution and Section 51 of the Revenue and Taxation Code, which follow from "Proposition 8", require the County assessor to annually enroll either a property's adjusted base year value (its "**Proposition 13 Value**") or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 Value on the assessor's roll, that lower value is referred to as its "**Proposition 8 Value**".

Although the annual increase for a Proposition 13 Value is limited to no more than two percent, the same restriction does not apply to a Proposition 8 Value. The Proposition 8 Value of a property is reviewed annually as of January 1; the current market value must be enrolled as long as the Proposition 8 Value falls below the Proposition 13 Value. Thus, any subsequent increase or decrease in market value is enrolled regardless of any percentage increase or decrease. Only when a current Proposition 8 Value exceeds its Proposition 13 Value attributable to a piece of property (adjusted for inflation), the County assessor reinstates the Proposition 13 Value.

Decreases in the aggregate value of taxable property within the City resulting from natural disaster, reclassification by ownership or use, or as a result of the operation Proposition 8 all may have an adverse impact on the General Fund revenues available to make debt service payments on the Bonds.

In addition, failure by large property owners to pay property taxes when due may also cause a decrease in General Fund revenues available to make debt service payments on the Bonds.

See "- Natural Calamities" and "APPENDIX A, CITY OF SAN LEANDRO GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION – Assessed Valuation and Assessed Valuation History," below.

Public Safety and Security Issues

Military conflicts and terrorist activities may adversely impact the operation of the City. In addition, the City may experience a decrease with respect to their revenues because of any change in economic circumstances as a result of future military conflicts or terrorist activities. Such a reduction in revenues may include, but is not limited to, a decline in transient occupancy tax, franchise tax and sales tax revenues.

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

Pension Benefit Liability

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

Proposition 218

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218," for information about certain risks to the City's General Fund revenues under Articles XIIIC and Article XIIID of the California Constitution.

Natural Calamities

General. From time to time, the City is subject to natural calamities, including, but not limited to, earthquake, flood, wildfire, tsunami, or pipeline incident, that may adversely affect economic activity in the City, and which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to and costs for the City.

Seismic. The City is located in an area classified as Seismic Zone 4 by the Uniform Building Code (the "**UBC**"). The area includes all of the greater San Francisco Bay Area and all of coastal California. Seismic Zone 4 is the highest risk zone classification under the UBC.

Active earthquake faults underlie both the City and the surrounding Bay Area. The eastern edge of the city is crossed by the Hayward Fault, creating the potential for significant damage. The city is also vulnerable to damage from earthquakes on the San Andreas Fault, located 10 miles to the west, and the Calaveras Fault, located 10 miles to the east. All such major faults have numerous fault complexes and branches. Recent significant seismic events include the 1989 Loma Prieta earthquake on the San Andreas Fault, centered about 60 miles south of San Francisco, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires and collapses of and structural damage to buildings, highways and bridges in the Bay Area.

Enforcement of the UBC by the San Leandro Building Division helps ensure that new construction will withstand the forces associated with a major earthquake. However, many of the buildings in San Leandro pre-date the modern UBC and are susceptible to damage. The City is nearing completion of a multi-year program to retrofit unreinforced masonry buildings (URMBs), most of which are located in and around downtown.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey, the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of magnitude 6.7 or larger will occur in the Bay Area before the year 2038. Such earthquakes may be very destructive. The U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault, would likely cause hundreds of deaths and approximately $100 billion of damage. Property within the City could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the area's economic activity.

Flood. Flood hazards in San Leandro are associated with overbank flooding of creeks and drainage canals, dam failure, tsunamis, and rising sea level.

During the last 40 years, urbanization in the watersheds has increased impervious surface area, which has resulted in faster rates of runoff and higher volumes of storm water in the channels. Recent maps published by the Federal Emergency Management Agency (FEMA) indicate that a 100-year storm (e.g., a storm that has a one percent chance of occurring in any given year) could cause shallow flooding in parts of southwest San Leandro.

The City's Floodplain Management Ordinance requires that new construction, additions and major home improvement projects are raised at least one foot above the base flood elevation. The City is also working with the Alameda County Flood Control and Water Conservation City to increase the carrying capacity of flood control channels. Measures being pursued include redesign of the channels, replacing undersized culverts, and keeping the channels well-maintained and free of debris.

Most of the City would be flooded in the event of dam failure at the Lake Chabot or Upper San Leandro Reservoirs, which reservoirs are owned, maintained and operated by the East Bay Municipal Utility District. Such a flood could produce catastrophic damage and casualties in the City. The dams at both reservoirs have been seismically strengthened during the last 30 years, making the risk of failure extremely low.

Wildfire. The area of the City east of Interstate 580 is classified as a "moderate" fire hazard by the California Department of Forestry. The lack of a dense tree canopy is a mitigating factor as are the relatively wide streets, gentle slopes and grassland vegetation. Nevertheless, the city lies adjacent to thousands of acres of potentially flammable coastal scrub and forested open space. There are also a number of locations in the city, particularly along San Leandro Creek, with large eucalyptus trees and other highly flammable vegetation and combustible litter. The Uniform Fire Code specifies fire mitigation requirements that are enforced by the City's Building Division. The City also requires fire-resistant roofing materials in new construction and major remodeling projects.

Tsunami. Tsunamis are long-period waves usually caused by off-shore earthquakes or landslides. Because the San Leandro shoreline does not face the open ocean, the City believes that its risk of experiencing a tsunami is very low. A 100-year frequency tsunami would generate a wave run-up of 4.4 feet at the San Leandro shoreline. Most of the shoreline is protected by rip-rap (boulders) and would not be seriously affected.

Natural Gas Transmission Pipelines. On September 9, 2010 a Pacific Gas and Electric Company ("**PG&E**") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results, including the destruction of 38 homes. There are two similar transmission pipelines and numerous other types of pipelines owned, operated and maintained by PG&E located throughout the City.

PG&E's website (www.pge.com) provides information regarding its high pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. This information is summarized below.

According to its website, PG&E has a comprehensive inspection and monitoring program to ensure the safety of its natural gas transmission pipeline system, and uses a risk management program that inventories each of the 20,000 segments within PG&E's natural gas transmission pipeline system and evaluates them against criteria such as:

- the potential for third party damage like dig-ins from construction,
- the potential for corrosion,
- the potential for ground movement, and

- the physical design and characteristics of the pipe segment.

PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work.

Based on all of these factors, PG&E determines which segments warrant further evaluation, monitoring or other future action. PG&E has created a list of the "Top 100" segments to help inform future work plans (although it should be noted that the pipeline that caused the explosion in the City of San Bruno was not on the Top 100 list). As conditions change from year to year, PG&E reevaluates the segments included on the list. This list can be found on PG&E's website at: http://www.pge.com.

A pipeline segment may be placed into planning for further study and long-range planning based upon its risk for one of five factors:

- Potential for Third-Party Damage,
- Potential for Corrosion,
- Potential for Ground Movement,
- Physical Design and Characteristics, and
- Overall (did not score high in any one factor of the above factors, but scored moderately high in more than one factor).

As noted above, additional information may be found on PG&E's website, specifically at http://www.pge.com.

None of the natural gas transmission pipelines on the PG&E Top 100 list are located within the City. However, as noted above, the pipeline that caused the explosion in the City of San Bruno was not on the Top 100 list.

The City is not able to independently confirm the information set forth above or the information contained on the PG&E website with respect to PG&E's pipelines, and can provide no assurances as to its accuracy or completeness. Further, the City can provide no assurances as to the condition of PG&E pipelines in the City, or predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to explode.

Hazardous Substances

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

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

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

Litigation

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

Impact of State Budget on City Revenues

The State's financial condition and budget policies affect communities and local public agencies throughout California. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City, often to the detriment of such local agencies. Approximately 55% of the City's General Fund revenues for its Fiscal Year 2010-11 consisted of sales tax and other payments collected by the State and passed through to local governments or property tax collected by the County and allocated to local governments pursuant to State law. Approximately __% of the budgeted General Fund revenues of the City for Fiscal Year 2011-12 are expected to come from such sources.

To the extent that the State budget process results in reduced revenues to the City in any fiscal year, the City will be required to make adjustments to its budget for that fiscal year. The State's Fiscal Year 2010-11 and 2011-12 budgets each contained a number of measures that impact the finances of local agencies adversely.

Information on Current State Economic Difficulties and Budget.

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

• The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California reoffering circulars, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on local governments in the State.

• The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current reoffering circular, dated as of [_____], which discusses the State budget and its impact on local agencies in the State.

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

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

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

State Budget and its Impact on the City. The following information concerning State Budgets and potential impacts on the City have been obtained from publicly available information from the State Department of Finance, the State Treasurer and the California Legislative Analyst Office websites. The estimates and projections provided below are based upon various assumptions, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved. For further information and discussion of factors underlying the State's projections, see the aforementioned websites. The City and the Underwriters believe such information to be reliable, however, none of the City or the Underwriters take any responsibility as to the accuracy or completeness thereof and none have independently verified such information.

<u>Adoption of Annual State Budget</u>***.*** According to the State Constitution, the Governor of the State (the "**Governor**") must propose a budget to the State Legislature no later than January 10 of each year. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget (the "**State Budget**") must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may veto specific line items of expenditure.

When the State Budget is not adopted on time, portions of each city's and local agency's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: www.sco.ca.gov. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the City might experience delays in receiving certain expected revenues. The City is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the White decision, the City might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The City does not expect the White decision to have any long-term effect on its operating budgets.

The Budget Process. The State's fiscal year begins on July 1 and ends on June 30. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the California State Legislature (the "**Legislature**") takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

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

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

The City's budget must generally be adopted by July 1, and revised by the City Council within 35 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the 2010-11 Budget on October 8, 2010, the latest budget in State history.

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

State Economic Challenges, Prior Year State Budgets and Related Events. As noted above, the City's budget has, generally, been revised after the delivery of delayed State Budgets to reflect necessary changes in budgeted revenues and expenditures. Delays in the delivery of State budgets cause an element of uncertainty for the City and its Finance Department to contend with. Delayed payments from the State to the City, which are more common during periods in which the State faces economic challenges, also subject the City to additional risk, possibly causing the City to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year, with concurrent, market-contingent, borrowing costs for the City.

Since the beginning of 2010, the nation and the State have been gradually recovering from the worst recession since the Great Depression. National economic output has grown slowly as has personal income in both the State and the nation, and job growth has resumed. However, because of the magnitude of the economic displacement resulting from the recession, the State continues to face significant financial challenges, and related budgetary stresses. Exacerbating the State's challenges, as the State entered the recession, annual revenues generally were less than annual expenses, resulting in a "structural" budget deficit. This structural deficit was due in part to overreliance on temporary budgetary remedies in prior State Budget years, including one-time revenues, internal borrowing, payment deferrals, accounting shifts and expenditure reduction proposals that did not materialize.

Moreover, in recent years, the State's then-seated Governors and State Legislatures have repeatedly failed to deliver a timely State budget. The Governor signed the 2010-11 Budget on October 8, 2010, the latest budget in the State's history. Prior to signing this 2010 State Budget, and as a consequence of the State's ongoing budget deficit and financial challenges, Governor Arnold Schwarzenegger undertook several extraordinary and controversial fiscal measures. On July 1, 2010, Governor Schwarzenegger reduced over 200,000 employees' pay to the federal minimum wage until the then-ongoing budget impasse ended. The State Controller refused to pay employees at this minimum wage level, and, on July 16, 2010, a Sacramento County Superior Court judge denied the Governor's administration's request for a temporary restraining order that would have forced the State Controller to begin such payment.

Thereafter, on July 28, 2010, Governor Schwarzenegger declared a financial state of emergency and ordered 150,000 State workers to take three furlough days per month. On August 23, 2010, in an effort to conserve cash and delay the need to issue State promissory notes for payment of the State's accounts, State officials elected to delay payments of $2.5 billion per month to the State's public school districts, for the months of September through December 2010. This occurred after a prior $2.5 billion deferral in July 2010.

On August 18, 2010, the California Supreme Court issued a stay of a temporary restraining order of the Alameda County Superior Court issued, which would have prohibited the Governor from imposing the three furlough days on State workers. As a result of the stay, furloughs of State workers were to continue until arguments in a larger case regarding their legality could be heard. On August 25, 2010, the Sacramento County Superior Court scheduled a hearing for November 2010 to consider the merits of the State Controller's refusal to lower pay. Despite all of these extraordinary actions and events, the 2010 legislative session ended on August 31, 2010 with all then-proposed budget plans failing to be approved by the Legislature, on party-line votes.

On October 4, 2010, the California Supreme Court upheld the Governor's authority to furlough State workers when there is no budget in place. The Legislature passed the $87.5 billion 2010-11 Budget on the morning of October 8, 2010, over 100 days late, and Governor Schwarzenegger signed it that night, exercising his line-item veto authority to reduce spending by $963 million in order to raise the reserve level from $375 million to $1.3 billion. Total 2010-11 State Budget expenditure reductions were $8.4 billion, assuming federal funds of $5.4 billion and other solutions of almost $5.5 billion. The 2010-11 State Budget included pension reform measures, suspension of the Proposition 98 minimum guaranty to provide $49.7 billion in spending on K-14 Education in 2010-11 with related settle-up measures, personnel cost reductions from savings from recent agreements with unions and reductions and the extension of a temporary suspension of businesses' ability to use net operating losses to reduce tax liabilities.

In light of such a tumultuous 2010 State Budget process, on November 2, 2010, State voters approved Propositions 22, 25 and 26 of 2010. Proposition 22 amended the State's Constitution to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. Proposition 22 also prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. Proposition 22 is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes.

Proposition 25 lowered the vote threshold for lawmakers to pass the State Budget from two-thirds to a simple majority. Proposition 26 requires a two-thirds affirmative vote in the State Legislature and local governments to pass many fees, levies, charges and tax revenue allocations that under previous rules could be enacted by a simple majority vote.

<u>2011-12 State Budget</u>. Set forth below is a summary of the 2011-12 State Budget and budget process.

Initial LAO Report on Fiscal Year 2011-12; Legislature Called into Special Session on Budget Deficit. In their initial report for Fiscal Year 2011-12, the LAO forecasted that the State's general fund revenues and expenditures would show a budget deficit of $25.4 billion, consisting of a $6.1 billion projected deficit for Fiscal Year 2010-11 and a $19 billion gap between projected revenues and spending for Fiscal Year 2011-12. The LAO projected that the State will continue to face annual budget problems of approximately $20 billion each year through Fiscal Year 2015-16, and recommended that the Legislature initiate a multi-year approach to solving the State's recurring structural budget deficit, addressing permanent revenue and expenditure actions each year, together with temporary budget solutions, until the structural deficit is eliminated. On December 6, 2010, lame-duck Governor Schwarzenegger declared a fiscal emergency and called the new Legislature into special session to address the anticipated 2010-11 general fund deficit.

2011-12 Proposed Budget Submitted by Governor Brown to Legislature. On January 3, 2011, Edmund G. Brown Jr. was sworn in as Governor and warned that his budget plan would include severe cuts to State spending. On January 10, 2011, Governor Brown submitted his 2011-12 Proposed Budget to the Legislature. The 2011-12 Proposed Budget acknowledged a $26.4 billion budget deficit, consisting of an $8.2 billion deficit that would remain at the end of Fiscal Year 2010-11 (absent budgetary action), and an estimated $17.2 billion shortfall between current-law revenues and expenditures in 2011-12, with a proposed reserve of $1 billion. The 2011-12 Proposed Budget relied on a plan to submit to the voters at a special election in June 2011 a 5-year extension of the temporary sales tax, income tax, and vehicle license fee increases and maintaining a lower dependent exemption credit that was set to expire on June 30, 2011. The 2011-12 Proposed Budget also included $8.2 billion in one-time savings and borrowing. Those savings and borrowings included $1.8 billion in borrowing from special funds, $1.7 billion in property tax shifts, shifting $1.0 billion in Proposition 10 reserves to fund children's programs, and $0.9 million from Proposition 63 moneys to fund community mental health services. The Governor proposed to restructure the state-local relationship by shifting funding and responsibility to local government for certain services, resulting in a shift of an aggregate amount of $5.9 billion in State program costs to counties. The Governor also proposed eliminating redevelopment agencies.

The 2011-12 Proposed Budget included expenditure reductions that touched nearly every area of the State budget. Proposed reductions included cuts of $1.7 billion to Medi-Cal, $1.5 billion to California's welfare-to-work program, $1 billion to the University of California and California State University, $750 million to the Department of Developmental Services, and $580 million to state operations and employee compensation. Although the Governor's revenue proposals resulted in a $2 billion increase in the Proposition 98 minimum funding guarantee for schools above the current-law level, the 2011-12 Proposed Budget would have resulted in a small funding decline for K- 12 and more significant reductions for community colleges and child care programs.

The Governor called the Legislature to refer the proposed re-instatement of temporary tax increases described above to a statewide special election in June 2011, in an attempt to gain voter approval for the Governor's proposed increases. However, on March 31, 2011, the deadline for initiating such a special election passed without an agreement in the Legislature about whether to put such a re-instatement measure on the ballot. The measure may yet be presented to California voters at a later date. A 2011 ballot proposition voted on after the July 1 expiration could still re-instate the approved extensions for an additional five years.

January 12, 2011 LAO Report. An LAO report dated January 12, 2011 stated that the 2011-12 Proposed Budget estimates were reasonable, and the proposed multiyear and ongoing solutions showed great promise of making substantial improvements to the State's overall budget health. However, the LAO report recognized that the Governor's realignment and redevelopment proposals were extremely ambitious, implicating many legal, financial and policy issues, and that $12 billion of the Governor's proposed solutions were dependent upon voter approval in June 2011.

March 2011 Legislative Action. The Governor's proposed June 2011 special election was not approved. However, the Legislature passed a package of bills resulting in $11 billion in cuts and other solutions, including $5.5 billion in cuts to health and human services, $1.2 billion in cuts to the University of California and California State University systems, $2.2 billion in transportation debt service and other reductions, $531 million in revenue proposals and $2.8 billion in loans and transfers and other solutions.

May Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts (the "**May Revision**"). On May 16, 2011, Governor Brown issued his proposed May Revision of the State Budget. The May Revision reflected an assumed $6.6 billion in new state revenues over the current and budget years ($3.3 billion each year). In January 2011, the Governor had projected that, absent such solutions, budget gaps averaging more than $20 billion would continue for the next four years. By the time of the 2011-12 May Revision, these projected deficits had been reduced to around $10 billion per year through fiscal year 2014-15, as a result of permanent expenditure reductions enacted in March 2011. The Governor called for the Legislature to adopt $11 billion in new solutions to rebuild a modest reserve. The Governor planned to use almost all of the $6.6 billion in new revenues to reduce the need for some targeted tax extensions and to start paying down the State's $35 billion in debt.

The May Revision proposed that the Legislature act by the end of June 2011 to approve and the voters ratify in November 2011 the extension of current sales tax and vehicle license fee rates and the dependent credit exemption level for five years. If these tax extensions were approved, the budget provides an additional $3 billion to schools in 2011-12. This $3 billion was over and above the 2011-12 $49.4 billion Proposition 98 guarantee and funding level approved by the Legislature in March 2011. It was approximately $1 billion above the $51.3 billion funding level included in the Governor's January budget. However, the Governor proposed that $2.85 billion of the $3 billion go toward eliminating deferrals, not toward increased revenue limit funding. Additional revenues generated by the tax extensions would fund a major realignment of public safety programs.

The Governor proposed that the remaining savings from revenue increases and future revenue growth above current program funding be dedicated to paying off the State's $35 billion in debt. Under the Governor's proposal, at least $29 billion in deferrals and debt would be paid off by Fiscal Year 2014-15. The Governor's May Revision removed the proposed income tax extension and his proposal to eliminate the enterprise tax credit. The Governor continued to push for the elimination of redevelopment agencies.

May 19, 2011 LAO Report. The LAO's May 19, 2011 report on the Governor's May Revision concludes that the Governor's budget estimates in the May Revision were based on reasonable assumptions. However, the LAO notes, school districts, counties and the State faced uncertainty as to funding levels in the fiscal year because the Governor's revenue assumptions rely on the extension of temporary increases in personal income tax, sales and use tax and vehicle license fees to be approved by the voters. The LAO deemed the Governor's proposals worthy of legislative consideration, noting that in past budgets the State was unable to make significant inroads into its underlying operating shortfall due to a reliance on one-time and short-term solutions. In 2011, an estimated $6.6 billion improvement in state tax collections, and $13 billion in budgetary solutions already adopted by the Legislature, put the State in the position to dramatically reduce its budget problem in coming years.

Budget Bills Passed by Legislature; Vetoed by Governor. On June 15, 2011, the Legislature, with Democrats representing a majority thereof, passed a series of bills, including two budget bills without Republican support. On June 16, 2011, Governor Brown vetoed both budget bills. A series of trailer bills to the budget bills, including a set of bills that would redirect funds away from or terminate the existence of redevelopment agencies (ABX1 27 and ABX1 26, respectively), were passed by the Legislature and signed by the Governor.

June 28, 2011 Legislative Action. On June 28, 2011, the Legislature passed an $86 billion General Fund State Budget which closed the State's remaining $9.6 billion deficit. The 2011-12 Budget relied on $4 billion of additional revenue, which if not realized, will automatically trigger further cuts to universities, welfare, and schools. The 2011-12 Budget is also premised on $2.8 billion in deferrals to K-12 schools and community colleges and $1.7 billion in a controversial plan to direct funds away from redevelopment agencies pursuant to ABX1 27. The University of California and California State University funding allocations have been cut by $150 million each, and state courts also faced significant cuts. $650 million in new revenues was anticipated to come from enforcement of sales taxes collected by online merchants, rural fire fees, and a $12 car registration fee increase. Governor Brown signed the budget on June 30, 2011.

The complete 2011-12 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The City can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

Changes in 2011-12 State Budget. As noted above, on May 16, 2011, at the time the Governor issued the May revision of his proposed 2011-12 budget, the Governor asked the State Legislature to act by the end of June 2011 and the voters to ratify in November 2011 the extension of then-current sales tax and vehicle license fee rates and the dependent credit tax exemption level for the following five years. If those tax extensions were approved, the May revision proposed budget would have provided for an additional $3 billion for schools in 2011-12. As of [January 1, 2012], the Governor has remained unable to obtain the votes of the State Legislature needed to call a special statewide election for voters to consider the tax extensions included in the Governor's proposed 2011-12 budgets, and it remains unclear when, and if, the Governor will attempt to call such a special election.

Also as also noted above, the 2011-12 State Budget included a set of bills that provided for $1.7 billion in additional payments from communities with redevelopment agencies to fund school expenditures (ABX1 27) and that, initially, restricted redevelopment agency actions to create new debt and then will dissolve them (ABX1 26). Under the legislation, communities had until October 2011 to opt into the payments under ABX1 27, or the redevelopment agencies became subject to the dissolution provisions of ABX1 26. On July 18, 2011, *California Redevelopment Assoc. v. Matosantos* was filed in the first instance in the California Supreme Court. In this action, the California Redevelopment Association ("**CRA**") requested the Court to nullify ABX1 26 and ABX1 27 (principally on the grounds that they violate Proposition 22 of the State Constitution) and to stay the effectiveness of the two bills. On August 11, 2011, the California Supreme Court agreed to hear the case pursuant to an expedited process designed to provide a decision by January 15, 2012, the date when initial payments would be due under ABX1 27. As a consequence of this expedited schedule, both the 2011-12 State Budget and the City's Budget for Fiscal Year 2011-12 may be revised in accordance with the Supreme Court's decision within each such entities relevant 2011-12 Fiscal Year.

The execution of the 2011-12 State Budget may be affected by national and State economic conditions and other factors, possibly causing the revenue projections made in the 2011-12 State Budget to fall short. The City cannot predict the impact that the 2011-12 State

Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the City cannot predict the accuracy of any projections made in the State's 2011-12 State Budget.

[2012-13 State Budget. Set forth below is a summary of the 2011-12 State Budget and budget process.

UPDATE AS RELEVANT, JANUARY 2012.]

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and Governor to address the State's then-current or future budget deficits, whether they will be similar to those actions proposed or undertaken in prior State Budget years, and the nature of length of future State Budget negotiation processes. Future State Budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State Budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the City's ability to pay the Bonds.

Vehicle License Fees

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

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

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

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

Impact of Sales and Use Tax Redirection

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

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

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

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

State Law Limitations on Appropriations

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

Change in Law

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

Secondary Market

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

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

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CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the State Constitution

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

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

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

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

Article XIIIB of the State Constitution

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

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

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

The City's Article XIIIB appropriations limits for the three most recent Fiscal Years are as follows:

Fiscal Year	**Appropriations Limit**	**Amount Subject to Appropriations Limit**
2009-10	$144,076,152	$60,214,990
2010-11	148,861,890	68,227,605
2011-12	153,803,850	74,040,811

Source: City of San Leandro.

Proposition 62

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

Most of the provisions of Proposition 62, which was a statutory initiative, were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Claims for taxpayer relief where a local entity may have violated Proposition 62 are subject to a three-year statute of limitations, created by statute. In the case *Howard Jarvis Taxpayers Association v. City of La Habra* (2001), the California Supreme Court determined that this statute of limitations begins to run anew every time the city collects the challenged tax.

The City believes that all of the general and special taxes it collects as of the date hereof, and that all general and special taxes it has collected during the past three years, have been approved in compliance with the mandates set forth in Proposition 62. On November 2, 2010, 61.2% of voters considering the matter approved the City of San Leandro Sales Tax Increase, Measure Z ("**Measure Z**"), which increased the sales tax in the City by 0.25%, to be used by the City for general purposes..

Article XIIIC and XIIID of the State Constitution

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

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act”. Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA 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 XIIIC 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 XIIIC 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 Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

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

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

Burden of Proof. Article XIIIC 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 XIIID 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 XIIID.

Impact on City's General Fund. The approval requirements of Articles XIIIC and XIIID 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 XIIIC and XIIID will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 1A; Proposition 22

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

Proposition 1A of 2004 provided, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaimed that the shift is needed due to a severe state financial hardship, the shift was approved by two-thirds of both houses and certain other conditions were met. The State could also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

See the section entitled "RISK FACTORS – Impact of State Budget on City Revenues" for information about the State's Fiscal Year 2009-10 budget and a shift of local property revenues under Proposition 1A of 2004 (which must be repaid within three years).

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

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, are allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

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

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, and Propositions 1A of 2004, 22, 26 and 62 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

VALIDATION PROCEEDINGS

The City, acting pursuant to the provisions of Sections 860 *et seq*. of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State of California for the County of Alameda seeking judicial validation of the transactions relating to the issuance of the Bonds, and certain other matters (*City of San Leandro vs. All Persons Interested, etc.*, Case No. HG11597018). On November 10, 2011, the court entered default and issued a court judgment to the effect, among other things, that the Bonds are valid and binding obligations of the City under the Constitution and laws of the State. Pursuant to Section 870 of the California Code of Civil Procedure and Rule 2(a) of the California Rules of Court, the period during which a notice of appeal to this judgment could be timely filed expired, no challenge to the judgment was filed, and at that time the judgment became binding and conclusive in accordance with California law.

In issuing its approving opinion, Jones Hall, A Professional Law Corporation, has relied, among other things, upon the above-described validation of proceedings.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than March 31 after the end of each fiscal year of the City (currently June 30th), commencing with the report for the 2011-12 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX E – Form of Continuing Disclosure Certificate," attached to this Official Statement. These covenants have been made in order to assist the Underwriters (as defined below) in complying with Securities Exchange Commission Rule 15c2 12(b)(5).

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

CONCLUDING INFORMATION

Underwriting

Morgan Keegan & Company, Inc. and Wedbush Securities Inc. (together, the "**Underwriters**") have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of $_______ (being the principal amount of the Bonds, *less* an original issue discount of $_______and *less* an Underwriters' discount in the amount of $_______). The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all such Bonds if any Bonds are purchased. The Underwriters intend to offer the Bonds to the public initially at the prices and/or yields set forth on the inside cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

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

Legal Opinion

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

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

Tax Matters

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

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

Circular 230 Disclaimer

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

(a) The advice was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(b) The advice was written to support the promotion or marketing of the transactions or matters addressed by this official statement; and

(c) Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

ERISA Considerations

Section 406 of the Employee Retirement Income Security Act of 1974, as amended (**"ERISA"**) and Section 4975 of the Code, prohibit employee benefit plans (**"Plans"**) subject to ERISA or Section 4975 of the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, **"Parties in Interest"**) with respect to the Plan. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not relevant here). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and Parties in Interest.

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered Parties in Interest, with respect to certain plans. Prohibited transactions may arise under Section 406 of ERISA and Section 4975 of the Code if Series 2012 Bonds are acquired by a Plan with respect to which any Underwriter or any of its affiliates are Parties in Interest. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those transactions regarding securities purchased during the existence of an underwriting, investments by insurance company pooled separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by “qualified professional asset managers,” and transactions affected by certain “in-house asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA or Section 4975 of the Code will take place in connection with the acquisition of a Bond by or on behalf of a Plan, each prospective purchaser of a Bond that is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA or Section 4975 of the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary who proposes to cause a Plan to purchase Bonds should (i) consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and (ii) determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan’s investment portfolio.

Litigation

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

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

Ratings

Moody's Investors Service, a subsidiary of Moody's Corporation ("**Moody's**"), has assigned its municipal bond rating of “____” to the Bonds. Standard & Poor’s Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (“**S&P**”), has assigned its municipal bond rating of “____” to the Bonds.

These ratings reflect only the views of the rating agencies, and explanations of the significance of these ratings, and any outlooks assigned to or associated with these ratings, should be obtained from the respective rating agencies.

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

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

Financial Statements

Maze and Associates, Certified Public Accountants (the "**Auditor**"), audited the financial statements of the City for the Fiscal Year ended June 30, 2010. The Auditor's examination was made in accordance with generally accepted auditing standards and Governmental Auditing Standards, issued by the Comptroller General of the United States. See "APPENDIX C – Comprehensive Annual Financial Report for Year Ended June 30, 2010." [The City's June 30, 2011 audited financial statements are expected to be available on or before _____ 2011 and will be included in the City's first annual report pursuant to its continuing disclosure undertaking (see Appendix E).]

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

Miscellaneous

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

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

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

CITY OF SAN LEANDRO, CALIFORNIA

By:________________________________
Lianne Marshall
Interim City Manager

APPENDIX A

CITY OF SAN LEANDRO GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

[SUBJECT TO ONGOING UPDATING AND REVIEW BY THE CITY]

General

The City. The City of San Leandro (the "**City**") was incorporated in 1872 and is one of the oldest communities in the San Francisco Bay Area. Prior to its incorporation, the land that would become the City was inhabited by the ancestors of the Ohlone Nation, and further developed by Spanish and Portuguese settlers. From 1856 until 1868, San Leandro served as the county seat of Alameda County. The City presently occupies 15 square miles in central Alameda County, California, approximately 20 miles southeast of the City and County of San Francisco. Its neighboring cities include Oakland and Hayward and it is bordered on the west by the San Francisco Bay. The City offers its approximately 84,490 residents the quiet charm and character of a community that has been established for more than 130 years. The City was established as a charter city in 1978.

Once an agricultural community, San Leandro has been successful in attracting significant industrial, manufacturing and retail development to the area. The City has long been home to many food processing operations, and is home to many corporate businesses such as Ghirardelli and Otis Spunkmeyer and a Coca-Cola plant. There are five shopping centers: tBayfair Center, Westgate Center, Greenhouse Shopping Center, Marina Square Center, and Pelton Plaza. The industrial makeup of the City has been changing, moving away from its traditional manufacturing base toward more of an emphasis on services and warehousing industries.

The County. The City is located with in Alameda County in the State of California (the "**State**"). As of January 1, 2011, Alameda County (the "**County**") had a population estimated at 1,521,157, making it the seventh most populous county in California. The County includes the cities of Oakland and Berkeley, and Oakland is its county seat. The County occupies most of the East Bay region of the San Francisco Bay Area, spanning a total area of 821 square miles, of which 737 square miles (or 89.82%) is land and 83.57 square miles (or 10.18%) is water. The San Francisco Bay borders the County on the west, and the City and County of San Francisco, California has a small land border with the city of Alameda due to land filling. The crest of the Berkeley Hills form part of the northeastern boundary, and reaches into the center of the County. A coastal plain several miles wide lines the Bay; it is home to Oakland and the County's most populous regions. Livermore Valley lies in the eastern part of the County. The Hayward Fault, a major branch of the San Andreas Fault to the west, runs through the most populated parts of the County, while the Calaveras Fault runs through the southeastern part of the County.

The northern part of the County has direct access to San Francisco Bay and the City of San Francisco. It is highly diversified with residential areas, as well as traditional heavy industry, the University of California at Berkeley, the Port of Oakland, and sophisticated manufacturing, computer services and biotechnology firms. The middle of the County is also highly developed including older established residential and industrial areas. The southeastern corner of the County has seen strong growth in residential development and manufacturing. Many high-tech firms have moved from neighboring Silicon Valley in Santa Clara County to this area. The southwestern corner of the County has seen the most development in recent years due to land availability. Agriculture and the rural characteristics of this area are disappearing as the region maintains its position as the fastest growing residential, commercial and industrial part of the County.

City Structure. The City functions under a Mayor-Council-Manager form of government. Policy-making and legislative authority are vested in a seven member governing council consisting of the Mayor and six Council Members elected by City residents (the "**City Council**"). Municipal services provided include public safety; streets and roads; recreation, library and cultural services; health services; public infrastructure improvements; planning and zoning and general administrative services. The scope of the City Council's power and influence includes, but is not limited to the following:

***** The power to pass ordinances
***** The authority to establish and modify operating and capital budgets
***** The power to appoint voting members to other governing authorities and commissions
***** The power to appoint the City Manager, City Clerk and City Attorney
***** The ability to plan and direct operations
***** The authority to veto, modify, and overrule decisions

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 four years. The Mayor is elected at large and serves a four-year term. The Mayor and Council Members are elected at large and all are subject to two terms limits.

The City functions with significant financial interdependency between the various City funds. Manifestations of financial interdependency include taking responsibility for financing deficits, being entitled to operating surpluses, and giving implied guarantees ("**moral responsibility**") for debt obligations. The City has no discretely reportable component funds and/or units; the City's blended component funds and/or units include: operations of the San Leandro Redevelopment Agency, the San Leandro Parking Authority, the San Leandro Public Financing Authority, and the San Leandro Economic Development Agency. The City has two proprietary utility and enterprise funds. The Water Pollution Control Plant Enterprise fund was established to account for the City's sewers, which protect public health and preserve water quality through collection, treatment and disposal of the community's wastewater and wastewater solids. The Shoreline Enterprise Fund was established in Fiscal Year 2002-03 to combine the Marina Enterprise and the Golf Course Enterprise Funds. Certain infrastructure construction and community development activities are provided through a legally separate redevelopment agency. The City Council sits as the board of the redevelopment agency and the redevelopment agency functions, in essence, as a department of the City.

Population

The City's population at January 1, 2011, the most recent estimate, was 85,490 according to the State Department of Finance. The table below shows population estimates for the City, the County and the State for the last five years.

Table A-1
CITY OF SAN LEANDRO, COUNTY OF ALAMEDA AND STATE OF CALIFORNIA
Population Estimates

Calendar Year	City of Santa Leandro	County of Alameda	State of California
2007	82,310	1,470,622	36,399,676
2008	83,069	1,484,085	36,704,375
2009	83,951	1,497,799	36,966,713
2010	84,977	1,509,240	37,223,900
2011	85,490	1,521,157	37,510,766

Sources: U.S. Census Bureau for 2010, State Department of Finance, Population Estimates for Cities, Counties and State with Annual Percentage Change – January 1, 2010 and 2011 (May 2011) and Population Estimates for Cities, Counties and State with Annual Percentage Change 2001-2010 and 2010 Census counts (August 2011).

Transportation

Interstate Highway 580 (east-west), Interstate Highway 680 (north-south) and Highway 61 provide access to the nearby cities of Oakland, San Francisco, Sacramento, San Jose, and the Central Valley.

San Leandro is located seven miles from the Oakland International Airport, 35 miles from San Jose Municipal Airport and 25 miles from San Francisco International Airport. Deep water shipping facilities are available at the Port of Oakland and the Port of San Francisco, 10 miles and 20 miles from the City, respectively.

A.C. Transit provides regional bus service and connects with the Greyhound Terminal and two San Leandro Bay Area Rapid Transit (BART) stations. Two Bay Area Rapid Transit (BART) stations in the city connect San Leandro with San Francisco and cities in four county areas. San Leandro LINKS is a shuttle bus program for transporting employees in west San Leandro to and from the Downtown BART station. Three nearby international airports link San Leandro residents and businesses with every destination in the world. Oakland International Airport is just minutes away. The Port of Oakland, one of the West Coast's largest containerized cargo shipping facilities, is 10 miles north of the City. The Port's deep-water container terminal is the fourth largest and busiest in the nation, one of the top 40 container ports globally, and is served by over 35 shipping lines. San Leandro's prime location in the Bay Area benefits both the residents and the business community.

Employment and Industry

The City has a diverse and strong economy, with its business community comprised of a varied collection of businesses ranging from neighborhood coffee houses and fine restaurants, large food processing centers, and regional shopping opportunities, to cutting edge technology. While the economic base has dramatically changed from its agricultural early years, San Leandro continues to expand on its sound business base with the ongoing development of such projects as a new downtown parking structure, a multi-family housing development, a new regional hospital, and the continued revitalization of downtown San Leandro.

The recession resulting from the global financial and credit market meltdown in late 2008 has had a direct and dramatic impact on San Leandro's local revenues. While there are some signs of an economic recovery, it is very slow. The unemployment rate in the Oakland-Fremont-Hayward Metropolitan Division, of which San Leandro is a part, was 11.1% in January 2011, up from a revised 10.8% in December 2010, and below the year-ago estimate of 11.7%. This compares with an unadjusted unemployment rate of 12.7% for the State and 9.8% for the nation during the same period. The unemployment rate was 11.0% in the County, and 11.2% in Contra Costa County.

The following table shows civilian labor force and wage and salary employment data for the San Leandro Metropolitan Statistical Area, which is within the County, for the past five available calendar years.

Table A-2
OAKLAND-FREMONT-HAYWARD METROPOLITAN DIVISION
ALAMEDA, ALAMEDA COUNTIES
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2006	2007	2008	2009	2010
Civilian Labor Force [(1)]	1,257,500	1,272,700	1,287,800	1,288,600	1,277,400
Employment	1,202,500	1,213,000	1,208,500	1,153,000	1,133,200
Unemployment	55,000	59,800	79,200	135,600	144,200
Unemployment Rate	4.4%	4.7%	6.2%	10.5%	11.3%
Wage and Salary Employment: [(2)]					
Agriculture	1,500	1,500	1,400	1,400	1,500
Mining and Logging	1,200	1,200	1,200	1,200	1,200
Construction	73,300	71,700	64,900	53,500	47,600
Manufacturing	95,800	94,400	93,100	82,800	78,600
Wholesale Trade	48,800	48,700	47,600	43,700	42,100
Retail Trade	113,300	113,300	109,400	102,100	99,900
Transportation, Warehousing, Utilities	35,000	37,300	35,900	33,200	31,900
Information	30,100	29,000	27,800	25,300	23,900
Finance and Insurance	45,400	41,100	36,200	32,500	33,100
Real Estate and Rental and Leasing	18,200	17,000	16,500	15,500	15,300
Professional and Business Services	155,100	158,200	162,400	148,700	148,000
Educational and Health Services	124,800	128,300	133,000	137,200	139,700
Leisure and Hospitality	85,600	88,000	89,100	85,100	85,600
Other Services	35,900	36,200	36,100	34,700	34,600
Federal Government	17,300	17,100	17,100	16,700	15,700
State Government	164,700	166,800	160,100	155,800	151,400
Local Government	45,800	44,500	39,100	39,000	38,000
Total, All Industries [(3)]	1,046,900	1,049,700	1,031,800	969,400	949,800

(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.

Shown below are the principal employers in the City as of June 30, 2011.

Table A-3
CITY OF SAN LEANDRO
Principal Employers, As of June 30, 2011

Employer Name	No. of Employees	Percentage of Total Employment
San Leandro Unified School District	1,214	4.32%
American Medical Response West	438	1.56
City of San Leandro	405	1.44
North Face [(1)]	395	1.41
Ghirardelli Chocolate, Co.	375	1.33
Wal-Mart Store 2648	362	1.29
Coca Cola Bottling Co.	315	1.12
Kindred Hospital- SF Bay Ares	268	0.95
Costco Wholesale	264	0.94
OSI Soft, Inc	253	0.90

(1) North Face plans to move all of its employees from the City to the City of Alameda by June 2013. As of June 13, 2011, it remained a principal employer of the City, as reflected above.

Source: City of San Leandro Comprehensive Annual Financial Report.

The following table shows the major employers in the County as of January 2011, listed in alphabetical order.

Table A-4
ALAMEDA COUNTY
Major Employers, 2011 (Listed alphabetically)

Employer Name	Location	Industry
Alameda County Law Enforcement	Oakland	Sheriff
Alameda County Sheriff Dept	Pleasanton	Sheriff
Alta Bates Medical Ctr Inc	Berkeley	Hospital
Bayer Corp	Berkeley	Drug Millers (Mfrs)
Berkeley Coin & Stamp	Berkeley	Coin Dealers Supplies & Etc
Children's Hospital & Research	Oakland	Physicians & Surgeons
Clorox Co.	Oakland	Specialty Clng Plshng/Sanitation (Mfrs)
Cooper Vision Inc.	Pleasanton	Contact Lenses
East Bay Water	Oakland	Transit Lines
EMC Corporation	Oakland	Computer storage Devices
Fairmont Hospital	San Leandro	Hospitals
Kaiser Permanente Hospital	Hayward	Hospitals
Kaiser Permanente Medical Ctr	Oakland	Hospitals
Lawrence Berkeley National Lab	Berkeley	Physicians & Surgeons
Lawrence Livermore Natl Lab	Livermore	Laboratories-Testing
New United Motor Manufacturing	Fremont	Automobile & Truck Brokers (Whls)
Oracle	Pleasanton	Computer-Software Developers
Residential & Student Svc Prog	Berkeley	Giftwares-Manufacturers
Transportation Dept-California	Oakland	State Government-Transportation Programs
UC Berkeley Extension	Berkeley	Schools-Universities & Colleges Academic
University Of Cal-Berkeley	Berkeley	Schools-Universities & Colleges Academic
Washington Hospital Healthcare	Fremont	Hospital
Waste Management Inc	Oakland	Garbage Collection
Western Digital Corp	Fremont	Computer Storage Devices (Manufacturers)

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2011 1st Edition. [Confirm]

Despite the recession, the City's economy has remained relatively strong. The City has placed a strong priority on maintaining its industrial base – over twenty percent of the City's land area is zoned industrial – to take advantage of its close proximity to the Port of Oakland, Oakland Airport and two major highways. The City's industrial vacancy rates are among the lowest in the region and the City has become a hub for specialty and food manufacturing.

San Leandro is also a net importer of sales tax revenue, due to the presence of its thriving regional shopping centers and the San Leandro Marina Auto Mall. In order to increase the local tax base, the City's Redevelopment Agency and a large number of local and regional car dealerships created the Marina Auto Mall, taking advantage a convenient location and access to Interstate 880. Today the Auto Mall is made up of [12] dealerships, and it has benefitted from industry consolidation and remained almost completely occupied. Efforts to revitalize the downtown area of the City have also begun to bear fruit, as major infrastructure upgrades and a branding and marketing program are bringing new retail activity to the City's historic core.

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 no later than the first regular meeting in July for the fiscal year beginning July 1. As part of the budget process, all City departments submit budget requests for the next fiscal year. These requests are reviewed, and a final City Manager recommended budget showing estimated revenues and expenditures of the City is prepared. This proposed budget is transmitted to the City Council and made available to the public for review. Study sessions and a public hearing are conducted before final adoption of the budget by the City Council.

The City Manager is authorized to approve appropriation transfers within any department up to a specified amount; however, any new appropriation or appropriation transfer between departments requires approval by the City Council. Several supplemental appropriations were necessary during the year and are reflected in the budget amounts in the financial statements. Expenditures may not legally exceed appropriations at the department level.

Under the City Charter, all unexpended appropriations lapse at the end of the fiscal year unless they are lawfully committed, or are required by law to be continuously appropriated from year to year.

Lawfully committed amounts include amounts legally encumbered at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at year-end are reported as reservation of fund balances since they do not constitute expenditures or liabilities, and re-appropriations in the subsequent year provide authority to complete these transactions as expenditures.

The City Council reviews budget results at the mid-year review and at budget adoption. Redevelopment budgets are adopted annually along with an annual report. 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 in community priorities.

In 1989-90, the City Council adopted a policy for funding financial reserves and a series of financial values that were to be utilized in the development of the future budgets (the "**Financial Goals Statement**"). The Financial Goals Statement identifies and formalizes the financial principles by which the City is guided; it provides direction for preparing annual budget strategies and budgets and for conducting the day-to-day and long-term municipal affairs.

In part, the Financial Goals Statement states that the City will maintain reserve fund or working capital balances of at least 20% of operating expenditures in the General Fund and Enterprise Funds. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for (i) economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy. (ii) contingencies for unseen operating or capital needs. and (iii) cash flow requirements. Reflecting this policy goal, the City maintains: (i) a Major Emergencies Reserve Fund and (ii) an Economic Recovery Reserve Fund, the value of which Funds, together, are targeted to equal 20% of operating Expenditures in the City's General Fund and Enterprise Fund, when possible. The City also maintains a Self Insurance Fund.

The amount of the Major Emergencies Reserve has remained unchanged during the recent years of depressed economics. This Reserve has remained at $5,000,000 since 2007-08. The Economic Recovery Reserve, valued at $10,033,000 in 2007-08, was partially utilized for operations over the past several years. That said, the City's Fiscal Year 2011-12 budget was approved without any further draw-down of the Economic Recovery Reserve.

In Fiscal Year 2007-08, the Major Emergencies and the Economic Uncertainty Reserves together totaled about 19% of the General Fund operating expenditures ($77,397,000). The aggregate Reserve amounts declined over the past several years and were recorded at [$10,796,000, about 15%] of the General Fund operating expenditures, as of [December 31], 2011. [This recent aggregate Reserve amount reflects a one-time transfer of $2,000,000 from the General Funds fund balance to the Economic Uncertainty Reserve as part of the mid-2011-12 Fiscal Year budget amendment resolution approved by to the City Council, which transfer moved the aggregate Reserve amount percentage significantly closer to the City Council's goal of 20% from where it has been earlier in the same fiscal year.] [Brackets to be removed on the occurrence of this planned transfer.]

The Self Insurance Fund provides the City insurance protection against public liability cases and worker's compensation claims related to injuries to City employees. The Fund's balance sheet records the liability for Claims and Judgments for outstanding cases and claims. As of [December 31], 2011, the City's total liability amounted to $_____ and the Self Insurance Fund fund balance was recorded at $_____, reflecting a fund balance deficit of ($_____). In recent years, the City Manager has, from time to time, authorized transfers from the General Fund fund balance to the Self Insurance Fund to allow year-end financial statements for the Self Insurance Fund to be prepared without a fund balance deficit, and transfers from the Self Insurance Fund to the General Fund have been utilized as a budget strategy to balance the General Fund.

General Fund Budgets

General. The City's General Fund budget figures for the year ended June 30, 2010, the City's audited actual figures for the year ending June 30, 2010, the City's General Fund budget figures for the year ending June 30, 2011, the City's unaudited actual figures for the year ended June 30, 2011, and the City's adopted budget for the year ended June 30, 2012 are set forth in the following table. The City's June 30, 2011 audited financial statements will be included in the City's first annual report pursuant to its continuing disclosure undertaking (see Appendix E).

Table A-5
CITY OF SAN LEANDRO
General Fund Budgets
For Fiscal Years 2009-10 through 2011-12

	Budgeted 2009-10	Audited Actual 2009-10	Adopted Budget 2010-11	Unaudited Actual 2010-11	Adopted Budget 2011-12
Revenues:					
Taxes	$57,811,200	$53,077,020	$51,928,161	$57,469,033	$57,762,000
Licenses and permits	5,901,170	5,565,446	5,575,000	6,179,057	5,785,155
Intergovernmental	1,246,095	1,444,885	1,146,252	1,216,009	1,064,050
Charges for services	2,271,599	2,623,652	2,251,940	2,591,269	2,381,000
Fines and forfeitures	1,222,000	1,149,193	1,300,000	1,377,230	1,190,000
Use of money and property	1,486,489	1,231,323	1,219,270	1,069,402	1,017,764
Miscellaneous revenues	941,232	3,815,583	816,000	351,142	265,233
Transfers in	1,457,121	1,457,121	500,000	600,000	-
Transfers out	(1,617,942)	(1,617,942)	(367,942)	(2,693.746)	(67,942)
Other revenues	2,272,563	2,272,568	2,295,294	2,295,293	2,295,294
Total revenues	$72,991,527	$71,018.849	$66,663,975	$70,454,689	$71,692,554
Expenditures:					
City Council	$440,013	$357,589	$387,296	$349,726	$444,736
City Clerk	588,274	399,170	519,607	640,385	449,431
City Manager	1,297,199	1,185,426	1,113,762	1,139,969	1,143,589
City Attorney	293,556	340,135	304,548	371,767	304,548
Human Resources	1,474,861	1,323,678	988,326	962,159	999,927
Finance	2,246,406	2,136,123	1,955,568	2,244,471	2,183,945
Police	27,163,195	25,579,331	25,304,094	25,539,708	26,085,580
Fire	18,607,224	18,457,413	17,880,223	17,740,597	18,193,855
Parks and Recreation	4,550,268	3,902,548	3,434,901	3,390,842	3,796,701
Library	5,475,174	5,174,248	4,358,312	4,427,909	4,464,194
Public Works	5,296,214	4,090,474	3,937,086	3,766,215	4,080,766
Engineering and Transportation	2,841,253	2,406,888	2,171,042	2,100,839	2,276,869
Community Development	3,076,766	2,847,217	2,647,272	2,662,946	2,811,787
Non-Departmental	4,256,203	4,602,642	4,101,426	4,372,802	3,949,397
Debt Service	498,188	502,148	507,228	507,227	507,229
Total expenditures	$78,104,794	$74,305,027	$69,610,691	$70,217,562	$71,692,554
Excess of revenues over (under) expenditures	($5,113,267)	($3,286,178)	($2,946,716)	$237,127	-
Net change in fund balance	-	-	($2,946,716)	$237,127	-

Source: City of San Leandro.

Fiscal Year 2009-10. For Fiscal Year 2009-10, the City identified a $3.6 million operating deficit in the General Fund, which reflected cost cutting measures administered by the City to reduce its expenditures by 4.9% from the prior fiscal year. Annual revenues received decreased by 0.58% from the prior fiscal year due to the continued economic downturn experienced by the City since 2008. Specifically, decreases in annual revenues received are attributable to a surge in unemployment, which deteriorated the City's labor market, and a concurrent decline in consumer confidence. The decline in consumer confidence is reflected in the City's financial report as property and consumer good sales continue to decrease.

Fiscal Year 2010-11. In Fiscal Year 2010-11, economic conditions resulted in a slow paced recovery throughout the City, with continued high unemployment, and a weak housing market. Statewide, local governments continued to experience declining revenues. San Leandro's fiscal conditions improved slightly over original projections. The 2010-11 year-end forecast for the General Fund has improved over the Adopted Budget, largely due to an increase in projected revenues. Revised projections reflected an operating increase of $2,261,000 for the fiscal year. Overall, City Staff project a net fund balance in the General Fund of about $8.8 million at the close of Fiscal Year 2010-11, an improvement of $7.5 million over Adopted Budget projections.

With respect to Fiscal Year 2010-11 revenues, the City received the following approximate percentages of budgeted revenues in Fiscal Year 2010-11:

General Fund Revenues	Actual	Budget	% of Budget
Property Taxes	$26,720,790	$26,404,742	1.012%
Sales Taxes	21,811,494	17,850,000	1.22
Franchise Taxes	4,124,846	3,940,000	1.05
Transient Occupancy Taxes	351,612	250,000	1.40
Utility Users Taxes	9,932,893	9,635,000	1.04

The City currently estimates that Fiscal Year 2010-11 revenues exceeded expenditures.

The future economic conditions of the City remain uncertain, in part due to adverse impacts it continues to face as a result of State action. The State's budget balancing plans have and will continue to harm the City's finances, as it may not receive State funds as previously received and presently anticipated, and the State's efforts to eliminate redevelopment agencies could also have a dramatic impact upon the City's financial circumstances. See "RISK FACTORS – Impact of State Budget on City Revenues". City Staff continues to monitor State budget developments and the progression of legal challenges to the State's attempted elimination of redevelopment agencies, providing the City Council with updated information regularly

Fiscal Year 2011-12. The City's three largest sources of revenues are property taxes, sales taxes and the utility users taxes. With respect to property taxes, the County has confirmed in writing that the City's Fiscal Year 2010-11 assessed value is likely to be at least equal to its Fiscal Year 2010-11 assessed value. Sales taxes are no longer the City's largest source of tax receipts and the City is not certain whether reduced sales tax revenues is part of a short-term (recessionary) trend or a long term trend.

The City finished Fiscal Year 2010-11 with an unreserved, undesignated General Fund balance of approximately $6.0 million. The City anticipates the need to undertake further structural cost reductions in order to maintain a balanced budget in the future.

The City anticipates average annual savings of approximately $_____ over the life of the Bonds as a result of the refinancing of its Side Fund obligation under the Safety Plan. [Savings amount to come from UNDERWRITERS].

Financial Statements

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

Accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. There are three groups of funds- governmental funds (which include the General Fund), proprietary funds (which include enterprise funds and internal service funds) and fiduciary funds (which are used to account for resources held for the benefit of parties outside the City). The City maintains 32 individual governmental funds. Information is presented in the governmental statement of revenues, expenditures, and changes in fund balances for the General Fund together with 22 other funds, in a single aggregated presentation. Supplementary information describing the City's Non-Major Governmental Funds (2), Non-Major Enterprise Funds (2), Internal Service Funds (4) and Fiduciary Funds (1) is also presented.

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

Set forth in the following pages are (i) a General Fund balance sheet for fiscal years 2007-08 through 2010-11 and (ii) a statement of revenues, expenditures and changes in fund balances for the City's General Fund for the last five fiscal years with unaudited figures for Fiscal Year 2010-11 and the 2010-11 budgeted year. The City's June 30, 2011 audited financial statements are expected to be available on or before _____ 2011 and will be included in the City's first annual report pursuant to its continuing disclosure undertaking (see Appendix E).

Table A-6
CITY OF SAN LEANDRO
General Fund Balance Sheet
As of June 30 for Fiscal Years 2007-08 through 2010-11

	Audited 2007-2008	Audited 2008-2009	Audited 2009-10	Unaudited 2010-11
ASSETS:				
Cash and cash equivalents	$20,580,663	$20,036,422	$13,567,383	$15,266,993
Interest receivable	538,285	80,490	61,343	72,864
Taxes receivable	-	-	-	177,812
Accounts receivable – net	4,007,342	4,095,008	7,570,423	6,645,802
Due from other funds	1,679,385	798,680	1,887,273	1,281,933
Prepaid items	6,128	342,018	5,227	13,568
Special Assessments	106,920	102,129	83,791	72,041
Loans receivable – net	1,583,135	-	30,000	5,114
Other assets	-	-	-	13,953
Advances to other funds	16,068,780	14,019,946	12,909,453	10,377,840
Total assets	$44,570,538	$39,474,693	$36,114,893	$33,927,920
LIABILITIES:				
Accounts payable and other current liabilities	$3,972,559	$7,678,700	$7,493,882	$4,725,250
Deferred revenue	1,641,960	1,673,733	1,696.117	1,994,311
Other liabilities	1,327,595	25,673	-	28,373
Compensated absences payable	326,866	407,622	522,107	540,062
Total liabilities	$7,268,908	$9,785,728	$9.712,106	$7,287,996
Fund Balances:				
Reserved				
Encumbrances	$497,340	$549,569	$821,057	100,554
Due from other funds	16,068,780	14,019,946	12,909,453	10,377,840
Long-term notes/loans receivable	1,583,135	-	-	-
Unreserved, designated	19,152,403	15,074,450	12,672,277	16,161,530
Total fund balances	$37,301,658	$29,688,965	$26,402,787	$26,639,924
Total liabilities and fund balances	$44,570,638	$39,474,693	$36,114,893	$33,927,920

Sources: City of San Leandro Audited Financial Statements and City of San Leandro.

Table A-7
CITY OF SAN LEANDRO
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2006-07 through 2009-10 (audited), 2010-11 (unaudited actual) and 2011-12 (budgeted)

	Audited 2006-07	Audited 2007-08	Audited 2008-09	Audited 2009-10	Unaudited Actual 2010-11	Adopted Budget 2011-12
Revenues:						
Property and Other Taxes[(1)]	$58,557,783	$56,704,301	$53,445,212	$53,077,020	$57,469,043	$57,762,000
Licenses and Permits	5,874,651	5,836,665	5,879,122	5,565,446	6,179,057	5,785,155
Intergovernmental	1,171,276	1,521,624	1,306,313	1,444,885	1,216,009	1,064,050
Charges for Services	5,277,973	4,868,253	4,649,882	2,623,652	2,591,269	2,381,000
Fines and Forfeitures	1,431,689	1,418,732	1,296,568	1,149,193	1,377,230	1,190,000
Use of Money and Property	3,516,980	2,505,626	1,835,368	1,231,323	1,069,402	1,017,764
Interdepartmental Charges	1,746,385	1,799,108	1,858,477	2,272,568	2,295,293	2,295,294
Other Revenues	536,708	606,579	862,204	3,353,866	351,142	265,233
Total Revenues	$78,113,445	$75,260,888	$71,133,146	$70,717,953	$72,548,445	$71,760,496
Expenditures:						
General Government	$10,860,714	$11,036,809	$10,865,272	$10,344,760	$10,081,279	$9,475,573
Public Safety	41,109,882	44,062,516	45,198,529	45,036,744	43,280,305	44,279,435
Engineering and Transportation	5,757,033	7,986,163	7,717,876	6,497,362	5,867,054	6,357,635
Recreation and Culture	10,913,771	10,342,370	10,578,857	9,076,796	7,818,751	8,260,895
Community Development	2,999,105	3,424,379	3,234,315	2,847,217	2,662,946	2,811,787
Debt service: Principal	342,594	471,547	446,193	460,741	465,357	483,036
Debt service: Interest and Fees	65,701	72,847	55,955	41,407	41,870	24,193
Total Expenditures	$72,048,800	$77,396,631	$78,096,997	$74,305,027	$70,217,562	$71,692,554
Excess of Revenues Over (Under) Expenditures	$6,064,645	($2,135,743)	($6,963,851)	($3,587,074)	$2,330,883	$67,942
Other Financing Sources (Uses):						
Transfers In	$469,673	-	$1,500,000	$1,457,121	$600,000	-
Transfers Out	(2,053,838)	(3,786,352)	(2,148,842)	(1,617,942)	(2,693,746)	(67,942)
Proceeds from Issuance of Debt	-	-	-	461,717	-	-
Total Other Financing Sources (Uses)	($1,584,165)	($3,786,352)	($648,842)	$300,896	($2,093,746)	($67,942)
Net Change in Fund Balance	$4,480,480	($5,922,095)	($7,612,693)	($3,286,178)	$237,137	-
Fund Balances:						
Beginning of the year, as previously reported	$38,743,273	$43,223,753	$37,301,658	$29,688,965	$26,402,787	$26,639,924
End of the Year	$43,223,753	$37,301,658	$29,688,965	$26,402,787	$26,639,924	$26,639,924

(1) For a breakdown of each component of taxes, see Table. A-8.
Source: City of San Leandro Audited Financial Statements; City of San Leandro.

Taxes and Other Revenues

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

Table A-8
CITY OF SAN LEANDRO
Major Tax Revenues by Source- General Governmental Activities

	Audited 2005-06	Audited 2006-07	Audited 2007-08	Audited 2008-09	Audited 2009-10	Unaudited, Actual 2010-11
Property Taxes (1)	$21,167,178	$24,742,722	$26,200,221	$27,654,817	$27,087,224	$26,720,790
Sale and Use Taxes	22,144,559	23,407,407	22,251,900	19,095,799	17,594,934	21,811,494
Franchise Tax	3,362,681	4,496,415	4,142,284	4,125,705	4,005,464	4,124,846
Utility User's Tax	10,383,676	10,175,460	10,420,171	10,103,090	9,783,055	9,932,893
Property Transfer Tax	6,417,694	4,539,402	2,924,656	2,870,441	2,297,145	2,528,604
911 Community Access Tax	-	-	-	-	2,711,671	2,694,149
Transient Occupancy Tax	300,524	322,160	320,508	294,496	304,453	351,612
Motor Vehicle License Fee	530,525	472,542	361,261	278,615	-	381,122
Other Taxes	14,858	-	-	-	28,626	154,667
Total Revenue	**$65,321,695**	**$68,156,108**	**$66,621,001**	**$64,422,963**	**$63,812,572**	**$68,700,177**

(1) Includes Redevelopment tax increment.
Sources: City of San Leandro Audited Financial Statements and City of San Leandro.

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 largest source of tax revenue to the City (approximately 42.4% of general governmental tax revenues in 2009-110). Fiscal Year 2010-11 property tax revenues are estimated to be $26.7 million. Based on anticipated declines in assessed values for Fiscal Year 2011-12, the City currently expects property tax revenues to decline in Fiscal Year 2011-12 by ____%. See " – Assessed Valuation" below.

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

ERAF Shift and Triple Flip Legislation. Certain property taxes have been shifted from local government agencies to schools by the State Legislature for deposit in ERAF, a shift that has resulted in diversion of City property taxes since Fiscal Year 1992-93. See "State Budgets" below.

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

Levy and Collection. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Foreclosure. Based on information provided by MDA DataQuick Information, an independent data collection service, for calendar year 2010, mortgage holders had sent _______ notices of default with respect to properties located within the City compared to _____ during calendar year 2009 (a decline of _____%), and 389 trustee deeds had been recorded (indicating that the property has been lost to foreclosure) during calendar year 2009 compared to 461 during calendar year 2009 (a decline of 15.6%). During the first three quarters (January through September) of calendar year 2011, mortgage holders sent ___ notices of default and recorded ____ trustee deeds compared to ____ notices of default sent and ____ trustee deeds recorded during the first three quarters (January through September) of calendar year 2010.

A summary of the notices of default sent and trustee deeds recorded for the City and the County during calendar years 2008 through 2010 and for the first three quarters (January through September) of calendar years 2010 and 2011 is summarized below.

	Notices of Default					**Trustee Deeds (Foreclosures)**				
	Calendar Year			First Three Quarters (January through September)		Calendar Year			First Three Quarters (January through September)	
	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011 *
City										
Number						580	461	389		310
% Change										
County										
Number										
% Change										

Source: MDA DataQuick Information.
* [Reflects nine month period beginning January and ending September, 2011. [Update to follow, in January.]]

Assessed Valuation*.* All property is assessed using full cash value as defined by Article XIIIA 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 Official Statement.

Future assessed valuation growth allowed under Article XIIIA (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; similar data for Fiscal Year 2011-12 is not yet available. The County Assessor reports that the Fiscal Year 2010-11 secured property assessed value decreased to $9.1 million (a decrease of 0.07% from Fiscal Year 2009-10) and the Fiscal Year 2010-11 unsecured property assessed value decreased to $560,000 (a decrease of 1.8% from Fiscal Year 2009-10), resulting in a total Fiscal Year 2010-11 assessed value of $9.9 million (an increase of 4.5% from Fiscal Year 2009-10 due to the change of exemptions).

Table A-9
CITY OF SAN LEANDRO
Assessed Valuations of All Taxable Property
Fiscal Years 2003-04 to 2011-12

	Total City Assessed Valuation				Assessed Valuation Attributable to Redevelopment Agency			
Fiscal Year Ended June 30	Secured	Unsecured	Less Exemptions	Taxable Assessed Value	Secured	Unsecured	Less Exemptions	Taxable Assessed Value
2003	$6,181,159	$544,303	($165,818)	$6,559,644	$2,370,358	$386,932	($33,177)	$2,724,113
2004	6,676,341	536,497	(166,799)	7,046,038	2,534,206	358,306	(42,206)	2,850,306
2005	7,221,647	526,799	(182,526)	7,565,920	2,738,684	346,422	(63,818)	3,021,288
2006	7,752,095	538,060	(201,155)	8,089,000	2,902,768	357,620	(73,877)	3,186,511
2007	8,490,385	577,326	(193,142)	8,874,569	3,174,542	396,648	(65,057)	3,506,133
2008	9,065,717	568,195	(180,546)	9,453,366	3,337,069	396,034	(66,847)	3,666,256
2009	9,525,308	556,811	(207,657)	9,874,462	3,593,007	393,869	(87,613)	3,899,263
2010	9,102,245	570,588	(218,845)	9,453,988	3,599,645	395,246	(110,812)	3,884,076
2011	9,094,918	559,970	238,681	9,893,569	3,568,829	406,084	(208,631)	3,766,282
[2012]*								

Sources: City of San Leandro and California Municipal Statistics, Inc.
* May be possible to obtain this by printing; confirm with Sharon Morganelli.

Fiscal Year 2009-10***.*** For Fiscal Year 2009-10, the Alameda County Assessor temporarily reduced the assessed value of certain properties in the City under Proposition 8. See "RISK FACTORS – Assessed Value of Taxable Property".

Fiscal Year 2010-11. The County of Alameda has confirmed in writing with City staff that the City's Fiscal Year 2010-11 assessed value and property taxes collected thereupon are likely to be at least equal to its Fiscal Year 2009-10 assessed value and property tax collections.

Proposition 13 Values v. Proposition 8 Values. The table below summarizes the change in assessed value in the City [and the County] by source (i.e., whether due to a Proposition 13 reduction, representing a sale of the property at current market value, or a Proposition 8 temporary reduction).

Table A-10
CITY OF SAN LEANDRO AND ALAMEDA COUNTY
Change in Secured Assessed Valuation by Source
Fiscal Years 2008-09 through 2011-12
($ in 000's)

	Total Secured Assessed Value†		Source of Change in Assessed Valuation					
			Proposition 13			Proposition 8		
	No. of Parcels	Amount	No. of Parcels	Amount	% of Total AV	No. of Parcels	Amount	% of Total AV
City								
2008-09								
2009-10								
2010-11								
2011-12								
County								
2008-09								
2009-10								
2010-11								
2011-12								

† Data is based on July 1 Assessor's statutory roll wherein the Proposition 8 and Proposition 13 attributes reside. Any difference in the assessed value presented in this table and in the County Auditor-Controller's equalized roll represents the changes and adjustments made by the County Assessor and/or County Auditor between the July 1 statutory roll and the County Auditor-Controller's equalized roll published in early September.
Source: ParcelQuest.

Sources: City of San Leandro and California Municipal Statistics, Inc.

Major Property Taxpayers. The following table shows the largest taxpayers in the City as determined by their secured assessed valuations in Fiscal Year 2011-12 and in Fiscal Year 2001-02.

Table A-11
CITY OF SAN LEANDRO
Largest Fiscal Year 2011-12 Local Secured Taxpayers

[TO BE REVISED WITH UPDATED INFORMATION, JAN 2012]

	Fiscal Year 2010-11 (1)			Fiscal Year 2000-01 (1)		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percent of Total City Taxable Assessed**	**Taxable Assessed Value**	**Rank**	**Percent of Total City Taxable Assessed**

			Valuation			Valuation
Ghiradelli Chocolate Company	$101,810,306	1	0.75%	$40,797,517	10	0.86%
Kaiser Foundation Hospitals	99,829,604	2	0.73	-		0.00
General Foods Corp.	79,025,896	3	0.58	50,525,002	4	1.07
Madison Bay Fair LLC	75,612,883	4	0.55	-		0.00
BCI Coca Bottling Co.	62,002,523	5	0.45	56,244,255	3	1.07
AMB Property LP	52,454,740	6	0.38	-		0.00
SKB Westgate Investments LLC	46,931,656	7	0.34	-		0.00
Batarse Anthony A Jr. Trust	38,501,413	8	0.28	-		0.00
Emerald Properties	29,146,517	9	0.21	30,926,355	6	0.65
Lakeside Properties	26,248,228	10	0.19	22,091,809	8	0.47
Lucky Stores, Inc.	-		0.00	71,989,133	2	1.52
Bayfair LLC	-		0.00	114,694,739	1	2.42
Gateway Buena Park, Inc.	-		0.00	29,196,803	9	0.62
AMB Property LP	-		0.00	6,352,953	7	1.34
San Leandro Hospital	-		0.00	37,580,755	5	0.79
Subtotal	$611,563,766		4.48	$517,576,321		10.64
All Others	___________		___.__	__________		__.__
TOTAL	___________		**100.00%**	**$**__________		**100.00%**

(1) All amounts below include assessed value data for both the City and its Redevelopment Agency. Rankings are based on secured property taxes.
Sources: City of San Leandro and Alameda County Tax Assessor's Office

Sales and Use Taxes

Sales and use taxes represent the second largest source of tax revenue to the City (approximately 31.7% of general governmental tax revenues in 2010-11). This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State of California. The City currently estimates $23.1 million in sales tax revenue for Fiscal Year 2011-12, which would be an increase of approximately $1.3 million or 6% from the prior year, based upon its estimated collections following the approval of Measure Z.

Sales Tax Rates. The City collects a percentage of taxable sales in the City (minus certain administrative costs imposed by the State Board of Equalization) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the "**Sales Tax Law**"), as shown below. As part of the State's Fiscal Year 2003-04 Budget, the State Legislature authorized, and the voters of the State approved, a redirection to the State from local jurisdictions (including the City) of sales revenues in the amount of 0.25% of the basic 1.0% local sales tax rate, starting July 1, 2004. The State of California uses such revenues to pay the State's economic recovery bonds. Under the California Economic Recovery Act, which includes legislation commonly referred to as the "Triple Flip", the State redirected certain property taxes in the ERAFto local governments, including the City, to compensate for this redirection of sales taxes on a "dollar for dollar" basis. Under this legislation, along with the guarantees provided by the passage of Proposition 1A in November 2004, the City expects that there will not be any significant fiscal impacts on the City resulting from the "Triple Flip". See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A of 2004; Proposition 22."

At an election held on November 2, 2010, the voters of the City approved (by a majority vote) Measure Z, which increased the sales tax in the City by 0.25%, to be used by the City for general purposes. The tax is scheduled to expire in 2018.

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

Table A-12
CITY OF SAN LEANDRO
Sales Tax Rates
Fiscal Year 2010-11

State (General Fund)	5.000%
State (Fiscal Recovery Fund)	0.250
State (Local Revenue Fund)	0.500
State (Local Public Safety Fund)	0.500
Local (City and County Operations)	0.750
Local (County Transportation Funds)	0.250
Total State-Wide Tax Rate	7.250%
Alameda County Essential Health Care Services Transactions and Use Tax (ACHC)	0.500
Alameda County Transportation Authority (ACTA)	0.500
Bay Area Rapid Transit District (BART)	0.500
City of San Leandro Transactions and Use Tax (SLGF)	0.250
Total City of San Leandro Tax Rate	9.000%

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 June 2005 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. In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table.

Total taxable sales during calendar year 2009 in the City were reported to be $1,598,739,000, a 10.5% decrease over the total taxable sales of $1,787,282,000 reported during calendar year 2008. Figures are not yet available for 2010.

Table A-13
CITY OF SAN LEANDRO
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	**Taxable Transactions**	**Number of Permits**	**Taxable Transactions**
2005	1,212	$1,378,296	2,644	$1,978,944
2006	1,136	1,384,347	2,545	2,014,182
2007	1,099	1,319,642	2,525	1,949,865
2008	1,154	1,212,699	2,506	1,787,282
2009 (1)	1,336	1,074,706	2,351	1,598,739

(1) Most recent data available is not comparable to prior years. “Retail” category now includes “Food Services”.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable transactions during calendar year 2009 in the County were reported to be $20,430,195,000, a 14.4% decrease over the total taxable transactions of $23,862,947,000 reported during calendar year 2008. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table. Figures are not yet available for 2010.

Table A-14
COUNTY OF ALAMEDA
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	**Taxable Transactions**	**Number of Permits**	**Taxable Transactions**
2005	20,688	$15,228,482	42,792	$24,242,981
2006	20,090	15,656,414	41,951	25,223,384
2007	19,554	15,664,940	42,014	25,831,140
2008	20,186	14,547,749	41,783	23,862,947
2009 (1)	24,596	12,641,415	38,663	20,430,195

(1) Most recent data available is not comparable to prior years. “Retail” category now includes “Food Services”.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Other Taxes and Revenues

Utility User's Tax*.* The utility users tax is the third largest revenue source for the City. The utility users tax is comprised of a tax on eight utilities; electric, wired telecom, wireless telecom, natural gas, and cable.

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

Table A-15
CITY OF SAN LEANDRO
Utility Users Tax History

Utility Covered	Rate
Electric*, Gas*, TV, Telephone	6.0%
Cable	6.0%
Telecommunication	5.7%

* Exemption on first $34 of gas or electric charges for residential properties.
Source: City of San Leandro.

The City's initial Utility Users Tax (the 5% tax on electric, gas, cable television and telephone utilities with the exceptions noted above) became effective on July 1, 1970, Thereafter, the Utility Users Tax was increased without voter approval in 1993 to 6% for non-residential users.

> On November 4, 2008, the City's voters approved Measure RR, which authorized application of the Utility Users Tax to situations where there have been changes in technology and laws. Post-1984 technology had rendered the City's telephone tax less effective in taxing communication services that have, to a significant extent, replaced traditional telephone service. Unless precluded by federal law, Measure RR updates the City's existing telephone tax to apply to all types of telecommunication, video communication, text messaging, and paging services in addition to the telephone, cellular telephone and voice over internet protocol ("**VOIP**") services which are already taxed. Measure RR does not apply to digital downloads (e.g., games, ringtones, music and books). Federal court decisions in other states had recently created a concern as to whether the City's ordinance, as written prior to adoption of Measure RR, could be properly applied to long distance, cellular, VOIP and bundled telephone services.

Transient Occupancy Tax. The City currently levies a transient occupancy tax on hotel and motel bills equal to 10%. The transient occupancy tax is a tax paid by hotel and motel guests who spend fewer than 30 consecutive days in a hotel or motel in the City.

Recently, the operators of nine hotels in the City challenged the ordinance levying the transient occupancy tax, on various grounds including that it was unconstitutionally vague and a violation of equal protection. In a decision filed on September 18, 2007, the California Court of Appeals for the Sixth District upheld the validity of the ordinance against such challenge. No appeal was filed.

Franchise Fee. Prior to the passage of State Bill AB 2987, the "Digital Infrastructure and Video Competition Act of 2006", Federal and State laws allowed cities to grant franchises to cable companies to use the public right-of-way to install and provide video service. Under the current franchise agreement, the cable company pays San Leandro an annual franchise fee of 5% of gross revenues.

In addition, the City of San Leandro also receives revenue from Electric & Gas Franchises, as well as Refuse & Recycling. Electric/Gas franchise fees are based on gross receipts for the sale of electricity or gas within the City, and is the greater of these two calculations:

1. Electric or Gas Franchise Ordinance: 2% or gross receipts attributable to miles of line operated; or

2. 1937 Act Computations: gross receipts within the City multiplied by 1%.

Refuse & Recycling franchise fee calculations include complex calculations based on a variety of basis such as per ton or percent of gross receipts between 10-12%. Most of the fees are adjusted annually by CPI.

General Fund Obligations. Set forth below is a table presenting the long-term obligations payable from the City's General Fund, excluding the Bonds, followed by summary descriptions of each issuance.

Table A-16
CITY OF SAN LEANDRO
Long-Term Debt Obligations

Obligation	Principal Amount	Interest Rate Range
2001 Certificates of Participation (1)	\$5,020,000	2.10% to 5.10%
2003 Certificates of Participation (2)	12,550,000	2.50% to 5.00%
2007 Certificates of Participation (3)	23,435,000	4.00% to 4.375%
2005 Lease/Purchase Agreement	3,048,260	3.40% to 3.70%
2010 Lease/Purchase Agreement	461,717	Fixed at 3.80%

(1) Interest payable semiannually on each June 1 and December 1, principal payable annually on December 1.
(2) Interest payable semiannually on each June 1 and December 1, principal payable annually on June 1.
(3) Interest payable semiannually on each May 1 and November 1, principal payable annually on November 1.

Source: City of San Leandro.

2001 Certificates of Participation. In 2001, the City issued $5,020,000 principal amount of 2001 Certificates of Participation ("the **2001 COPs**"). The purpose of the 2001 COPs was to assist the Redevelopment Agency of the City of San Leandro (the "**Agency**") to finance redevelopment activities within the Joint Project Area of the City. The 2001 COPs bear interest rates ranging from 2.10% to 5.10% and are payable semiannually on each June 1 and December 1. Principal payments are payable annually on December 1. The certificates evidence fractional interest of the owners in lease payments to be made by the City for use and occupancy of the City corporation yard. The City and the Agency, at the time of delivery of the 2001 COPs, entered into a reimbursement agreement pursuant to which the Agency is obligated to reimburse the City for such lease payments from the Agency's portion of the tax increment generated by the Joint Project Area. To date, the Agency has reimbursed the City for each such lease payment

2003 Certification of Participation. In 2003, the City issued $12,550,000 principal amount of 2003 Certificates of Participation (the "**2003 COPs**"). The purpose of the 2003 COPs was to refund the City's 1993 COPs and raise capital funds for a new aquatics center. The 2003 COPs bear interest rates ranging from 2.5% to 5.00% and are payable semiannually on each June 1 and December 1. Principal payments are payable annually on June 1. The COPs evidence fractional interests of the owners in lease payments to be made by the City for use and occupancy of the San Leandro City Hall. The 2003 COPs resulted in a present value of savings of $1,166,751 or 11.75% of the refunded bonds. Through a five year extension of debt service on the outstanding COPs, the city was able to generate $2,750,000 of capital improvement funds and a slight reduction in the annual debt service payment. The balance outstanding as of June 30, 2011 was $14,886,150.

2007 Certification of Participation. In 2007, the City issued $23,435,000 principal amount of 2007 Certificates of Participation (the "**2007 COPs**"). The purpose of the 2007 COPs was to provide funds to refund the outstanding 1999 Certificates of Participation (Library and Fire Stations Project) of the City of San Leandro and the San Leandro Public Financing Authority. Interest rates vary from 4.00% to a maximum of 4.375% and are payable semiannually on each May 1 and November 1. Principal payments are payable annually on November 1. The COPs evidence fractional interest of the owners in lease payment to be made by the City for use and occupancy of San Leandro Libraries and San Leandro Fire Stations. The balance outstanding as of June 30, 2011 was $30,266.400.

2005 Master Equipment Lease/Purchase Agreement. In 2005, the City entered into a Lease/Purchase Agreement with Bank of America to Lease/Purchase Equipment in the amount of $3,048,260. The Equipment was for the Police Departments computer upgrades for servers, mobile laptops, and computer aided dispatch and records management system. The interest rates range from 3.40% to 3.70% payable in seven years. The balance outstanding as of June 30, 2011 was $405,601.

2010 Master Equipment Lease/Purchase Agreement. In 2010, the City entered into a Lease/Purchase Agreement with Oshkosh Capital to Lease/Purchase Equipment in the amount of $461,717. The Equipment was for a 2010 Triple Combination Pumper Truck for the Fire Department. The interest rate is 3.80% payable in five years. The balance outstanding as of June 30, 2011 was $414,740.

Employee Relations

The City authorized 405 full-time equivalent ("**FTE**") positions during Fiscal Year 2010-11, of which 343 were full-time employees, 62 were part-time employees, and 86 were sworn police personnel. For Fiscal Year 2011-12, the City has authorized 409 FTEs, of which 347 are full-time employees, 62 are part-time employees, and 89 are sworn police personnel. The City's employees are represented by three bargaining units. The service employees are currently under a contract which expires December 31, 2012, and all other groups (including police personnel) are under agreements that expire December 31, 2012.

Risk Management

The City uses a program of self-insurance for workers' compensation and general liability claims 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 2010-11 audited financial statements (Appendix C) for additional information about the City's risk management practices.

Employee Retirement System

As described in the body of the Official Statement in "CITY'S PENSION PLANS," PERS maintains two pension plans for the City: a Safety Plan (the **"Plan"**) and a Miscellaneous Plan (the **"Miscellaneous Plan"** and, together with the Safety Plan, the **"PERS Plans"**). The City contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the City who are eligible under PERS. Benefit provision and all other requirements are established by State statute and City ordinance.

Funding Policy. City employees are required to contribute 9% of annual covered salary for safety employees and 8% of annual covered salary for all other employees. The City is required to contribute at an actuarially determined rate (based on annual covered payroll); the Fiscal Year 2008-09 rate was 42.57% for safety employees and 13.22% for miscellaneous employees. The City makes the contributions required of City employees on their behalf and for their account, which amounted to $2,692,173 for the year ended June 30, 2010.

Annual Pension Cost.

For Fiscal Year 2009-10 the City's annual pension costs of $7,339,843 for PERS was equal to the City's required and actual contribution. The required contribution rate for the Fiscal Year 2009-10 was determined as a part of the June 30, 2007, actuarial valuation which used the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that range from 3.25% to 14.45% for miscellaneous members, and from 3.25% to 13.15% for safety members; (c) an inflation component of 3%, and (d) 2% per year cost-of-living adjustments for retirees. The actuarial values of assets of the Miscellaneous Plan and Safety Plan were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period.

The City's annual pension costs for the Fiscal Years 2007-08, 2008-09 and 2009-10 are shown in the following tables:

Three-Year Information for City of San Leandro Safety Plan

Fiscal Year Ended	Annual Pension Cost
June 30, 2007	$ 4,097,795
June 30, 2008	4,374,571
June 30, 2009	4,254,064

Three-Year Information for City of San Leandro Miscellaneous Plan

Fiscal Year Ended	Annual Pension Cost
June 30, 2007	$ 3,244,159
June 30, 2008	3,306,405
June 30, 2009	3,085,779

Unfunded Actuarial Accrued Liability. The table below shows the recent history of the actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability to payroll for the City. More information is available in Note __ of the City's Fiscal Year 2010-11 audited financial statements attached as Appendix C.

Because the City has less than 100 active members in the Safety Plan as reported in the June 30, 2003 PERS valuation and in one valuation since June 30, 2004, the City is required to participate in a risk pool with other cities and agencies with less than 100 members in their own plans. An actuarial valuation of this single risk pool has been performed, and, standalone information of the schedule of the funding progress for any pooled single entity's plan, including the City's Safety Plan. is not available. A separate, standalone financial statement has been prepared for the City's Side Fund. See "THE FINANCING PLAN" and "THE CITY'S PENSION PLAN" for information about the Safety Plan Side Fund obligations being refunded with proceeds of the Bonds; the City is not refunding any obligations with respect to the Miscellaneous Plan.

Table A-17
CITY OF SAN LEANDRO
Trend Information for PERS
Safety and Miscellaneous Plans

Valuation Date	Actuarial Value Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL/Excess Assets	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Safety*						
6/30/2007	$7,986,055,176	$6,826,599,459	$1,159,455,717	85.5%	$731,607,658	158.5%
6/30/2008	8,700,467,733	7,464,927,716	1,235,540,017	85.8	914,840,596	135.1
6/30/2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6	973,814,168	174.0
6/30/2010						
Miscellaneous						
6/30/2007	$179,016,400	$164,617,605	$14,398,795	92.0%	$22,688,537	63.5%
6/30/2008	87,424,677	173,324,193	14,100,484	92.5	23,605,301	59.7
6/30/2009	205,208,780	179,247,735	25,961,045	87.3	23,510,790	110.4
6/30/2010						

* The Valuation Date for the Safety Plan is set according to the City's participation in its Risk Pool, as described above.
Source: *City of San Leandro*

[***Current Underfunding of Pension Obligation***. According to an actuarial report commissioned by the City and finalized in _____ 2011, the Fiscal Year 2010-11 underfunding was in the amount of approximately $_____ and the Fiscal Year 2011-12 underfunding will be in the amount of approximately $_____, which will increase the June 30, 2011 UAAL ($_____) and the June 30, 2012 UAAL ($_____ accumulated). The actuarial study projects that the underfunding will increase the contribution rates in Fiscal Year 2013-14 by $_____ and Fiscal Year 2014-15 by $_____.] [To be updated by Bianca Lin and John Bartel].

Other Post-Employment Retirement Benefits

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

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

As required, the City adopted GASB 43/45 beginning with Fiscal Year 2008-09.

City Plan Description. The City's defined benefit Other Post Employment Benefit (OPEB) Plan (the "**Plan**") is a single-employer defined benefit healthcare plan administered by the City of San Leandro. Retirees who have at least ten years of service and meet certain criterion based upon retirement date, household income in the most recent calendar year and age are entitled to reimbursements for qualified expenses.

Annual maximum reimbursement amounts differ depending on when an employee retired from City service. The majority of retirees may be eligible for a maximum of $4,320 in annual reimbursements. Amendments to benefit provisions are negotiated by various bargaining units at the City and must be approved by Council. In Fiscal Year 2008-09, the City established an irrevocable exclusive agent multi-employer benefit trust which is administered by Public Agency Retirement Services (PARS). The trust will be used to accumulate and invest assets necessary to reimburse retirees.

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

The following table shows the components of the City's annual OPEB cost for Fiscal Year 2010-11, the amount actually contributed to the plan, and changes in the City's Net OPEB obligation:

Annual required contribution	$ 1,377,000
Interest on net OPEB obligation	50,000
Adjustment to annual required contribution	(40,000)
Annual OPEB cost (expense)	1,387,000
Contributions (benefit payments)	920,415
Increase in net OPEB obligation	$ 466,585
Net OPEB obligation – beginning of year	889,943
Net OPEB obligation – end of year	$ 1,356,528

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three Fiscal Years wereare as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 1,791,000	$1,411,315	79%	$ 379,685
June 30, 2010	1,870,000	1,359,742	73%	510,258
June 30, 2011	1,387,000	920,415	66%	466,585

Funding Policy. There is no statutory requirement for the City to prefund its OPEB obligation. The City has currently, and generally, has chosen to both pay plan benefits on a pay-as-you-go basis and to also fund an irrevocable trust that it established with PARS in Fiscal Year 2008-09 (the "**PARS Trust**"). The City paid and contributed the following amounts for eligible employees as its regular employer contributions for and over its last three Fiscal Years:

Fiscal Year Ended	**No. of Employees**	**Amount Contributed to PARS Trust**	**Amount Paid Under Pay-as-you-go**
June 30, 2009		[$500,000]	[$900,000]
June 30, 2010		[$500,000]	[$900,000]
June 30, 2011		- *	[$900,000]

For Fiscal Year 2010-11, the City did not contribute to the PARS Trust.
[To be updated by the City, with Bianca Lin and John Bartel].

The City presently anticipates that its pay-as-you-go plan benefit expense will be [$____] for Fiscal Year 2011-12, and that it will also contribute [$500,000] to the PARS Trust for this same fiscal year.

Funded Status and Funding Progress. As of June 30, 2009, the latest valuation date, the funded status of the plan, was as follows:

Actuarial accrued liability (AAL)	$16,853,000
Actuarial value of plan assets	$500,000
Unfunded actuarial accrued liability (UAAL)	$16,353,000
Funded ratio (actuarial value of plan assets/AAL)	3%
Covered payroll (active plan members)	$29,408,000
UAAL as percentage of covered payroll	55.6%

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the entry age normal actuarial cost method was used with a 30 year closed amortization period and level percentage of pay. There were no assets in the plan as of the valuation date. The actuarial assumptions are as follows:

* Healthcare costs trends utilized actual rated for 2009 and a 9.5% increase for HMO and 10% increase for PPO plans. Future years were reduced to an ultimate rate 5% for both HMO and PPO plans by 2021.

* The CPI was assumed to be a constant at 3% per year.

* Assets in the plan will be invested in a moderately conservative money market portfolio that will provide current income with capital appreciation as a secondary objective.

* 5.5% Investment rate of return (net of administrative expenses).

Investment Policies and Procedures

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the Finance Director invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average daily cash and investment balance in these funds. The City invests its funds in accordance with the City's Investment 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 yield (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. In addition, the Investment Policy establishes further guidelines. A copy of the Investment Policy is attached as Appendix D.

The overall strategy of the Investment Policy is to earn a maximum rate of return, while preserving capital and sufficient liquidity to meet operating cash requirements. This is accomplished by maintaining a portfolio of allowable investment instruments that have acceptable credit quality standards with maturities matching expected cash needs. The City does not actively trade securities in the open market. The City utilizes a "buy and hold" approach, which means that it holds securities until maturity unless they are called prior to their scheduled maturity dates by the issuing entity.

The City Council reviews monthly investment reports. According to the report for the month ended _________, 2011, the City has invested funds as set forth in the table below, which had an average number of days to maturity of ___ days based upon the earlier to occur of maturity or redemption.

Table A-18
CITY OF SAN LEANDRO
Investment Portfolio as of [June 30], 2011

	Par Value	Market Value	Cost	% of Portfolio	Days to Mat./Call	YTM/C
Federal agency securities	$21,590,118	$22,184,541	$22,416,191	25.7%	481.8	48.00%
Money Market	31,763	31,763	31,763	0.04	448.95	1.00
U.S. Treasury Notes	5,425,000	5,617,663	5,656,602	6.46	521.95	51.00
Local Agency Investment Fund (LAIF)	56,164,380	56,164,380	56,164,380	66.86	___.__	__.__
Total	$83,211,261	$83,998,347	$84,268,936	99.06%	___.__	__.__

Source: *City of San Leandro.*

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the County of Alameda, the State and the United States for the period 2005 through 2009.

Table A-19
CITY ,COUNTY, STATE AND UNITED STATES
Effective Buying Income
As of January 1, 2005 through 2009

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2005	San Leandro	$1,695,930	$48,589
	Alameda County	34,772,822	52,295
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	San Leandro	$1,714,123	$49,004
	Alameda County	35,772,898	53,171
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	San Leandro	$1,781,143	$50,118
	Alameda County	37,572,278	54,688
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	San Leandro	$1,825,223	$51,503
	Alameda County	38,889,500	55,987
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009*	San Leandro	$1,916,318	$52,973
	Alameda County	40,053,865	57,997
	California	844,823,319	49,736
	United States	6,571,536,768	43,252

* Most recent annual data available.
Source: *The Nielsen Company (US), Inc.*

Construction Activity

Provided below are the building permits and valuations for the City of San Leandro for calendar years 2006 through 2010.

Table A-20
CITY OF SAN LEANDRO
Total Building Permit Valuations
(Valuations in Thousands)

	2006	2007	2008	2009	2010
Permit Valuation					
New Single-family	$19,796.5	$4,251.5	$954.9	$976.5	$2,758.1
New Multi-family	1,056.2	2,884.9	558.2	10,500.0	0.0
Res. Alterations/Additions	17,770.1	24,184.6	9,055.8	5,517.1	4,666.9
Sub-total Residential	38,622.8	31,321.0	10,569.0	16,993.6	7,424.9
New Commercial	4,719.7	2,800.0	6,617.0	9,000.0	0.0
New Industrial	800.0	1,897.6	6,900.0	0.0	0.0
New Other	1,642.6	2,635.0	1,245.3	906.8	2,068.9
Com. Alterations/Additions	27,604.2	36,522.2	26,108.7	21,813.1	12,201.7
Sub-total Nonresidential	$34,766.5	$43,854.8	$40,871.0	31,719.9	14,270.6
TOTAL	$73,389.3	$75,175.8	$51,440.0	$48,713.5	$24,453.6
New Dwelling Units					
Single Family	72	19	6	3	7
Multiple Family	4	17	2	51	0
TOTAL	76	36	8	54	7

Sources: Construction Industry Research Board, Building Permit Summary for Calendar Years 2006 through 2010.

Provided below are the building permits and valuations for the County for calendar years 2006 through 2010.

Table A-21
ALAMEDA COUNTY
Total Building Permit Valuations
(Valuations in Thousands)

	2006	2007	2008	2009	2010
Permit Valuation					
New Single-family	$545,570.9	$424,009.7	$238,743.0	$227,982.5	$276,660.5
New Multi-family	626,797.5	315,894.0	201,122.3	96,518.0	157,459.3
Res. Alterations/Additions	357,113.0	339,842.5	285,782.4	229,873.2	243,289.9
Sub-total Residential	$1,529,481.4	$1,079,746.3	$725,647.7	554,373.7	677,409.6
New Commercial	237,780.4	219,825.1	197,181.1	72,055.6	$14,689.2
New Industrial	23,350.6	65,661.4	60,200.0	89,535.4	82,475.8
New Other	93,070.1	102,269.9	95,640.7	45,100.3	69,060.1
Com. Alterations/Additions	461,992.7	503,015.7	457,412.5	391,295.8	398,430.5
Sub-total Nonresidential	$816,193.8	$890,772.1	$810,434.3	597,987.1	564,655.4
TOTAL	$2,345,675.2	$1,970,518.4	$1,536,082.0	$1,152,360.8	$1,242,065.0
New Dwelling Units					
Single Family	1,681	1,340	761	802	16
Multiple Family	4,035	1,911	1,296	536	936
TOTAL	5,716	3,251	2,057	1,338	1,843

Sources: Construction Industry Research Board, Building Permit Summary or Calendar Years 2006 through 2010.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX C

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2011

APPENDIX D

CITY INVESTMENT POLICY

APPENDIX E

PROPOSED FORM OF FINAL OPINION

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$___________
CITY OF SAN LEANDRO
2012 TAXABLE PENSION OBLIGATION BONDS

This CONTINUING DISCLOSURE CERTIFICATE (this "**Disclosure Certificate**") is executed and delivered by the CITY OF SAN LEANDRO (the "**City**") in connection with the issuance of the 2012 Taxable Pension Obligation Bonds captioned above (the "**Bonds**"). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of __________ 1, 2012 (the "**Indenture**"), between U.S. Bank National Association, as trustee (the "**Trustee**") and the City.

The City covenants and agrees as follows:

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

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

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

"*Annual Report Date*" means the date that is [nine months after the end of the City's Fiscal Year (currently March 1 based on the City's Fiscal Year end of June 30)].

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

"*Fiscal Year*" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period under a Certificate of the City filed with the Trustee.

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

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

“*Participating Underwriters*” means the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*PERS*" means the California Public Employees’ Retirement System.

“*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.

"*Significant Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

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, 2012], with the report for the Fiscal Year 2010-2011 (provided that the report for Fiscal Year 2010-2011 may consist of the Official Statement for the Bonds and the City’s audited financial statements for Fiscal Year 2010-2011), provide to the MSRB, in an electronic format as prescribed by the MSRB, and to the Bond Insurer, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

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

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding Fiscal Year, substantially similar to that provided in the corresponding tables in the Official Statement:

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

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

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

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

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

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

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

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

(i) Principal and interest payment delinquencies.

(ii) Non payment related defaults, if material.

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

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

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

(vi) 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.

(vii) Modifications to rights of security holders, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

(xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an 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.

(xiv) 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 Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event.

Notwithstanding the foregoing, notice of Significant Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Significant 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. Initially, the City will act as dissemination hereunder.

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

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

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

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information 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 the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information 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 9shall be filed in the same manner as for a Significant 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 Significant 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 Significant 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 Significant Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriters or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

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

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

Date: __________ 1, 2012

CITY OF SAN LEANDRO

By ______________________________
City Manager

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF SAN LEANDRO

Name of Issue: $_______ City of San Leandro 2012 Taxable Pension Obligation Bonds

Date of Issuance: __________ 1, 2012

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated __________ 1, 2012. The City anticipates that the Annual Report will be filed by ________________.

Dated:__________________

DISSEMINATION AGENT:
U.S. BANK NATIONAL ASSOCIATION

By: ______________________________
Its: ______________________________

APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

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

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, 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 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned

by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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"). On August 8, 2011, Standard & Poor's downgraded its rating of DTC from AAA to AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's

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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from 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 nor its nominee, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities 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.