

OFFICE OF THE CITY ATTORNEY  
ROBERT E. SHANNON, City Attorney  
333 West Ocean Boulevard, 11th Floor  
Long Beach, CA 90802-4664

RESOLUTION NO. RES-08-0120

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH AMENDING AND RESTATING RESOLUTION NO. RES-08-0104 WHICH PROVIDED FOR THE ISSUANCE OF 2008-2009 TAX AND REVENUE ANTICIPATION NOTES OF THE CITY OF LONG BEACH, CALIFORNIA

WHEREAS, in accordance with Article 7.6 of Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850 thereof) of the Government Code of the State of California (the "Government Code"), entitled "Temporary Borrowing," the City Council (the "City Council") of the City of Long Beach, California (the "City"), is authorized to issue tax and revenue anticipation notes in order to satisfy the cash flow needs of the City; and

WHEREAS, on September 9, 2008, the City Council passed Resolution No. RES-08-0104, ("Resolution RES-08-0104") whereby the City Council found and determined that the City needs to borrow funds in an amount not to exceed \$55,000,000 in its 2008-2009 Fiscal Year (the "Fiscal Year") for authorized purposes of the City, and the City Council desires to authorize for that purpose the issuance of, and offer for sale, tax and revenue anticipation notes of the City in an aggregate principal amount of not to exceed \$55,000,000 (the "Notes"), pursuant to the cited provisions of the Government Code to be applied for any purposes for which the City is authorized to expend moneys; and

WHEREAS, the City Council hereby finds and determines that it is necessary to amend and restate Resolution RES-08-0104 for the purpose of providing flexibility in the method of sale for the Notes; and

WHEREAS, the Notes will not be outstanding for more than 12 months from the date on which the Notes are issued, and the maximum anticipated cumulative cash

1 flow deficit of the City to be financed by the Notes in anticipation of taxes and other  
2 revenues and expected to occur within six months of the date of issuance of the Notes,  
3 determined without excluding any working capital reserve from available amounts, as  
4 defined in Treasury Regulation Section 1.148 6(d)(3); and

5 WHEREAS, the City desires to designate the City Treasurer and his  
6 designees (each, the Treasurer”) to serve as fiscal agent (the “Fiscal Agent”) and as  
7 agent for the City in matters relating to the Pledged Revenues, defined below, and also  
8 designate The Bank of New York Mellon Trust Company, N.A. to serve as paying agent  
9 for the Notes; and

10 WHEREAS, the City desires to appoint Kutak Rock LLP to act as note  
11 counsel (“Note Counsel”) in connection with the issuance and sale of the Notes and  
12 appoint Public Financial Management, Inc. to act as financial advisor (the “Financial  
13 Advisor”) in connection with the issuance and sale of the Notes; and

14 WHEREAS, the City desires to have the flexibility to obtain competitive bids  
15 for the sale of the Notes, and in connection therewith, Note Counsel and the Financial  
16 Advisor previously prepared and presented to this City Council for approval a form of  
17 Notice of Intention to Sell and a form of Notice Inviting Bids, respectively, for the Notes;  
18 and

19 WHEREAS, given the financial turmoil and uncertainty in the municipal  
20 finance markets, the City desires to have the flexibility to negotiate the sale of the Notes,  
21 and in connection therewith, Note Counsel has prepared and presented to this City  
22 Council a form of the Contract of Purchase for the Notes; and

23 WHEREAS, in connection with the possibility of a negotiated sale of the  
24 Notes, the City deems it necessary and desirable to retain Bank of America, as  
25 underwriter (the “Underwriter”), to assist the City in structuring the Notes financing and to  
26 purchase the Notes;

27 NOW, THEREFORE, the City Council of the City of Long Beach hereby  
28 resolves as follows:

1           Section 1.    Authorization of Issuance of Notes; Terms Thereof. Subject  
2 to the conditions set forth in this Resolution, the City Council hereby determines to and  
3 shall issue not to exceed \$55,000,000 aggregate principal amount of the City's 2008-  
4 2009 Tax and Revenue Anticipation Notes; such Notes shall be in the denominations of  
5 \$5,000 or any integral multiple thereof; be dated the date of delivery thereof; shall mature  
6 (without option of prior redemption) on a date not more than 12 months from the date of  
7 delivery thereof; and shall bear interest, payable at maturity and computed on a 30 day  
8 month/360 day year basis, at the rate determined either at the time of competitive sale of  
9 the Notes or at the time of pricing of the negotiated sale, but in no event shall the interest  
10 rate on the Notes exceed 6% per annum. The exact amount of funds to be borrowed  
11 pursuant to the authority of this Resolution shall be determined by the Treasurer or his  
12 designee prior to the sale of the Notes after consultation with Note Counsel regarding  
13 appropriate issue size such that interest on the Notes will not be includible in gross  
14 income for federal tax purposes and shall not exceed \$55,000,000 aggregate principal  
15 amount. Both the principal of and the interest on the Notes shall be payable, but only  
16 upon surrender thereof, in lawful money of the United States of America upon  
17 presentation and surrender thereof at the principal office of the Paying Agent, defined  
18 below, for the Notes.

19           The Treasurer is hereby authorized to determine which method of selling  
20 the Notes, either by competitive or negotiated sale, will be in the best interest of the City.

21           Section 2.    Approval and Ratification of Notice Inviting Bids. In the event  
22 of a competitive sale of the Notes, the form of Notice Inviting Bids attached hereto as  
23 Exhibit "A" is hereby approved in the form attached hereto with such changes as shall be  
24 acceptable to the Treasurer and as shall be approved as to form by the City Attorney,  
25 such approval to be conclusively evidenced by the publication of the Notice Inviting Bids  
26 as described below. The Treasurer and the Financial Advisor, pursuant to the authority  
27 granted in Resolution RES-08-0104, previously caused the Notice Inviting Bids to be  
28 distributed to persons who may be interested in purchasing the Notes. The City Council

1 hereby ratifies and approves the action of distributing the Notice Inviting Bids. The  
2 Treasurer is hereby further authorized to supplement and amend the previously  
3 distributed Notice Inviting Bids to reflect the new details for the competitive sale of the  
4 Notes, should a competitive sale of the Notes be determined to be in the City's best  
5 interest.

6           Section 3.    Approval of Notice of Intention To Sell. In the event of a  
7 competitive sale of the Notes, attached hereto as Exhibit "B" is the form of Notice of  
8 Intention to Sell giving notice of the City's intention to sell the Notes by competitive sale.  
9 Pursuant to Section 53692 of the California Government Code, such Notice of Intention  
10 to Sell must be published once in The Bond Buyer or other financial publication meeting  
11 the requirements of said Section 53692 at least 15 days prior to the date fixed for receipt  
12 of sealed proposals for the Notes. The Treasurer and the Financial Advisors previously  
13 published the Notice of Intention to Sell. We hereby ratify and approve the actions of  
14 publishing the Notice of Intention to Sell.

15           Section 4.    Authorization To Receive and Accept Bids. In the event of a  
16 competitive sale of the Notes, the period ending at 9:30 a.m. (Pacific Daylight Time) on or  
17 after the date of September 24, 2008, as such date is more specifically determined by the  
18 Treasurer, is hereby approved as the time and date that proposals will be received with  
19 respect to the Notes upon the terms and in the manner set forth in the Notice Inviting  
20 Bids approved above; provided that the Treasurer is hereby authorized to select such  
21 other time(s) and date(s) to receive such proposals as such person shall, in his or her  
22 discretion, deem necessary or desirable. The Treasurer, on behalf of the City, is hereby  
23 authorized to read such bids in the manner described in the Notice Inviting Bids. The  
24 Treasurer is hereby further authorized to award the Notes to the responsible bidder  
25 submitting the best bid in accordance with the terms and conditions of the Notice Inviting  
26 Bids.

27           Section 5.    Approval of Contract of Purchase. In the event of a  
28 negotiated sale of the Notes, the form of Contract of Purchase attached hereto as Exhibit

1 "C" is hereby approved in the form attached hereto with such changes as shall be  
2 acceptable to the Treasurer and as shall be approved as to form by the City Attorney,  
3 such approval to be conclusively evidenced by the execution and delivery thereof.  
4 Pursuant to the Contract of Purchase, the Certificates may be sold to the Underwriter for  
5 the purchase price set forth in the Contract of Purchase, said price to be not less than the  
6 principal amount represented by the Certificates less an underwriting discount of not to  
7 exceed 1.00% and less any original discount. The Treasurer is authorized to execute the  
8 final form of the Contract of Purchase.

9 Section 6. Form of Notes. The Notes may be issued in bearer form  
10 without coupons or, if the Notes are delivered in book entry only form pursuant to Section  
11 10 hereof, in registered form, and shall be substantially in the form and substance set  
12 forth in the example attached hereto as Exhibit "D", the blanks in said form to be filled in  
13 with the appropriate terms and figures.

14 Section 7. Deposit of the Note Proceeds. The moneys representing the  
15 proceeds of sale of the Notes shall be deposited pursuant to the direction of the  
16 Treasurer into the City's general fund (the "General Fund"). Following such deposit, said  
17 proceeds shall be withdrawn and expended by the City for any lawful purpose for which  
18 the City is authorized to expend moneys, including, but not limited to, current expenses,  
19 capital expenditures and the discharge of any obligation or indebtedness of the City.

20 Section 8. Payment of Notes.

21 (a) Source of Payment. The principal amount of the Notes,  
22 together with the interest thereon, shall be payable from taxes, income,  
23 revenue, cash receipts and other moneys which are received by the City  
24 during the Fiscal Year and which are available therefor. Pursuant to  
25 Section 53857 of the Government Code, the Notes shall be the general  
26 obligations of the City, and to the extent the Notes are not paid from the  
27 Pledged Revenues (as defined in paragraph (b) below), the Notes shall be  
28 paid with interest thereon from any other moneys of the City lawfully

1 available therefor, as provided in this Resolution and otherwise by law.

2 (b) Pledged Revenues. As security for the payment of the  
3 principal of and interest on the Notes, by this Resolution, the City hereby  
4 pledges an amount equal to 33% of the principal amount of the Notes from  
5 the first unrestricted revenues received by the City in the month ending  
6 May 31, 2009; an amount equal to 33% of the principal amount of the  
7 Notes from the first unrestricted revenues received by the City during the  
8 month ending June 30, 2009; and an amount equal to 34% of the principal  
9 amount of the Notes, plus an amount sufficient to pay interest on the  
10 Notes at maturity, from the first unrestricted revenues received by the City  
11 during the month ending July 31, 2009 (collectively, the "Pledged  
12 Revenues"). The term "unrestricted revenues" shall mean taxes, income,  
13 revenue, cash receipts and other moneys of the City, as provided in  
14 Section 53856 of the Government Code, which are intended as receipts  
15 for the General Fund and which are generally available for the payment of  
16 current expenses and other obligations of the City. There is hereby  
17 established and created an account within the General Fund that is a  
18 special reserve general ledger subaccount and designated as the  
19 "Repayment Account" and more particularly defined in paragraph (c)  
20 below to be maintained by the Treasurer in the name and on behalf of the  
21 City, into which the Treasurer shall promptly cause to be deposited all  
22 Pledged Revenues of the City when and as received, without further  
23 permission of or instruction by the City Council. The Treasurer may elect  
24 for such Pledged Revenues in the Repayment Account to be held by the  
25 Fiscal Agent or the Paying Agent. From the dates of receipt by the Fiscal  
26 Agent or the Paying Agent, as applicable, of any Pledged Revenues, the  
27 City shall have no right, title or interest therein, and the Fiscal Agent shall  
28 have the sole right of withdrawal from the Repayment Account hereinafter

1 established for the purposes described in this Resolution.

2 The principal of the Notes and the interest thereon shall be a first  
3 lien and charge against and shall be payable from the first moneys  
4 received by the City constituting the Pledged Revenues, as provided by  
5 law.

6 If there are insufficient unrestricted revenues received by the City to  
7 permit the deposit into the Repayment Account of the City of the full  
8 amount of Pledged Revenues required hereunder to be deposited from  
9 unrestricted revenues in a given month, then the amount of any deficiency  
10 shall be satisfied and made up from the first additional moneys received  
11 by the City and lawfully available for the repayment of the Notes and the  
12 interest thereon.

13 (c) Deposit of Pledged Revenues in Repayment Account.

14 Pledged Revenues shall be held by the City in an account within the  
15 General Fund that is a special reserve general ledger subaccount and  
16 designated as the "City of Long Beach, California, 2008-2009 Tax and  
17 Revenue Anticipation Notes Repayment Account" (the "Repayment  
18 Account"), and applied as directed in this Resolution. Moneys placed in  
19 the Repayment Account shall be held for the sole benefit of the holders of  
20 the Notes, and until the Notes and all interest thereon are paid in full or  
21 until provision has been made for the payment of the Notes at maturity  
22 with interest to such date, the moneys in the Repayment Account shall be  
23 applied only for the purposes for which the Repayment Account was  
24 created.

25 (d) Disbursement and Investment of Moneys in Repayment

26 Account. From the date this Resolution takes effect, all Pledged  
27 Revenues shall, when received, be deposited into the Repayment  
28 Account. After such date as the amount of the Pledged Revenues

1 deposited in the Repayment Account shall be sufficient to pay in full the  
2 principal of and interest on the Notes, when due, any moneys in excess of  
3 such amount remaining in or accruing to the Repayment Account shall be  
4 transferred by the Fiscal Agent to the General Fund. On the maturity date  
5 of the Notes, moneys on deposit in the Repayment Account shall be used,  
6 to the extent necessary, to pay the principal of and interest on the Notes  
7 and shall be remitted by the Fiscal Agent to the Paying Agent on such  
8 date.

9 Moneys in the Repayment Account, to the greatest extent possible,  
10 and Note proceeds deposited in the General Fund held by the Fiscal  
11 Agent, shall be invested by or at the direction of the Treasurer in  
12 investments pursuant to Section 53601 of the Government Code and/or in  
13 the City's investment portfolio and in accordance with the investment  
14 policies of the City.

15 Section 9. Execution of Notes. The Treasurer is hereby directed to  
16 cause to be lithographed, engraved or otherwise printed or produced a sufficient number  
17 of blank Notes of suitable quality, showing on their face the interest rate applicable  
18 thereto. The Treasurer, is hereby authorized to sign the Notes manually or by facsimile,  
19 and the City Manager, or any duly designated deputy thereof (each, the "City Manager"),  
20 is hereby authorized to sign the Notes manually or by facsimile signature, and the City  
21 Clerk, or any duly designated deputy thereof (each, the "City Clerk"), is hereby authorized  
22 to countersign the Notes manually or by use of his or her facsimile signature, with at least  
23 one of said signatures being manual, and the City Clerk is hereby authorized to affix the  
24 seal of the City thereto by facsimile impression thereof, and said officers are hereby  
25 authorized to cause the blank spaces on the form of Notes to be filled in prior to initial  
26 delivery as may be appropriate. The Notes shall be manually authenticated by the  
27 Paying Agent (as defined in Section 14 below).

28 Section 10. Delivery of Notes in Book Entry Only Form. As an alternative



1 to printing, executing and delivering certificated Notes, the City may elect to deliver the  
2 Notes in book entry only form by appointing the Depository Trust Company ("DTC"), 19th  
3 Floor, 55 Water Street, New York, New York 10041, to act as securities depository for the  
4 Notes. In that event, a single Note substantially in the form of Exhibit "D" hereto,  
5 representing all of the outstanding Notes, will be executed and, on the date prior to  
6 closing, delivered to DTC. In that event, upon closing, the City shall notify DTC at which  
7 time DTC will credit the account of the successful bidder, and process the book entry  
8 deliveries to the accounts of the subsequent purchasers of interests in the Notes. The  
9 single Note certificate will be lodged with DTC until maturity of the Notes. On the date of  
10 maturity of the Notes, the Treasurer shall remit to the Paying Agent or DTC, as  
11 appropriate, sufficient funds to pay all outstanding principal and interest due with respect  
12 to the Notes.

13           Section 11. Tax Covenants. The City covenants that it will make no use  
14 of the proceeds of the Notes or any other amounts that would cause the Notes to be  
15 "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended  
16 (the "Tax Code"); and, to that end, the City agrees to comply with all requirements of said  
17 Section 148 and the Treasury Regulations promulgated thereunder, including restrictions  
18 on the use and investment of proceeds of the Notes and certain other amounts and the  
19 rebate of a portion of the investment earnings on proceeds of the Notes and certain other  
20 amounts, if required, to the United States. The City further covenants to do and perform  
21 all acts and things within its power and authority necessary to comply with each  
22 applicable requirement of Section 103 and Sections 141 through 150, inclusive, of the  
23 Tax Code. In furtherance of the covenants contained in this Section 11, the City agrees  
24 to comply with the tax compliance certificate of the City to be delivered concurrently with  
25 the issuance and delivery of the Notes. The City covenants that it will take no action that  
26 would cause the interest on the Notes to be included in gross income for federal income  
27 tax purposes, nor will it refrain from taking action required to maintain the exclusion of  
28 interest on the Notes from gross income for federal income tax purposes.

1                   Section 12. Approval and Ratification of Preliminary Official Statement.  
2 The Treasurer, pursuant to the authority granted in Resolution RES-08-0104, previously  
3 caused to be distributed the Preliminary Official Statement on September 10, 2008, the  
4 form of which is attached hereto as Exhibit "E". The City Council hereby ratifies and  
5 approves the form of the Preliminary Official Statement and the action of distributing the  
6 Preliminary Official Statement. The Treasurer and the City Manager, with the advice of  
7 counsel to the City, are hereby authorized to make the necessary changes to the  
8 Preliminary Official Statement to reflect the method of selling the Notes. The Treasurer is  
9 hereby authorized to certify that the Preliminary Official Statement is deemed final for  
10 purposes of Rule 15c2 12 of the Securities and Exchange Commission (the "Rule"). The  
11 Treasurer and the Financial Advisor are each hereby authorized to cause to be prepared  
12 and distributed in both electronic and printed form the Preliminary Official Statement for  
13 use in the marketing and sale of the Notes.

14                   Section 13. Approval of Official Statement. Prior to the sale and issuance  
15 of the Notes, the City Council hereby provides for the preparation, publication, execution  
16 and delivery of an Official Statement relating to the Notes in substantially the form of the  
17 draft Preliminary Official Statement presented at this meeting of the City Council. The  
18 City Manager is hereby authorized and directed to execute and deliver the Official  
19 Statement. The execution thereof shall constitute conclusive evidence of the City  
20 Council's approval of any and all changes or revisions therein from the form of the  
21 Preliminary Official Statement now before this meeting.

22                   Section 14. Delivery of Notes. The City Manager is hereby authorized  
23 and directed to deliver the Notes to either the successful bidder upon payment therefor in  
24 accordance with the Notice Inviting Bids in the case of a competitive sale, or to the  
25 Underwriter in accordance with the Contract of Purchase in the case of a negotiated sale.  
26 All actions heretofore taken with respect to the sale and issuance of the Notes are hereby  
27 approved, confirmed and ratified, and the City Manager is hereby authorized, confirmed  
28 and directed, for and in the name and on behalf of the City, to do any and all things and

1 take any and all actions and execute and deliver any and all certificates, agreements and  
2 other documents, which may be deemed necessary or advisable in order to consummate  
3 the lawful issuance and delivery of the Notes in accordance with this Resolution.

4 Section 15. Appointment of Fiscal Agent and Paying Agent for the Notes.

5 The Treasurer shall serve as the Fiscal Agent for the Notes. The City hereby appoints  
6 The Bank of New York Mellon Trust Company, N.A. as authenticating and paying agent  
7 (the "Paying Agent") for the Notes. The form of Paying Agent/Registrar Agreement  
8 attached hereto as Exhibit "F" is hereby approved in the form attached hereto with such  
9 changes as shall be acceptable to the Treasurer and as shall be approved as to form by  
10 the City Attorney. The Treasurer is authorized to execute the final form of the Paying  
11 Agent/Registrar Agreement.

12 Section 16. Appointment of Note Counsel and Financial Advisor. Kutak

13 Rock LLP is hereby appointed as Note Counsel for the issuance of the Notes on the  
14 terms and conditions approved by the Treasurer and the City Attorney, payable from the  
15 proceeds of the Notes. Public Financial Management, Inc. is hereby appointed Financial  
16 Advisor for the issuance of the Notes on the terms and conditions approved by the  
17 Treasurer and the City Attorney, payable from the proceeds of the Notes.

18 Section 17. Approval of Continuing Disclosure Agreement. The City

19 Council does hereby covenant and agree, for the benefit of the holders of the Notes, that  
20 the City will comply with the provisions of the Rule relating to secondary market and  
21 continuing disclosure. Failure of the City to comply with such provisions shall not be  
22 considered an event of default with respect to the Notes; however, any holder of the  
23 Notes may take such action as may be necessary and appropriate, including seeking  
24 mandate or specific performance by court order, to cause the City to comply with its  
25 obligations under this provision.

26 The City Council hereby authorizes the City Manager to execute and deliver  
27 by and on behalf of the City, for the benefit of the holders of the Notes, a Continuing  
28 Disclosure Certificate (as it may be amended from time to time in accordance with the

1 terms thereof, the "Continuing Disclosure Certificate") in form and substance substantially  
2 similar to that attached as Exhibit "G", said Continuing Disclosure Certificate to be dated  
3 the date of issuance of the Notes.

4           The City Council shall at all times do and perform all other acts and things  
5 necessary or desirable and within its power to assure compliance with the above  
6 referenced provisions of the Rule.

7           Section 18. Amendment and Restatement of Prior Resolution; Additional  
8 Authorization. This resolution serves as an amendment and restatement of Resolution  
9 No. RES-08-0104, previously approved by the City Council on September 9, 2008; and  
10 the actions authorized thereunder. The City Manager and Treasurer shall be, and hereby  
11 are, authorized and directed to execute the Tax Compliance Certificate and any  
12 additional certificates relating to the issuance of the Notes, and to take such other actions  
13 as they deem necessary or advisable in order to carry out and perform the purposes of  
14 this Resolution, and the execution or taking of such action shall be conclusive evidence  
15 of such necessity or advisability.

16           Section 19. This resolution shall take effect immediately upon its adoption  
17 by the City Council, and the City Clerk shall certify the vote adopting this resolution.

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**EXHIBIT "A"**

**NOTICE INVITING BIDS**

**\$49,000,000\***  
**CITY OF LONG BEACH**  
**(CALIFORNIA)**  
**2008-2009 Tax and Revenue Anticipation Notes**  
**[AMENDED]**

**NOTICE IS HEREBY GIVEN** that proposals will be received by a representative of the City of Long Beach (the "City") as follows:

- Time:** 9:30 AM, Pacific Daylight Time, on or after Wednesday, September 24,\* as established by the City and communicated through The Bond Buyer Wire not less than 24 hours prior to the time bids are to be received
- Manner:** Electronic Bids, via Grant Street Group's PFMAuction ("PFMAuction"). No other provider of electronic bidding services and no other means of delivery of bids (e.g., telephone, fax, telegraph or personal delivery) will be accepted. See "TERMS OF SALE AND ELECTRONIC BIDDING PROCEDURES – ELECTRONIC BIDDING PROCESS" herein
- Award:** Bidders may only bid to purchase all of the Notes (All-or-None bids only). No bid will be considered which does not offer to purchase all of the Notes. Each bid must specify only one rate of interest and a dollar purchase price for the entire issue of Notes.

for the purpose of purchasing \$49,000,000\* principal amount of 2008-2009 Tax and Revenue Anticipation Notes (the "Notes") of the City pursuant to a Resolution approved by the City Council on September 9, 2008 (the "Resolution"). The Notes will be issued in full conformity with the Constitution and laws of the State of California (the "State"), including Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (the "Act"), and under such statute the Notes are general obligations of the City payable solely from taxes, income, revenue, cash receipts, and other moneys of the City attributable to the fiscal year commencing on October 1, 2008 ("Fiscal Year 2008-2009") and legally available therefor.

**ISSUE:** The Notes shall be sold in an aggregate principal amount of \$49,000,000\* to be designated "City of Long Beach, California, 2008-2009 Tax and Revenue Anticipation Notes." The principal amount of the Notes issued and delivered may be reduced as provided below under "PURCHASE PRICE."

**DATE, MATURITY AND INTEREST PAYMENT DATES:** The Notes will be dated their date of delivery, which is expected to be on or about **October 6, 2008,\*** and will mature on **September 30, 2009.\*** Interest on the Notes will be payable, at maturity, on **September 30, 2009.\***

**NO REDEMPTION:** The Notes are not subject to call or redemption prior to maturity.

**SECURITY:** The Notes, in accordance with California law, are a general obligation of the City of Long Beach, California. The Notes and the interest thereon are payable from taxes, income, revenues, cash receipts and other moneys of the City attributable to Fiscal Year 2008-2009 (the "Pledged Revenues")

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\* Preliminary, subject to change.

and are legally available for payment thereof. Certain of the Pledged Revenues have been specifically pledged to the payment of the principal of the Notes and the interest rate thereon, to wit:

1. An amount equal to 33% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending May 31, 2009;
2. An amount equal to 33% of the principal amount of the Notes from the first unrestricted revenues received by the City during the month ending June 30, 2009;
3. An amount equal to 34% of the principal amount of the Notes, plus an amount sufficient to pay interest on the Notes at maturity, from the first unrestricted revenues received by the City during the month ending July 31, 2009.

**REPAYMENT ACCOUNT:** The Pledged Revenues shall be deposited by the City and held by the City Treasurer, acting as Fiscal Agent in trust in the Repayment Account and applied as directed under the Resolution. Any money deposited by the Fiscal Agent in the Repayment Account shall be for the benefit of the holders of the Notes and, until the Notes and all interest thereon are paid or until provision has been made for the payment of the Notes at maturity with interest to maturity, the moneys in the Repayment Account shall be applied only for purposes for which the Repayment Account was created.

Pursuant to the Resolution, all Pledged Revenues shall, when received, be deposited in the Repayment Account, maintained by the City Treasurer, as Fiscal Agent and held in the City of Long Beach investment portfolio. Amounts deposited by the City in the Repayment Account shall be applied solely for the purpose of paying the principal of and interest on the Notes, although such amounts shall be invested by the City in legal investments as permitted by Section 53601 of the Government Code of the State and/or in the City's investment portfolio and in accordance with the investment policies of the City.

**DEPOSIT OF NOTE PROCEEDS:** The Resolution provides that the Note proceeds shall be deposited in the City's general fund.

**PAYMENT:** Both principal and interest are payable in lawful money of the United States of America at the office of the Paying Agent, to The Depository Trust Company; New York, New York ("DTC"), which will in turn remit such principal and interest to the beneficial owners of the Notes through DTC's Participants, as described in the Preliminary Official Statement.

**FULL BOOK ENTRY:** The Notes, when delivered to the purchaser thereof, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Notes. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Notes purchased.

#### **TERMS OF SALE AND ELECTRONIC BIDDING PROCEDURES**

**FORM OF BID:** Bids must be for all of the Notes, and must be for not less than the par value thereof. **Each bid must be submitted through PFMAuction and must be received not later than 9:30 a.m., Pacific Daylight Time, on said date of sale.** Each bid must be in accordance with the terms and conditions set forth herein. Bids which do not conform to the terms of this paragraph will be rejected.

**ALL-OR-NONE BIDS ONLY:** Bidders may only bid to purchase all of the Notes. No bid will be considered which does not offer to purchase all of the Notes. Each bid must specify only one rate of interest and a dollar purchase price for the entire issue of the Notes.

**ELECTRONIC BIDDING PROCESS:** To bid via the PFMAuction website, bidders must have both:

1. Completed the registration form on the PFMAuction website; and
2. Requested and received admission to the City's auction, as described under "Registration and Admission to Bid" below.

The use of PFMAuction shall be at the bidder's risk and expense, and the City shall have no liability with respect thereto. By submitting a bid for the Notes, a prospective bidder represents and warrants to the City that such bidder's bid for the purchase of the Notes (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Notes. By registering to bid for the Notes, a prospective bidder is not obligated to submit a bid in connection with the sale.

If any provisions of this Notice Inviting Bids shall conflict with information provided by PFMAuction, an approved provider of electronic bidding services, this Notice Inviting Bids shall control, except for any Amendments to this Notice Inviting Bids posted on the PFMAuction website, in which case such Amendments shall control.

Further information about PFMAuction, including qualification, registration, rules and any fee charged, may be obtained from Grant Street Group by calling Grant Street Group's auction support at (412) 391-5555 (Extension 370).

Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access PFMAuction for purposes of submitting its bid in a timely manner and in compliance with the requirements of the Notice Inviting Bids. Neither the City nor PFMAuction shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the City nor PFMAuction shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by PFMAuction. The City is not bound by any advice and determination of PFMAuction to the effect that any particular bid complies with the terms of this Notice Inviting Bids and in particular the bid specifications hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via PFMAuction are the sole responsibility of the bidders; the City is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Notes, it should telephone Grant Street Group and notify Julio Morales of Public Financial Management at (213) 489-4075. After receipt of bids is closed, the City, through PFMAuction, will indicate the apparent Purchaser. Such message is a courtesy only for viewers, and does not constitute the award of the Notes. Each bid will remain subject to review by the City to determine its true interest cost rate and compliance with the terms of this Notice Inviting Bids and to award the Notes.

**REGISTRATION AND ADMISSION TO BID:** To bid via PFMAuction, bidders must first visit the PFMAuction website where, if they have never registered with PFMAuction, they can register and then request admission to bid on the Notes. Bidders will be notified prior to the scheduled bidding time of their eligibility to bid. Only NASD registered broker-dealers and dealer banks with DTC clearing arrangements will be eligible to bid. Bidders who have previously registered with PFMAuction or any other website administered by PFMAuction's Auction Administrator, may call the Auction Administrator at (412) 391-7686 for their ID Number or password.

**BIDDING DETAILS:** Bidders should be aware of the following bidding details associated with the sale for each series of Notes:



- (1) **All bids must be submitted on the PFMAuction website at [www.PFMAuction.com](http://www.PFMAuction.com). No telephone, telefax, telegraph or personal delivery bids will be accepted.**
- (2) Bidders are permitted to submit bids for the Notes in only an all-or-none auction during the bidding time period.
- (3) Bidders may change and submit bids as many times as they like during the bidding time period; provided, however, each and any bid submitted subsequent to a bidder's initial bid must result in a lower true interest cost ("TIC") with respect to a bid when compared to the immediately preceding bid of such bidder. See "Bid Procedure and Basis of Award" below.
- (4) The final bid submitted by a bidder before the end of the bidding time period will be compared to all other final bids submitted by others to determine the winning bidder or bidders.
- (5) During the bidding, no bidder will see any other bidder's bid, but each bidder will see whether their bid is a leading bid relative to other bids.
- (6) On the Auction Page, bidders will be able to see whether any bid has been submitted.

**RULES OF PFMAUCTION:** The "Rules" of PFMAuction can be viewed on the PFMAuction website and are incorporated herein by reference. Bidders must comply with the Rules of PFMAuction in addition to the requirements of this Notice Inviting Bids. In the event of a conflict between the Rules of PFMAuction and this Notice Inviting Bids, this Notice Inviting Bids shall control.

**PURCHASE PRICE:** The Notes will be awarded as a unit to the bidder whose legally acceptable bid, including any premium which produces the lowest True Interest Cost (TIC). The TIC of each bid proposal will be determined on the basis of the present value of the principal and interest to be paid with respect to the Notes based on the bid amount, principal plus premium (if any), calculated on an annual 30/360 day-count basis.

In the event that the winning bid contains a premium in excess of \$1,000,000, the principal amount of the Notes issued and delivered shall be reduced such that the principal amount of the Notes issued, together with premium thereon, does not exceed \$50,000,000.\*

**INTEREST RATE:** Interest with respect to the Notes will be calculated on a 30/360 day-count basis and is payable on September 30, 2009.\* In connection with the bids submitted for the Notes:

1. Each bidder must bid an interest rate in a multiple of one one-thousandth of one percent (1/1000 of 1%) per annum which rate must be no greater than 6% per annum;
2. Interest with respect to the Notes shall be computed annually from its date to the stated maturity date, September 30, 2009,\* at the interest rate specified in the bid;
3. The same interest rate shall apply to all of the Notes; and
4. Any premium must be paid as part of the purchase price, and no bid will be accepted which contemplates the waiver of any interest or other concession by the bidder as a substitute for payment in full for the purchase price.

All bids that do not conform to the terms of this paragraph will be rejected.

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\* Preliminary, subject to change.

**GOOD FAITH DEPOSIT:** Each bid must be accompanied by a cashier's check or a financial surety bond equal to 1% of the par amount of the Notes, as adjusted, payable to the order of the "City of Long Beach," to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid (the "Good Faith Deposit"). The financial surety bond must be from an insurance company licensed to issue such a financial surety bond policy in the State of California, whose claims-paying ability is rated in the highest rating category (without regard to subcategories) by Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

Such cashier's check or financial surety bond must be submitted *prior* to the time bids are to be received to:

Public Financial Management  
633 West Fifth Street, Suite 6700  
Los Angeles, CA 90071

**Attn:** Julio Morales  
**Phone:** (213) 489-4075  
**Fax:** (213) 489-4085

The financial surety bond must identify each bidder whose good faith deposit is guaranteed by such financial surety bond, and the City assumes no responsibility for any failure of a financial surety bond to list any bidder or to be received on a timely basis as described in the preceding sentence. Once the Notes are awarded to a bidder utilizing a financial surety bond, then that bidder shall deliver its good faith deposit to the Treasurer of the City in the form of a cashier's check (meeting the requirements set forth above) or by wire transfer no later than 12:00 noon (Pacific Daylight Time) on the business day immediately following the award. Wiring instructions for the Good Faith Deposit are as follows:

Union Bank of California  
Los Angeles, California  
Account #: 27400-16582  
Account: City of Long Beach  
ABA#: 122-000-496

The City does not endorse the use of a financial surety bond or of any provider of such a surety bond. The City will accept a financial surety bond in lieu of a cashier's check under the terms described herein solely as an accommodation to bidders, and it is understood and agreed by each bidder using such a bond that the bidder must make its own arrangements with the provider of the bond.

No interest will be paid upon the deposit made by any bidder. Good Faith Deposit checks of all bidders (except the successful bidder or bidders, herein the "Purchaser" or "Purchasers") will be returned by the City within two business days following the award of the Notes to the Purchaser. The Good Faith Deposit will be invested for the exclusive benefit of the City. The principal amount of each such deposit shall be applied to the purchase price of the Notes at the time of delivery thereof.

If any Purchaser shall fail to pay the purchase price of the Notes awarded to it in full upon tender of the Notes, such Purchaser shall have no right in or to the Notes or to the recovery of its deposit, or to any allowance or credit by reason of such deposit, unless it shall appear that the Notes would not be validly issued if delivered to such Purchaser in the form and manner proposed. In the event of nonpayment by any Purchaser, the amount of such Purchaser's Good Faith Deposit shall be retained by the City as and for liquidated damages for such failure by such Purchaser, and such retention shall constitute a full release and discharge of all claims by the City against such Purchaser arising from such failure. The City's actual

damages in such an event may be greater or may be less than the amount of such Purchaser's Good Faith Deposit. Each bidder waives any right to claim that the City's actual damages are less than such amount.

#### **INFORMATION REQUIRED FROM PURCHASER; REOFFERING PRICE**

By making a bid for the Notes, the Purchaser agrees (a) to provide to the City, in writing, within 24 hours of the acceptance of the bid, pricing and other related information necessary for completion of the final Official Statement, (b) to disseminate to all members of the underwriting syndicate copies of the Official Statement, including any supplements prepared by the City, (c) to promptly file a copy of the final Official Statement, including any supplements prepared by the City, with each Nationally Recognized Municipal Securities Information Repository and (d) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Notes to ultimate purchasers.

Before delivery of the Notes, the successful bidder shall furnish to the City a written statement in form and substance acceptable to Note Counsel (a) stating the initial reoffering price of each maturity of the Notes to the general public; (b) certifying that a bona fide offering of the Notes has been made to the public (excluding bond houses, brokers, and other intermediaries); (c) stating the prices at which at least 10% of the Notes were sold to the public (excluding bond houses, brokers, and other intermediaries) prior to the sale of the Notes at other prices; and (d) certifying that the price at which the Notes was sold did not exceed the fair market value of such maturity as of the sale date.

**AWARD OF SALE:** The City will award the Notes or reject all bids not later than 24 hours after the expiration of the time herein prescribed for the receipt of proposals unless such time of award is waived by the Purchaser. Notice of the award will be given promptly to the successful bidder after the award is made.

**RIGHT OF REJECTION AND WAIVER:** The City reserves the right, in its discretion, to reject any and all bids to waive any irregularity or informality in any bid and to select the winning bidder among bidders submitting identical bids.

**RIGHT TO POSTPONE AWARD:** In the event that no bid is awarded, the City shall receive bids at the time and location to be communicated through *The Bond Buyer Wire* not less than 24 hours prior to the time bids are to be received until such time as a bid is awarded or the City determines to withdraw sale of the Notes.

**RIGHT OF CANCELLATION:** The Purchaser shall have the right at its option to cancel the sale and purchase of the Notes if the City shall fail to execute the Notes and tender the same for delivery within 30 days from the award of sale thereof.

**CUSIP NUMBERS:** CUSIP numbers will be applied for and will be printed on the Notes and the cost will be the Purchaser's responsibility. Any delay, error or omission with respect thereto will not constitute cause for the Purchaser to refuse to accept delivery of and pay for the Notes.

**PAYMENT:** Payment of the purchase price must be made in funds immediately available to the Treasurer of the City of Long Beach, California on the date of delivery of the Notes, which is expected to be on or about October 6, 2008.\*

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\* Preliminary, subject to change.

**CHANGE IN TAX-EXEMPT STATUS:** At any time before the Notes are tendered for delivery, the Purchaser may disaffirm and withdraw its proposal if the interest received by holders of notes of the same type and character as the Notes shall be determined to be includable in gross income under present federal income tax laws, either by a ruling of the Internal Revenue Service or by a decision of any federal court, or shall be determined to be includable in gross income by the terms of any federal income tax law enacted subsequent to the date of this notice.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION FEE:** The Purchaser will be required pursuant to California law to pay any fees due to the California Debt and Investment Advisory Commission (“CDIAC”). CDIAC will invoice the Purchaser after the closing of the Notes.

**OFFICIAL STATEMENT:** The Preliminary Official Statement, together with any supplements thereto, is in a form “deemed final” by the City for purposes of SEC Rule 15c2-12, but is subject to revision, amendment and completion in a final Official Statement. The City will provide each Purchaser such number of printed copies of the Official Statement for this issue as such Purchaser may reasonably request. Up to 50 copies of the Official Statement will be furnished without cost within seven days of the sale, and any additional copies will be furnished at the expense of the Purchaser.

**CLOSING PAPERS; LEGAL OPINION:** The obligation of the Purchaser to purchase the Notes will be conditioned upon the City furnishing to each Purchaser, without charge, concurrently with payment for and delivery of the Notes, the following closing papers, each dated the date of such delivery:

- (a) The final approving opinion of Kutak Rock LLP, Note Counsel, in the form attached as Appendix B to the Official Statement;
- (b) A certificate of the City that on the basis of the facts, estimates and circumstances in existence on the date of issue, it is not expected that the proceeds of the Notes will be used in a manner that would cause the Notes to be “arbitrage notes”;
- (c) An opinion of the City Attorney of the City of Long Beach that there is no litigation threatened or pending affecting the validity of the Notes;
- (d) A certificate of an appropriate City official, acting on behalf of the City solely in his/her official capacity, and not in his/her personal capacity, which at the time of the sale of the Notes and at all times subsequent thereto, up to and including the time of the delivery of the Notes to the initial purchasers thereof, the Official Statement of the City pertaining to said Notes did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement therein, in light of the circumstances under which it was made, not misleading;
- (e) The signature certificate of the officials of the City of Long Beach, showing that they have signed the Notes and impressed the seal of the City thereon, and that they were respectively duly authorized to execute the same; and
- (f) The receipt of the Treasurer of the City of Long Beach that the purchase price of the Notes has been received.

**INFORMATION AVAILABLE:** Requests for information concerning the City should be addressed to:

Public Financial Management  
633 West Fifth Street, Suite 6700  
Los Angeles, CA 90071

**Attn:** Janice Mazyck or Julio Morales  
**Phone:** (213) 489-4075  
**Fax:** (213) 489-4085

CITY OF LONG BEACH

By:                     /s/ David Nakamoto                      
Treasurer, City of Long Beach

Dated: September 24, 2008

## EXHIBIT "B"

### NOTICE OF INTENTION TO SELL

\$55,000,000\*

City of Long Beach, California  
2008-2009 Tax and Revenue Anticipation Notes

NOTICE IS HEREBY given that the City of Long Beach, California (the "City") intends to receive electronic proposals for the purchase of \$55,000,000\* principal amount of City of Long Beach, California 2008-2009 Tax and Revenue Anticipation Notes (the "Notes"), as follows:

- Time: 9:30 a.m., Pacific Daylight Time, on or after September 17, 2008, as established by the City and communicated through *The Bond Buyer Wire* not less than 24 hours prior to the time bids are to be received.
- Manner: Electronic Bids, via the Grant Street Group's PFM Auction ("PFM Auction"). No other provider of electronic bidding services, and no other means of delivery of bids (e.g., telephone, facsimile, telegraph or personal delivery) will be accepted.

Electronic proposals may be submitted for receipt prior to the time for receipt of the bids at the time and place set forth above, only through the Grant Street Group's PFM Auction website, located at [www.PFMAuction.com](http://www.PFMAuction.com), in accordance with the procedures, terms and conditions set forth in the Notice Inviting Bids. Bidders expecting to submit a bid by electronic transmissions are requested to notify the City's financial advisor, Public Financial Management Inc., of their intent as early as possible. No other provider of Internet bidding services and no other means of delivery (i.e., telephone, facsimile or physical delivery) will be accepted. Changes in the date and time of receipt of proposals will be communicated via *The Bond Buyer Wire* not later than 12:00 p.m., Pacific Daylight Time, on the business day prior to the bid opening.

Copies of the complete Notice Inviting Bids together with copies of the Preliminary Official Statement to be issued in connection with the sale of the Notes and copies of the authorizing resolution and other documents related thereto may be obtained from the City or from the offices of the City's financial advisor at the following locations: City Treasurer, City of Long Beach, 6<sup>th</sup> Floor, 333 West Ocean Boulevard, Long Beach, California 90802-4664, Telephone: (562) 570-6845; and Public Financial Management Inc., Suite 6700, 633 West 5<sup>th</sup> Street, Los Angeles, California 90071, Telephone: (213) 489-4075.

The Preliminary Official Statement will be in a form deemed final by the City within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, except for the omission of certain information permitted to be omitted therefrom pursuant to Rule 15c2-12 but is subject to revision, amendment and completion in a final Official Statement.

Dated: August 29, 2008

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\*Preliminary: subject to change.

EXHIBIT C

CONTRACT OF PURCHASE

[\$[AMOUNT]]  
CITY OF LONG BEACH, CALIFORNIA  
2008-2009 TAX AND REVENUE ANTICIPATION NOTES

[\_\_\_\_], 2008

City Council  
City of Long Beach  
333 W. Ocean Blvd.  
Long Beach, CA 90802

Ladies and Gentlemen:

The Underwriter, [UNDERWRITER], hereby proposes to purchase all of the Notes from the City and to make a public offering of the Notes, subject to the written acceptance of this Note Purchase Contract by the City and the delivery of such acceptance to the Underwriter at or prior to 11:50 p.m., Pacific Time, on the date hereof, and subject to the following provisions:

**Section 1. Definitions.** The following terms shall have the following meanings in this Contract of Purchase, unless the context plainly does not so permit:

*“Accountants”* means KPMG LLP, and independent accounting firm.

*“City”* means the City of Long Beach, California, whose mailing address is 333 W. Ocean Boulevard, Long Beach, California 990802.

*“Closing”* refers to the transaction at which the Notes are delivered by the City to the Underwriter, and paid for by the Underwriter.

*“Closing Documents”* means the documents described in Section 9 hereof to be delivered to the Underwriter at the Closing.

*“Contract of Purchase”* means this Contract of Purchase between the Underwriter and the City.

*“Disclosure Counsel”* means Kutak Rock LLP whose mailing address is 1801 California Street, Suite 3100, Denver, Colorado 80202-2658.

*“Governmental Authority”* means any legislative board or governmental official, department, commission, board, bureau, agency, instrumentality, body, public corporation, City or entity.

*“Note Counsel”* means Kutak Rock LLP whose mailing address is 1801 California Street, Suite 3100, Denver, Colorado 80202-2658.

“*Note Proceedings*” refers to all proceedings necessary to be completed by the City to authorize the issuance and delivery of the Notes.

“*Notes*” means the \$[AMOUNT] City of Long Beach, California 2008-2009 Tax and Revenue Anticipation Notes, due September 30, 2009, bearing interest at a rate of [\_\_\_\_\_] % per annum computed on the basis of a 360-day year, as described in the Official Statement.

“*Official Statement*” means the Official Statement of the City with respect to the Notes, in form satisfactory to the Underwriter, dated [\_\_\_\_\_] , 2008, duly executed on its behalf by the City Manager, or designee, including the cover page and all appendices, exhibits, statements and letters included therein or attached thereto, and all supplements thereto, with such changes as shall be approved in writing by the Underwriter and the City.

“*Paying Agent*” means The Bank of New York Mellon Trust Company, N.A., with the functions and roles of paying agent, registrar and authenticating agent, whose address is 700 S. Flower Street, Suite 500, Los Angeles, California 90017.

“*Paying Agent Agreement*” means the Paying Agent/Registrar Agreement by and between the City and the Paying Agent, dated as of October [\_\_\_], 2008.

“*Pledged Revenues*” means the moneys pledged to the payment of the principal of and interest on the Notes, as described in the Official Statement.

“*Preliminary Official Statement*” means the Preliminary Official Statement of the City with respect to the Notes, dated [\_\_\_\_\_] , 2008, including the cover page and all appendices, exhibits, statements and letters included therein or attached thereto.

“*Resolution*” means Resolution No. [\_\_\_\_\_] adopted by the Board of Directors of the City on September 23, 2008.

“*Rule*” means Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

“*State*” means the State of California.

“*Underwriter*” means [UNDERWRITER], whose address is [\_\_\_\_\_].

**Section 2. Purchase Price.** Upon the terms and conditions and upon the basis of the representations and warranties hereinafter set forth, the Underwriter hereby agrees to purchase from the City for reoffering to the public, and the City hereby agrees to sell to the Underwriter for such purpose, all, but not less than all, of the Notes, for an aggregate purchase price of \$[\_\_\_\_\_] (which equals the par amount of the Notes plus an original issue premium of \$[\_\_\_\_\_] , less an underwriter’s discount of \$[\_\_\_\_\_] ).

**Section 3. Public Offering of Notes.** The Underwriter agrees to make a bona fide public offering of all the Notes at the respective initial public offering prices as set forth on the cover page of the Official Statement. Subsequent to such initial public offering, the Underwriter reserves the right to change the public offering prices as it may deem necessary in its professional judgment in connection with the marketing of the Notes.



**Section 4. Official Statement.** The City agrees to deliver to the Underwriter, at such addresses as the Underwriter shall specify, as many copies of the Official Statement (but not to exceed 200) as the Underwriter shall reasonably request as necessary to comply with paragraph (b)(4) of the Rule and with Rule G-32 and all other applicable rules of the Municipal Securities Rulemaking Board. The City agrees to deliver such Official Statements within seven business days after the execution of this Contract of Purchase.

The City hereby authorizes and approves the Preliminary Official Statement and the Official Statement, consents to their distribution and use by the Underwriter in connection with the public offering of the Notes by the Underwriter prior to the date hereof and authorizes the approval of the Official Statement by execution thereof by a duly authorized officer of the City.

The Underwriter shall give notice to the City on the date after which no Participating Underwriter, as such term is defined in the Rule, remains obligated to deliver Official Statements pursuant to paragraph (b)(4) of the Rule.

Prior to the earlier to occur of (a) receipt of notice from the Underwriter pursuant to the immediate preceding paragraph that Official Statements are no longer required under the Rule; or (b) 90 days after the date of Closing, the City shall provide the Underwriter with such information regarding the City, its current financial condition and ongoing operations as the Underwriter may reasonably request.

**Section 5. Closing, Delivery and Payment.** The Closing shall take place at [9:00 a.m.], Pacific Time, on October [\_\_\_], 2008, or at such other time or on such later business day as shall have been mutually agreed upon in writing by the City and the Underwriter. At the Closing, the City shall deliver to the Paying Agent, for the account of the Underwriter, in Los Angeles, California, the Notes in definitive form, duly executed, together with the Closing Documents; and the Underwriter shall accept such delivery and pay the purchase price as set forth in Section 2 of this Contract of Purchase in immediately available funds, by wire transfer, to the order of the City for deposit in the General Fund as directed pursuant to the terms of the Paying Agent Agreement. Physical delivery of the Notes will be delivered to the Paying Agent, as agent of The Depository Trust Company (“*DTC*”) under the Fast Automated Securities Transfer (“*FAST*”) system, or otherwise as instructed by the City or the Paying Agent, at the office of the Paying Agent.

**Section 6. Representations of the City.** The City represents and warrants to the Underwriter that:

(a) The City is a duly organized municipal corporation and a political subdivision of the State, organized and existing under the State Constitution and the City’s Charter, with full legal right, power and authority to adopt the Resolution, issue the Notes, and to execute, deliver and perform its obligations under this Contract of Purchase, the Paying Agent Agreement, the Resolution and the Notes.

(b) (i) At or prior to the Closing, the City shall have taken all action required to be taken by it to authorize the performance of its obligations thereunder and to complete the Note Proceedings; (ii) the City has, and at the date of the Closing will

continue to have, full legal right, power and authority to adopt the Resolution and to enter into this Contract of Purchase, and the Paying Agent Agreement and, at the date of the Closing, will have full legal right, power and authority to issue and deliver the Notes to the Underwriter and to perform its obligations thereunder as provided in the Resolution, this Contract of Purchase and the Paying Agent Agreement; (iii) this Contract of Purchase and the Paying Agent Agreement have been duly executed and delivered and constitute the valid and legally binding obligations of the City; (iv) the City has fully authorized the consummation by it of all transactions relating to the City and contemplated by this Contract of Purchase and the Paying Agent Agreement; and (v) at or prior to the Closing, the execution and delivery of, and the performance by the City of its obligations contained in the Notes, the Resolution, the Paying Agent Agreement and this Contract of Purchase shall have been duly authorized.

(c) The City reasonably anticipates that the Pledged Revenues will be received in the amounts and by the respective dates indicated in the Official Statement; there are no present or foreseeable events, conditions or determinations of which the City is aware that will prevent the receipt of and application by the City of the Pledged Revenues as described in the Note Proceedings and the Official Statement; and as of the Closing, except as disclosed in the Official Statement, the City shall have taken all action to be taken by such date required by law, regulation or administrative order or directive, or in the City's judgment necessary and feasible, in order to qualify for and to receive the Pledged Revenues in such amounts and by such dates, and the City will use its best efforts to cause the Pledged Revenues to be received in cash in time to pay the Notes when due. The City will not issue any additional obligations of the City in anticipation of receipt of the Pledged Revenues, or, prior to the maturity of the Notes or provision for their payment, pledge any of the Pledged Revenues for any purpose other than to secure the payment of the Notes.

(d) The Preliminary Official Statement, at the date thereof, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. At the date hereof and on the Closing Date, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the City makes no representation or warranty as to the information contained in or omitted from the Preliminary Official Statement or the Official Statement in reliance upon and in conformity with information furnished in writing to the City by the Underwriter specifically for inclusion therein.

(e) The issuance of the Notes, the adoption of the Resolution, the execution, delivery and performance of this Contract of Purchase (except Section 15) and the Paying Agent Agreement, the performance of the City's obligations under the Notes and compliance with the provisions hereof and thereof by the City, do not and shall not conflict with or constitute on the part of the City a breach of, or a default under, any existing law, charter, ordinance, regulation, decree, order or resolution, or (to the best knowledge of the undersigned representative, after due investigation) any agreement,

indenture, mortgage, lease or other instrument, to which the City is subject or by which it is bound; and the City is not in any material way in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any material loan agreement, indenture, bond, note, resolution or other instrument to which the City is a party or is otherwise subject and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any one or more of the foregoing.

(f) All authorizations, consents or approvals, if any, of any Governmental Authority or court necessary for the valid issuance of, and performance by the City of its obligations under the Notes shall have been duly obtained or made prior to the issuance of the Notes and disclosed to the Underwriter; provided, however, that no representation is made by the City as to compliance with federal or state “blue sky” or similar laws.

(g) As of the time of acceptance hereof and as of the Closing, except as disclosed in the Official Statement, to the best knowledge of the City, no action, suit, proceeding or investigation is or will be pending or threatened against the City or any other person in any court or before any Governmental Authority seeking to restrain or enjoin the issuance or delivery of any of the Notes or in any way contesting or affecting the validity of the Note Proceedings, the Notes, the Resolution, this Contract of Purchase, the Paying Agent Agreement, or the receipt of application of the Pledged Revenues or any other revenues of the City that could affect payment of the Notes or the payment of any other obligations of the City, or contesting the powers of the City to issue the Notes, or in any manner questioning the corporate existence or boundaries of the City or the titles to their respective offices of officials of the City who have acted with respect to the Note Proceedings.

(h) The Notes shall conform in all respects to the descriptions thereof contained in the Official Statement, and the Notes, when delivered and sold to the Underwriter as provided herein, shall constitute validly issued and legally binding general obligations of the City, secured as to principal and interest by a first lien and charge against the Pledged Revenues, and shall be payable, to the extent not paid from the Pledged Revenues, from any lawfully available unrestricted moneys of the City therefor.

(i) The audited financial statements of the City for the Fiscal Year ended September 30, 2007 and the related statements of revenues, expenditures and changes in financial position for the fiscal year ended on such date as set forth in the Official Statement are true, complete and correct and fairly present the financial condition of the City as of such date and the results of its operations for such fiscal year. There has been no material adverse change in the financial condition of the City since September 30, 2007 except as described in the Official Statement.

(j) Between the date hereof and the Closing, without the prior written consent of the Underwriter, the City shall not have issued in the name of the City any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Official Statement.

(k) The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is a bond issuer whose arbitrage certificates may not be relied upon.

(l) Any certificate signed by any official or other representative of the City and delivered to the Underwriter shall be deemed a representation and warranty by the City to the Underwriter as to the truth of the statements therein made.

(m) The City has never been in default at any time, as to the payment of or interest on any debt obligation which it has issued, including those it has issued as a conduit for another entity, except as specifically disclosed in the Official Statement.

**Section 7. Conditions to Underwriter's Obligations.** The Underwriter has entered into this Contract of Purchase in reliance upon the representations and warranties of the City contained herein, the Note Proceedings and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Contract of Purchase are and shall be subject to the following further conditions as of the Closing:

(a) The representations and warranties of the City contained herein shall be true at the date hereof and at and as of the Closing, as if made at and as of the Closing, and the statements made in all certificates and other documents delivered to the Underwriter at the Closing pursuant hereto shall be true at the Closing; and the City shall be in compliance with each of the agreements made by it in this Contract of Purchase.

(b) At the time of the Closing: (i) the Resolution, this Contract of Purchase and the Paying Agent Agreement shall be in full force and effect; (ii) the Note Proceedings and this Contract of Purchase shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter; (iii) all action which, in the opinion of Note Counsel shall be necessary in connection with the transactions contemplated hereby, shall have been duly taken and shall be in full force and effect; (iv) the Closing Documents shall have been received by the Underwriter; and (v) the City shall perform or have performed all of its obligations required under or specified in the Note Proceedings, the Resolution, this Contract of Purchase, the Paying Agent Agreement, or the Official Statement to be performed at or prior to the Closing.

(c) The provisions of law governing the payment of any of the moneys pledged to pay the Notes shall be in full force and effect and shall not have been amended in any respect that would adversely affect the prospects that such moneys will be received in the amount and by the respective dates indicated in the Official Statement.

(d) Except as disclosed in the Official Statement, no decision, ruling or finding shall have been made or entered by any court or Governmental Authority since the date of this Contract of Purchase (and not reversed on appeal or otherwise set aside) (i) which has any of the effects described in Section 6(g); or (ii) which declares the Resolution, this Contract of Purchase or the Paying Agent Agreement to be invalid or unenforceable in whole or in part.

(e) Between the date of this Contract of Purchase and the Closing, (i) no default by the City shall have occurred and be continuing with respect to any of its material obligations; and (ii) no bankruptcy, insolvency or other similar proceeding in respect of the City shall be pending or to the knowledge of the City contemplated, and there shall not have been enacted since the date of this Contract of Purchase any moratorium or similar legislation with respect to any type of transit City obligation. For all purposes of this Contract of Purchase a default shall not be deemed to be continuing if it has been cured, waived or otherwise remedied.

(f) The credit ratings on the Notes as shown in the Official Statement shall not have been changed or withdrawn.

If the conditions to the Underwriter's obligations contained in this Contract of Purchase are not satisfied, this Contract of Purchase shall terminate and neither the City nor the Underwriter shall have any further obligation hereunder, except the respective obligations of the parties to pay certain expenses as provided in Section 12 herein shall continue in full force and effect.

**Section 8. Conditions to City's Obligations.** The performance by the City of its obligations is conditioned upon (a) the performance by the Underwriter of its obligations hereunder; and (b) receipt by the City and the Underwriter of opinions and certificates being delivered at the Closing by persons and entities other than the City.

**Section 9. Closing Documents.** The Closing Documents shall consist of, or cover in substance, the following, each properly executed, certified or otherwise verified, dated as of or prior to the date of the Closing, and in such form as may be satisfactory to Note Counsel and the Underwriter including, but not limited to, the matters hereinafter set forth:

(a) the final approving opinion of Note Counsel substantially in the form as shown in Appendix B to the Official Statement;

(b) the supplemental opinion of Note Counsel, addressed to and solely for the benefit of the Underwriter to the effect that: (i) this Contract of Purchase has been duly authorized, executed and delivered by the City; (ii) the Notes are exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof, and none of the Note Proceedings or other documents relating to the issuance of the Notes need be qualified as an indenture under the Trust Indenture Act of 1939, as amended; and (iii) the statements contained in the Official Statement under the captions "THE NOTES" and "TAX MATTERS" insofar as such statements purport to summarize the Notes, the Resolution, the Act and the Code, each as defined therein, present a fair and accurate summary thereof for the purpose of use in the Official Statement;

(c) a letter from Note Counsel to the effect that the approving opinion referred to in paragraph (b) above addressed to the City on the date of the Closing may be relied upon by the Underwriter as though such opinion were addressed to it;

(d) an opinion from Disclosure Counsel, addressed to the Underwriters and the City that, based upon its limited participation in the preparation of the Official Statement, and while it is not passing upon, and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, Disclosure Counsel, based solely upon its discussions with members of the staff of the City and not upon any independent investigation of the City or of its financial condition, is not aware of any failure by the City to disclose any fact which would cause the Official Statement to contain a misstatement of fact or to omit to state a fact necessary to make the statements contained in the Official Statement not materially misleading in light of the circumstances under which they were made, and Disclosure Counsel does not express any belief or opinion as to any financial, technical or statistical data, including projections, included in the Official Statement;

(e) the opinion of the City's Counsel substantially in the form attached hereto as Exhibit A addressed to Note Counsel and the Underwriter;

(f) a tax compliance certificate duly executed on behalf of the City and dated as of the Closing;

(g) copies, if any, of all authorizations, consents or approvals of, or filings or registrations obtained by the City as described in Section 6(f) hereof;

(h) copies of the Note Proceedings certified by the City Clerk of the City (the "**City Clerk**") to be in full force and effect and not amended or rescinded as of the date of the Closing;

(i) executed Continuing Disclosure Undertaking;

(j) executed counterparts of the Paying Agent Agreement;

(k) a certificate of a duly authorized officer of the Paying Agent;

(l) written evidence that the Notes have been rated [MIG-1] by Moody's Investors Service, [SP-1+] by Standard and Poor's Rating Services, a division of the McGraw Hill Companies Inc. and [F1+] by Fitch, Inc.; and

(m) such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Note Counsel may reasonably request to evidence compliance by the City with legal requirements, the accuracy, as of the time of the Closing, of the City's representations herein contained and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City or by any other person.

**Section 10. Termination by Underwriter.** In recognition of the desire of the City and the Underwriter to effect a successful public offering of the Notes, and in view of the potential adverse impact of any of the following events on a public offering, the Underwriter shall have the right to cancel its obligations to acquire the Notes, by written notice from the Underwriter to the City, if between the date of this Contract of Purchase and the Closing: (a) the Official

Statement shall have been amended, modified or supplemented without the consent in writing of the Underwriter; (b) any event shall occur which, in the sole professional judgment of the Underwriter, makes untrue any statement of a material fact set forth in the Official Statement or results in an omission to state a material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading; or (c) the marketability of the Notes or the market price thereof, in the sole judgment of the Underwriter, has been materially adversely affected by (i) an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Contract of Purchase in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the committee on Finance of the United States Senate or the committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for the staff of either such committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or state court or and ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or state authority affecting the federal or state tax status of the City, or the interest on bonds or notes (including the Notes), or which would have the effect of changing directly or indirectly, the federal income tax consequences of interest on obligations of the general character of the Notes in the hands of the holders thereof; (ii) any outbreak or escalation of hostilities or other national or international calamity or crisis or an event of fiscal default by the State or a city, county, municipality, City or authority located in the State, the effect of such outbreak, calamity, crisis or default being such, in the sole judgment of the Underwriter, as would cause a material disruption in the municipal bonds market; (iii) a general suspension of trading on the New York Stock Exchange, or fixing of minimum or maximum prices for trading or maximum ranges for prices for securities on the New York Stock Exchange, whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other Governmental Authority having jurisdiction; (iv) a general banking moratorium declared by either federal or State authorities having jurisdiction; or (v) any action, suit, proceeding or investigation described in Section 6(h) hereof or any decision described in Section 7(d) hereof. If the Underwriter's obligations to acquire the Notes are canceled for any reason permitted by this Contract of Purchase, this Contract of Purchase shall terminate and neither the City nor the Underwriter shall have no further obligations hereunder, except that the respective obligations of the parties to pay certain expenses as provided in Section 12 herein shall continue in full force and effect.

**Section 11. Changes Affecting the Official Statement After the Closing.** At the Closing, the Underwriter shall advise the City as to whether or not the Underwriter is still offering Notes, and for a period of not exceeding 25 days after the Closing, if and so long as such offering continues, (a) the City shall furnish such information with respect to itself as the Underwriter may from time to time reasonably request; and (b) if any event shall occur as a result of which it is necessary, in the opinion of the City Manager of the City (the "**City**

*Manager*”), Note Counsel or the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances then existing, the City will forthwith prepare and furnish to the Underwriter a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to Note Counsel and the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances then existing, not misleading.

**Section 12. Expenses.** The Underwriter shall be under no obligation to pay, and the City shall pay the following expenses incident to the performance of the obligations of the City hereunder: (1) the fees and disbursements of Note Counsel; (ii) the cost of posting, printing and delivering the Notes, the Preliminary Official Statement and the Official Statement; (iii) the fees and disbursements of accounts, advisers and of any other experts or consultants retained by the City, including the fees and expenses of the Financial Advisor; and (iv) any other expenses and costs of the City incident to the performance of their respective obligations in connection with the authorization, issuance and sale of the Notes, including out-of-pocket expenses and regulatory expenses, and any other expenses agreed to by the parties.

The Underwriter shall pay all expenses incurred by them in connection with the public offering and distribution of the Notes including, but not limited to: (i) all advertising expenses in connection with the offering of the Notes; (ii) all out-of-pocket disbursements and expenses incurred by the Representative in connection with the offering and distribution of the Notes, and; (iii) the fees of the California Debt and Investment Advisory Commission.

Except to the extent paid by the Underwriter under the preceding paragraph, the City shall pay for expenses (included in the expense component of the Underwriter’s spread) incurred on behalf of the City’s employees which are incidental to implementing this Contract of Purchase, including, but not limited to, meals, transportation, lodging, and entertainment of those employees.

**Section 13. Notices.** Any notice or other communication to be given to the City under this Contract of Purchase may be given by delivering the same in writing to the Treasurer of the City or the City Manager, or to such other person as may be designated in writing, and to Note Counsel at its mailing address set forth in Section 1(b) hereof, or at such other address or to such other firm as the City shall hereafter advise the Underwriter in writing, and any notice or other communication to be given to the Underwriter under this Contract of Purchase (other than the acceptance hereof as specified in the first paragraph hereof) may be given by delivering the same in writing to the Underwriter, at [UNDERWRITER], [\_\_\_\_\_], Attn: [\_\_\_\_\_].

**Section 14. Entire Agreement; Parties and Interests; Survival of Representations.** This Contract of Purchase when accepted by the City in writing as heretofore specified shall constitute the entire agreement between the City and the Underwriter and is made solely for the benefit of the City and the Underwriter (including the successors or assigns of the Underwriter). No other person shall acquire or have any right hereunder or by virtue hereof. All the City’s representations, warranties and agreements in this Contract of Purchase shall survive regardless



of (a) any investigation or any statement in respect thereof made by or on behalf of the Underwriter for the Notes hereunder; or (b) the issuance and delivery of the Notes.

**Section 15. Indemnification.** (a) To the extent permitted by laws, the City agrees to indemnify and hold harmless the Underwriter, the directors, officers, employees and agents of the Underwriter and each person who controls the Underwriter within the meaning of either the Securities Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement, the Official Statement (or in any supplement or amendment thereto), or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the City will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Official Statement or the Official Statement, or in any amendment thereof or supplement thereto, in reliance upon and in conformity with written information furnished to the City by or on behalf of the Underwriter specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the Issuer may otherwise have.

(b) The Underwriter agrees to indemnify and hold harmless the City, each of its officials, directors, officers and employees, and each person who controls the City within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the City to the Underwriter, but only with reference to written information relating to the Underwriter furnished to the City by or on behalf of the Underwriter specifically for inclusion in the Preliminary Official Statement or the Official Statement (or in any amendment or supplement thereto). This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have. The City acknowledges that the statements set forth in the last paragraph of the cover page regarding the delivery of the Notes, the legend in block capital letters and the related disclosure on the first page after the cover page concerning market prices and stabilization, in the Preliminary Official Statement and the Official Statement, constitute the only information furnished in writing by or on behalf of the Underwriter for inclusion in the Preliminary Official Statement or the Official Statement (or in any amendment or supplement thereto).

(c) Promptly after receipt by an indemnified party under this Section 15 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 15, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such

failure results in the forfeiture by the indemnifying party of substantial rights and defenses; and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest; (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party; (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action; or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) In the event that the indemnity provided in paragraph (a) or (b) of this Section 15 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the City and the Underwriter agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "**Losses**") to which the City and the Underwriter may be subject in such proportion as is appropriate to reflect the relative benefits received by the City on the one hand and by the Underwriter on the other from the offering of the Notes. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the City and the Underwriter shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the City on the one hand and of the Underwriter on the other in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. In no case shall the Underwriter be responsible for any amount in excess of the purchase discount or commission applicable to the Notes purchased by the Underwriter hereunder. Benefits received by the City shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Underwriter shall be deemed to be equal to

the total purchase discounts and commissions in each case set forth on the cover of the Official Statement. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the City on the one hand or the Underwriter on the other, the intent of the parties and their relative knowledge, information and opportunity to correct or prevent such untrue statement or omission. The City and the Underwriter agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 15, each person who controls an Underwriter within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the City within the meaning of either the Securities Act or the Exchange Act and each official, director, officer and employee of the City shall have the same rights to contribution as the City, subject in each case to the applicable terms and conditions of this paragraph (d).

**Section 16. Continuing Disclosure.** The City will undertake, pursuant to the Resolution, to provide notices of the occurrence of certain events, if material, as required by Section (d)(3) of the Rule. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

**Section 17. Counterparts.** This Contract of Purchase may be executed in multiple counterparts, all together constituting one and the same agreement.

**Section 18. Governing Law.** This Contract of Purchase shall be governed by and construed in accordance with the laws of the State.

Very truly yours,

By \_\_\_\_\_  
[Name, Title]

ACCEPTED:

CITY OF LONG BEACH, CALIFORNIA

By \_\_\_\_\_  
Patrick H. West, City Manager

Approved as to Form:

ROBERT E. SHANNON, City Attorney

By \_\_\_\_\_  
Heather A. Mahood  
Assistant City Attorney

[Signature Page to Purchase Contract]

**EXHIBIT A**

**CITY COUNSEL OPINION**

October [ ], 2008

City Council  
City of Long Beach  
333 West Ocean Boulevard  
Long Beach, CA 90802

Kutak Rock LLP  
1801 California Street  
Suite 3100  
Denver, CO 80207

Re:    \$[AMOUNT] City of Long Beach, California  
      2008-2009 Tax and Revenue Anticipation Notes

Ladies and Gentlemen:

This office has served as counsel to the City of Long Beach, California (the “City”) and has participated in the proceedings relating to the issuance by the City of \$[AMOUNT] aggregate principal amount of its 2008-2009 Tax and Revenue Anticipation Notes (the “Notes”). The Notes are being issued under the authority of the City’s Charter (the “Charter”), and California Government Code Sections 53850 *et seq.*

In connection with rendering this opinion, I have reviewed the resolution of the City Council adopted on September 23, 2008, authorizing the issuance of the Notes and the undertaking of various actions in connection therewith (the “Authorizing Resolution”) and such other documents and certificates as I have deemed necessary for the purposes of such opinion. On the basis of such examination, and on the basis of my consideration of such questions of law as I have deemed relevant in the circumstances, I am of the opinion that:

1       The City is a duly organized municipal corporation and a political subdivision of the State of California, organized and existing under the California Constitution and the Charter.

2.       The Authorizing Resolution was duly adopted at a meeting of the City Council, which was called and held pursuant to law and with all public notice required by law at which a quorum was present and acting throughout and has not been amended from the date of its respective adoption.

3.       The Notes have been duly authorized pursuant to the Authorizing Resolution and constitute legally valid and binding obligations of the City. The Notes are a general obligation of the City and are payable from taxes, income, revenues, cash receipts and other moneys of the

July 8, 2004

City attributable to the City's 2008-2009 fiscal year ending September 30, 2009, which are legally available for payment thereof.

4. The Continuing Disclosure Certificate, dated as of October 1, 2008, executed by the City, and the Paying Agent/Registrar Agreement, dated as of October 1, 2008, by and between the City and The Bank of New York Trust Company, N.A., as paying agent, have been duly authorized and, assuming due authorization, execution and delivery by any other parties thereto, constitute the legally valid and binding obligations of the City, enforceable in accordance with their terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws or equitable principles relating to or affecting creditors' rights heretofore or hereafter enacted, as applied to the City, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

5. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before any court or public body pending or, to the knowledge of the undersigned, threatened against the City (a) in any way affecting the existence of the City or in any way challenging the respective powers of the several offices or titles of the officials of the City to such offices; (b) to restrain or enjoin the sale, issuance or delivery of any of the Notes or the application of the proceeds thereof, or the collection of revenues or assets of the City pledged or to be pledged or available to pay the principal of and interest on the Notes, or the pledge thereof; (c) in any way contesting or affecting any authority for, or the validity or enforceability of the Notes including the federal tax-exempt status thereof, the Authorizing Resolution, the Paying Agent/Registrar Agreement or the application of the proceeds of the Notes; (d) in any way contesting the right and power of the City to act in connection with the issuance of the Notes as described in the Official Statement or with respect to the Notes, the Paying Agent/Registrar Agreement, or the Authorizing Resolution; (e) in contesting in any way the completeness or accuracy of the Official Statement; or (f) in which a final adverse decision would (i) materially adversely affect the operations of the City or the consummation of the transactions contemplated by the Authorizing Resolution, or (ii) adversely affect the exclusion of the interest paid on the Notes from gross income for federal income tax purposes or the exemption from California personal income taxation.

Very truly yours,

ROBERT E. SHANNON, City Attorney

By \_\_\_\_\_  
HEATHER A. MAHOOD  
Assistant City Attorney

**EXHIBIT D**

No. R-1

\$49,000,000

\$49,000,000

City of Long Beach, California  
2008-2009 Tax And Revenue Anticipation Notes

<b>Dated Date</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>CUSIP No.</b>
October 6, 2008	[ ]%	September 30, 2009	542399 [ ]

Principal Amount: FORTY-NINE MILLION DOLLARS

FOR VALUE RECEIVED, THE CITY OF LONG BEACH, CALIFORNIA, a charter city of the State of California (the "City"), acknowledges itself indebted to and promises to pay to Cede & Co., at the office of the Treasurer of the City (the "Treasurer") the principal sum of \$49,000,000 in lawful money of the United States of America, on September 30, 2009, with interest thereon at the rate of [ ]% per annum, computed on a 30-day month and a 360-day year basis from the date hereof until payment in full of said principal sum. Both the principal of and the interest on this Note shall be payable upon surrender of this Note at the office of the Paying Agent as the same shall become due; provided, however, that no interest shall be payable for any period after maturity during which the registered owner hereof fails properly to present this Note for payment.

It is hereby certified, recited and declared that this Note is part of an issue of \$49,000,000 aggregate principal amount of Notes (the "Notes") issued by the City, under and in accordance with the provisions of Article 7.6 of Chapter 4, Part 1 of Division 2 of Title 5 of the California Government Code (constituting Sections 53850-53858, inclusive, of said Code), and a Resolution duly adopted by the City Council of the City on September 23, 2008.

The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received by the City during its 2008-2009 fiscal year. As security for the payment of principal of and interest on the Notes, the City has pledged an amount equal to 15% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending April 30, 2009; and an amount equal to 15% of the principal amount of the Notes from the first unrestricted revenues received by the City during the month ending May 31, 2009; and an amount equal to 15% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending June 30, 2009; an amount equal to 15% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending July 31, 2009; and amount equal to 15% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending August 31, 2009; and an amount equal to 25% of the principal amount of the Notes plus an amount sufficient to pay interest on the Notes at maturity from the first unrestricted revenues of the City to be received in the month ending September 30, 2009 (such pledged amounts being hereinafter called the "Pledged Revenues"), and the principal

of the Notes and the interest thereon shall be payable from the Pledged Revenues, and to the extent not so paid shall be paid from any other moneys of the City lawfully available therefore.

Unless this Note is presented by an authorized representative of The Depository Trust Company to the City or its agent for registration of transfer, exchange or payment, and any Note issued is registered in the name of Cede & Co. or such other name as requested by authorized representative of The Depository Trust Company and any payment is made to Cede & Co., any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful since the registered owner hereof, Cede & Co., has an interest herein.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that the Notes are issued in conformity with the laws of the State of California and the proceedings of the City Council, and that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of the Notes have existed, happened and been performed in regular and due time, form and manner as required by law, and that the Notes, together with all other indebtedness and obligations of the City, do not exceed any limit prescribed by the Constitution and statutes of the State of California.

IN WITNESS WHEREOF, the City has caused this Note to be executed by the City Manager and the City Treasurer, and has caused it to be countersigned by the City Clerk, which signatures may be either by their manual or facsimile signatures, has caused a facsimile of its official seal to be printed thereon, and has caused this Note to be dated October 1, 2008.

CITY OF LONG BEACH, CALIFORNIA

[SEAL]

By \_\_\_\_\_  
Patrick H. West, City Manager

By \_\_\_\_\_  
David S. Nakamoto, City Treasurer

COUNTERSIGNED:

By \_\_\_\_\_  
Larry Herrera, City Clerk



**CERTIFICATE OF AUTHENTICATION**

Date of Authentication:

October 6, 2008

This is one of the Notes described in the within mentioned Resolution of the City of Long Beach, California.

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Paying Agent

By \_\_\_\_\_  
[NAME, TITLE]

EXHIBIT "E"

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 24, 2008

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: See "RATINGS" herein.

In the opinion of Kutak Rock LLP, Note Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Notes is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Under existing laws, regulations, rulings and judicial decisions, Note Counsel is further of the opinion that interest on the Notes is exempt from all present State of California personal income taxes. For a more complete description, see "TAX MATTERS" herein.



\$49,000,000\*

CITY OF LONG BEACH, CALIFORNIA  
2008-2009 TAX AND REVENUE ANTICIPATION NOTES

Dated: Date of Delivery

Due: September 30, 2009

Principal of and interest on the City of Long Beach, California 2008-2009 Tax and Revenue Anticipation Notes (the "Notes") is payable on September 30, 2009 to the persons appearing on the registration books of The Bank of New York Mellon Trust Company, N.A., a national banking association, as paying agent (the "Paying Agent") as the registered owner thereof (the "Owner"), such interest and principal to be paid by check mailed by first-class mail to such Owner at the address as it appears on such registration books. So long as The Depository Trust Company ("DTC"), New York, New York, or its nominee, is the registered Owner of the Notes, payment of principal of and interest on the Notes will be made by wire directly to DTC or its nominee. DTC is obligated to remit such payments to the DTC Participants, who are in turn obligated to remit such payment to the beneficial owners of the Notes. The Notes are to be delivered in fully registered, book-entry form only. The Notes will be available to the beneficial owners thereof in the denomination of \$5,000 each and any multiple thereof under the book-entry system maintained by DTC. Purchasers of beneficial ownership interests in the Notes will not receive physical delivery of the Notes.

Principal Amount                      Interest Rate                      Yield                      CUSIP<sup>1</sup>

The Notes, in accordance with California law, are a general obligation of the City of Long Beach, California (the "City"), and are payable from taxes, income, revenues, cash receipts and other moneys of the City attributable to the City's 2008-2009 fiscal year commencing October 1, 2008 which are legally available for payment thereof. Certain of said moneys have been specifically pledged to the payment of the principal of the Notes and the interest thereon, to wit: an amount equal to 33% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending May 31, 2009; an amount equal to 33% of the principal amount of the Notes from the first unrestricted revenues received by the City during the month ending June 30, 2009; and an amount equal to 34% of the principal amount of the Notes, plus an amount sufficient to pay interest on the Notes at maturity, from the first unrestricted revenues received by the City during the month ending July 31, 2009.

**THE NOTES ARE NOT SUBJECT TO REDEMPTION PRIOR TO THEIR MATURITY.**

The cover page contains information for quick reference only, and is not a summary of this issue. Potential purchasers must read the entire Official Statement in order to obtain information essential to making an informed investment decision.

The Notes are offered when, as and if issued and delivered, subject to the approval as to their legality of Kutak Rock LLP, Denver, Colorado, Note Counsel. Certain additional legal matters will be passed upon for the City by Kutak Rock LLP, Denver, Colorado, as Disclosure Counsel. It is anticipated that the Notes, in definitive form, will be available for delivery through the facilities of DTC on or about October 6, 2008.

[UNDERWRITER LOGO]

Dated: September \_\_, 2008

\* Preliminary, subject to change.

<sup>1</sup>Copyright 2006, American Bankers Association. CUSIP data is provided by Standard and Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies Inc. CUSIP number is provided only for the convenience of the reader. The City takes no responsibility for the accuracy of such CUSIP number or for any changes or errors in this CUSIP number.

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

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

This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, projections or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See "INTRODUCTION—Forward-Looking Statements."

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement and the information contained herein is in a form deemed final by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for omission of certain information permitted to be omitted under Rule 15c2-12(b)(1)). However, the information herein is subject to revision, completion or amendment in a final Official Statement.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXCEPTIONS CONTAINED IN SUCH ACT. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE OR OTHER GOVERNMENTAL ENTITY, NOR ANY AGENCY OR DEPARTMENT THEREOF, HAS PASSED UPON THE MERITS OF THE NOTES OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. THE NOTES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE CITY HAS ENTERED INTO AN UNDERTAKING FOR THE BENEFIT OF THE HOLDERS OF THE NOTES TO PROVIDE CERTAIN FINANCIAL INFORMATION AND OPERATING DATA TO CERTAIN INFORMATION REPOSITORIES ANNUALLY AND TO PROVIDE NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OR TO CERTAIN INFORMATION REPOSITORIES OF CERTAIN EVENTS, PURSUANT TO THE REQUIREMENTS OF SECTION (b)(5)(i) OF RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.

**CITY OF LONG BEACH  
LOS ANGELES COUNTY, CALIFORNIA**

**MAYOR AND CITY COUNCIL**

Bob Foster,  
Mayor

Val Lerch,  
Ninth District, Vice Mayor

Bonnie Lowenthal, First District

Gerrie Schipske, Fifth District

Suja Lowenthal, Second District

Dee Andrews, Sixth District

Gary DeLong, Third District

Tonia Reyes Uranga, Seventh District

Patrick O'Donnell, Fourth District

Rae Gabelich, Eighth District

**CITY OFFICIALS**

Patrick H. West,  
City Manager

Lori Ann Farrell, Director of Financial  
Management, CFO

David S. Nakamoto, City Treasurer

Robert E. Shannon, City Attorney

Laura L. Doud, City Auditor

Thomas M. Reeves, City Prosecutor

Larry Herrera, City Clerk

**PROFESSIONAL SERVICES**

Kutak Rock LLP,  
Note Counsel and Disclosure Counsel

Public Financial Management, Inc.,  
Financial Advisor

The Bank of New York Mellon Trust Company, N.A.,  
Paying Agent

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## OFFICIAL STATEMENT

\$49,000,000\*

### CITY OF LONG BEACH, CALIFORNIA 2008-2009 TAX AND REVENUE ANTICIPATION NOTES

#### INTRODUCTION

This Official Statement, including the Appendices hereto, has been prepared under the direction of the City of Long Beach, California (the "City"), in order to furnish information with respect to its sale of certain tax and revenue anticipation notes designated, "City of Long Beach, California, 2008-2009 Tax and Revenue Anticipation Notes" (the "Notes") in the aggregate principal amount of \$49,000,000\*. The Notes were authorized pursuant to the resolution of the City adopted September 9, 2008 (the "Resolution"), and will be issued in full conformity with the constitution and laws of the State of California (the "State"), including Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (the "Act"). The Notes are a general obligation of the City payable solely from taxes, income, revenue, cash receipts and other moneys of the City attributable to its fiscal year commencing on October 1, 2008 (the "2008-2009 Fiscal Year" or "Fiscal Year 2008-2009") and legally available thereof. Proceeds from the sale of the Notes will be used for current General Fund expenditures, including current expenses and capital expenditures. The California Government Code (the "Government Code") provides that the City may issue the Notes only if the principal of and interest on the Notes will not exceed 85% of the estimated moneys legally available for the payment of the Notes and the interest thereon.

The Notes and interest thereon are secured by a pledge of certain percentages of the City's first unrestricted revenues received in the months and in the amounts described under the caption "THE NOTES—Security for the Notes" below.

If the full amount of the revenues pledged in a particular month to the repayment of the Notes has not been received by the City, then the amount of any deficiency shall be satisfied and made up from the first additional moneys of the City received and lawfully available for payment of the Notes and interest thereon.

#### **Forward-Looking Statements**

This Official Statement contains statements relating to future results that are "forward-looking statements" as defined in the Private Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "projection," "intend," "expect" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material.

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\* Preliminary, subject to change.

## THE NOTES

### Authority for Issuance

The Notes are issued under the authority of the cited provisions of the Government Code and pursuant to the Resolution (see "INTRODUCTION" above).

### Purpose of Issue

Issuance of the Notes will provide moneys to meet the City's 2008-2009 Fiscal Year General Fund expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the City.

### Description of the Notes

The Notes will be issued in the aggregate principal amount of \$49,000,000\* and will be issued in denominations of \$5,000 or integral multiples thereof. The Notes will be dated October 6, 2008 and will mature September 30, 2009. The Notes shall bear interest at the rate set forth on the cover page hereof, payable at maturity and computed on a 30-day month/360-day year basis. The Notes are to be delivered as fully registered Notes, without coupons and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Notes. Purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof.

### Security for the Notes

The Notes and the interest thereon are payable from taxes, income, revenue, cash receipts and other moneys of the City attributable to the 2008-2009 Fiscal Year and legally available for payment thereof, and are secured by a pledge of certain of said moneys (the "Pledged Revenues"). As security for the payment of the Notes including the interest thereon, the City has pledged pursuant to the Resolution: (a) an amount equal to 33% of the principal amount of the Notes from the first unrestricted revenues received by the City in the month ending May 31, 2009; (b) an amount equal to 33% of the principal amount of the Notes from the first unrestricted revenues received by the City during the month ending June 30, 2009; and (c) an amount equal to 34% of the principal amount of the Notes, plus an amount sufficient to pay interest on the Notes at maturity, from the first unrestricted revenues received by the City during the month ending July 31, 2009.

The Pledged Revenues shall be deposited by the City and held by the City Treasurer, acting as Fiscal Agent in trust in a special account (the "Repayment Account") and applied as directed under the Resolution. Any money deposited by the Fiscal Agent in the Repayment Account shall be for the benefit of the holders of the Notes and, until the Notes and all interest thereon are paid or until provision has been made for the payment of the Notes at maturity with interest to maturity, the moneys in the Repayment Account shall be applied only for purposes for which the Repayment Account was created. Amounts deposited by the City in the Repayment Account shall be applied solely for the purpose of paying the principal of and interest on the Notes, although such amounts shall be invested by the City in legal investments as permitted by Section 53601 of the Government Code of the State.

The Resolution requires that the Pledged Revenues be deposited and held in the Repayment Account until maturity, at which time the moneys in such fund will be used to repay the Notes. If during the foregoing period there are insufficient sources of Pledged Revenues to permit deposit of the full

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\* Preliminary, subject to change.

amount of Pledged Revenues, then the amount of any deficiency shall be satisfied from any other moneys of the City lawfully available for the repayment of the Notes and/or in the City's investment portfolio and in accordance with the investment policies of the City.

### **Available Sources of Repayment**

The Notes, in accordance with the Act, are general obligations of the City but are payable only out of unrestricted moneys, which include the taxes, income, revenue, cash receipts and other moneys of the City which are received by the City for the General Fund of the City for the 2008-2009 Fiscal Year and which are generally available for the payment of current expenses and other obligations of the City ("Unrestricted Moneys"). The Constitution of the State substantially limits the City's ability to levy ad valorem taxes (see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein). The City may, under the Act, issue the Notes only if the principal of, and interest on, the Notes and any other bonds, notes and warrants issued pursuant to the Act will not exceed 85% of the estimated moneys legally available for the repayment of the Notes and any other bonds, notes and warrants issued pursuant to the Act. The City currently expects that, other than the Notes, it will not issue any bonds, notes or warrants pursuant to the Act with respect to the 2008-2009 Fiscal Year. Further detail as to the estimated Unrestricted Moneys available for repayment and the resultant Note Coverage Ratio, defined below, can be found in Table I, "City of Long Beach 2008-2009 Estimated Unrestricted Moneys Available for Note Repayment (in Thousands)" and Table III, "City of Long Beach Fiscal Year 2008-2009 Projected General Fund Cash Flow (in Thousands)."

The "Note Coverage Ratio" is the ratio of estimated Unrestricted Moneys available to repay the principal of and interest on the Notes during the months of April 2009 through September 2009, to the amount of Unrestricted Moneys needed to pay principal of and interest on the Notes. The City expects to receive a projected \$208,320,000 in Unrestricted Moneys on a cash basis (including carry-over balances and transfers, but net of proceeds of the Notes) during the months of April 2009 through September 2009. Based on an amount of Unrestricted Moneys needed to pay principal and interest on the Notes of \$49,931,000\* the Note Coverage Ratio is 4.17\*.

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\* Preliminary; subject to change.



## Cash Flows

The table below gives details as to the source and amount of estimated Unrestricted Moneys available for repayment and the Note Coverage Ratio.

**TABLE I**  
**City of Long Beach**  
**Fiscal Year 2008-2009 Estimated Unrestricted Moneys**  
**Available for Note Repayment**  
**(in Thousands)**

<u>Revenue Source</u>	<u>April-September</u> <u>Amount</u>	<u>Fiscal Year</u> <u>2008-2009</u> <u>Amount</u>
Cash Balance, October 1	\$ 1,803	\$ 1,803
Property Tax	31,868	75,874
Sales Tax	20,932	41,918
Motor Vehicle in Lieu	719	2,244
In Lieu Sales Tax	6,640	13,280
In Lieu VLF	19,100	38,200
Oil Production Taxes	1,154	2,250
Utility Users Tax	20,808	42,507
Business License Tax	5,477	11,628
Transient Occupancy Tax	5,038	9,180
Other Taxes	881	1,601
Licenses & Permits	7,474	13,300
Fines & Forfeitures	10,854	21,362
Interest Earnings	3,312	6,008
Charges to other City Funds	24,133	37,954
Service Charges	7,824	15,570
City Utilities in Lieu	5,160	11,102
Interfund Transfers	18,770	34,570
RDA Loan Repayment	15,000	28,000
Miscellaneous	--	--
Total Unrestricted Money	<u>\$206,948</u>	<u>\$408,351</u>
Principal Plus Interest Needs *	<u>\$ 50,715</u>	<u>\$ 50,715</u>
Note Coverage Ratio *	4.081	8.052

\* Assumes \$49 million principal plus 3.50% interest on principal.

**TABLE II**  
**City of Long Beach Fiscal Year 2007-2008**  
**General Fund Cash Flow (in Thousands)**

**TABLE III**  
**City of Long Beach Fiscal Year 2008-2009**  
**Projected General Fund Cash Flow (in Thousands)**

## Sources and Uses of Funds

The following table presents the estimated sources and uses of funds in connection with the issuance of the Notes.

### Sources

Principal Amount of Notes  
Original Issue Premium  
Total Sources

### Uses

Deposit to General Fund  
Costs of Issuance <sup>1</sup>  
Underwriter's Discount  
Total Uses

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<sup>1</sup> Includes legal fees, printing expenses and other costs of issuance.

## Covenant Regarding Further Disclosure

Pursuant to the Resolution, the City has covenanted to comply with S.E.C. Rule 15c2-12(b)(5) and will enter into a Continuing Disclosure Certificate as of the closing date, in which it covenants to provide information regarding material adverse events, if any such events should occur in connection with the following, to the owners of the Notes and to certain Nationally Recognized Municipal Securities Information Repositories and a State Repository, if any, during the term of the Notes:

- (a) principal and interest payment delinquencies or delinquencies in any scheduled deposit into a Repayment Account;
- (b) non-payment related defaults;
- (c) unscheduled draws on any debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Notes;
- (g) modifications to the rights of Noteholders;
- (h) contingent or unscheduled note calls;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Notes; or
- (k) rating changes.

See "APPENDIX C—PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE."

## **Book-Entry-Only System**

**Introduction** Unless otherwise noted, the information contained under the subcaption “— General” below has been provided by DTC. The City makes no representations as to the accuracy or completeness of such information. The beneficial owners of the Notes should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE CITY NOR THE PAYING AGENT, IF ANY, WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE NOTES UNDER THE AGREEMENT, (C) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT OF ANY AMOUNT WITH RESPECT TO THE OWNER OF THE NOTES; (D) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF NOTES; OR (E) ANY OTHER MATTER REGARDING DTC.

**General** DTC will act as securities depository for the Notes. The Notes 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 Note certificate will be issued for each issue of the Notes each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). The City undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described in the preceding sentence, including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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.

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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying 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 or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying 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.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

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

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

**BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF NOTES AND WILL NOT BE RECOGNIZED BY THE PAYING AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.**

## **THE CITY**

### **General**

The City is a municipal corporation and chartered city of the State and encompasses approximately 52 square miles of coastal area located on the southern edge of Los Angeles County (the "County"). With a current population of approximately 490,000, it is the second largest city in the County and the fifth largest city in the State of California. The City's climate is mild, with temperatures ranging from an average of 54 degrees in January to 72 degrees in July. Precipitation averages 12.1 inches per year. The center of the City is 22 miles south of downtown Los Angeles, 450 miles south of San Francisco and 110 miles north of San Diego. The City has long been a major industrial center and popular beach resort area. The Port of Long Beach (the "Port"), along with its related commercial activities, imparts strength to the local economy. Further, the City has been successful in building a substantial tourist and convention business and is currently taking vigorous steps to augment tax revenues from these sources.

### **Municipal Government**

The City was originally incorporated in 1888, and after a short period of disincorporation, was reincorporated on December 13, 1897. Since 1907, the City has been governed as a charter city. The present City charter was originally adopted in 1921 and has been amended from time to time.

The City operates under the council-manager form of government with a nine-member City Council. City Council members are nominated and elected by district to serve four-year terms, with a maximum of two such terms. The Mayor is nominated and elected by the City at large. The Vice-Mayor is elected by the Council from among its members. Other city-wide elected offices are City Attorney, City Auditor and City Prosecutor.

The City Manager is appointed by and serves at the discretion of the Mayor and City Council. As head of the municipal government, the City Manager is responsible for the efficient administration of all departments, with the exception of the elective offices noted above and the following three semi-autonomous commissions: Civil Service Commission, Board of Water Commissioners and Board of Harbor Commissioners. The City currently employs approximately 5,763 persons within 22 departments.

The police department consists of approximately 1,486 uniformed officers and supporting personnel. The fire department operates 24 fire stations with approximately 580 firefighters, officers and employees.

The City's Enterprise Funds (water, sewer, gas, airport, harbor, solid waste management, tidelands, tideland oil revenue and towing) represent assets of more than \$3 billion. In Fiscal Year 2007, these municipal enterprises generated operating revenues equal to approximately \$964.8 million.

In 1931, a Charter amendment was passed which created the Board of Water Commissioners and authorized the City to join the Metropolitan Water District of Southern California. These decisions sought to ensure an adequate water supply for the City.

Within the framework of the City's General Plan, orderly growth and development of the community is controlled by a three-step planning and budgetary process utilizing the following instruments: the annual budget, the six-year Capital Improvement Program and the five-year Long Range Financial Plan.

## Population

The City's population as of January 1, 2008, was estimated to be 492,642 persons. This figure represents 4.8% of the corresponding County figure and 1.3% of the corresponding State figure. The City's population increased 28.6% during the three decades between 1970 and 2000. The following table sets forth the City's population growth relative to the population of the County and the State. Population data for 2004-2008 are as of January 1, while the census amounts for 1970, 1980, 1990 and 2000 are as of April 1.

**TABLE IV**  
**City of Long Beach,**  
**County of Los Angeles and State of California**  
**Population Data**

<u>Year</u>	<u>City of Long Beach</u>	<u>County of Los Angeles</u>	<u>State of California</u>
1970	358,879	7,036,980	19,971,022
1980	361,500	7,477,657	22,911,000
1990	429,321	8,863,052	29,758,213
2000	461,522	9,519,330	33,871,648
2004	485,941	10,077,865	36,199,342
2005	488,591	10,163,097	36,675,346
2006	489,143	10,223,263	37,114,598
2007	490,193	10,275,914	37,559,440
2008	492,642	10,363,850	38,049,462

Source: California State Department of Finance

## Employment

The California Employment Development Department compiles data annually on the status of employment and unemployment in the County. As an integral part of the Los Angeles metropolitan area, the City benefits from the wide variety of job opportunities available in neighboring communities throughout the County.



The following table sets forth the average employment for major industry types within the County:

**TABLE V**  
**County of Los Angeles**  
**Average Employment by Industry**  
**2003-2007**

<u>Industry</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Natural Resources and Mining	3,800	3,800	3,700	4,000	4,400
Agriculture, Forestry, Fishing, Hunting	7,800	7,600	7,400	7,600	7,800
Construction	134,600	140,200	148,700	157,500	157,200
Manufacturing	500,000	483,600	471,700	461,700	447,100
Wholesale Trade	214,100	215,100	219,300	225,700	229,600
Retail Trade	399,300	405,400	414,400	423,300	423,600
Transportation, Warehousing and Utilities	161,500	161,100	161,700	165,200	166,400
Information	202,300	211,900	207,600	205,600	209,200
Financial Activities	239,800	241,600	244,000	248,800	245,000
Services	1,528,400	1,546,900	1,569,500	1,611,400	1,638,500
Government	<u>599,300</u>	<u>587,100</u>	<u>583,700</u>	<u>589,400</u>	<u>594,800</u>
Total Wage and Salary	<u>3,990,800</u>	<u>4,004,100</u>	<u>4,031,600</u>	<u>4,100,100</u>	<u>4,123,600</u>

Source: Employment Development Department, Labor Market Division

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The following table summarizes labor force, employment and unemployment by industry since 2003 in the County, the State and the United States:

**TABLE VI**  
**County of Los Angeles, State of California and United States**  
**Labor Force, Employment and Unemployment Annual Average**

<u>Year</u>	<u>Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate (%)</u>
2003	County	4,759,100	4,427,100	332,000	7.0%
	California	17,390,700	16,200,100	1,190,600	6.8
	United States	146,510,000	137,736,000	8,774,000	6.0
2004	County	4,770,800	4,460,500	310,300	6.5
	California	17,506,600	16,413,400	1,093,200	6.2
	United States	147,401,000	139,252,000	8,149,000	5.5
2005	County	4,816,000	4,559,500	256,500	5.3
	California	17,703,400	16,742,300	961,100	5.4
	United States	149,320,000	141,730,000	7,591,000	5.1
2006	County	4,850,700	4,620,800	229,900	4.7
	California	17,907,200	17,029,900	877,300	4.9
	United States	151,428,000	144,427,000	7,001,000	4.6
2007	County	4,921,200	4,675,300	245,900	5.0
	California	18,188,100	17,208,900	979,200	5.4
	United States	153,124,000	146,047,000	7,078,000	4.6

Source: State of California Employment Development Department and U.S. Department of Labor – Bureau of Labor Statistics

### Major Employers

The largest employer in the City is the Long Beach Unified School District, employing approximately 13,044 people. The Long Beach Unified School District has 94 schools and serves approximately 90,000 students. The second largest employer in the City is The Boeing Company (“Boeing”), with facilities at the Long Beach Airport, employing approximately 6,455 persons. See “— Education” below.

Other major employers in the City include government, education and health care providers, including the City, California State University (Long Beach), Long Beach Memorial Medical Center and the Veterans Affairs Medical Center.

The following table sets forth the City's major employers:

**TABLE VII**  
**City of Long Beach**  
**Major Employers As of September 30, 2007**

<u>Employer</u>	<u>Number of Employees</u>
1. Long Beach Unified School District	13,044
2. The Boeing Company	6,455
3. City of Long Beach	5,763
4. California State University Long Beach	5,605
5. Long Beach Memorial Medical Center	5,000
6. Veterans Affairs Medical Center	2,000
7. U.S. Postal Service	1,800
8. Long Beach City College	1,636
9. Verizon	1,500
10. St. Mary Medical Center	1,480

Source: City of Long Beach Summary Financial Information Statement for Fiscal Year 2007

### **Industry**

The City is an important component of the County industrial complex, the largest concentration of major industrial firms in the western United States. The aircraft/aerospace products group represents a very important single industrial category in the City. Boeing is the second largest employer in Long Beach. Other important industries include petroleum and chemical production, metal fabrication and food and kindred product production.

### **Military Installations**

All of the major military installations previously located in the City have been closed. The Harbor Department of the City (the "Harbor Department") is converting the former Long Beach Naval Station and the former Long Beach Naval Shipyard to a container terminal. Other closed military facilities have been razed or converted into a variety of other uses including a research and development business park, a veterans homeless transition center, a United States Job Corps training facility, a public high school owned and operated by Long Beach Unified School District and a retail and entertainment center. The only military facility that will continue to influence the Long Beach economy is the Naval Weapons Station in Seal Beach, immediately to the south of the City. This facility continues to provide weapons service and ammunition to the Pacific Fleet. A Naval Reserve facility continues to operate in the City's port district.

### **Commercial Activity**

Retail sales activity is located throughout the City, from the central business district to the updated Los Altos and Marina Pacifica "power" centers, both of which opened in 1996, and the Towne Center, a 100-acre retail development built on the site of the former Long Beach Naval Hospital, which opened in November 1998. The World Trade Center in the downtown area of the City contains more than two million square feet of office space and is an international focal point for shipping, finance and trade services.

North of the Port at the intersection of the San Diego (I-405) and Long Beach (I-710) freeways is the 55-acre Freeway Business Center, a high-technology office complex with a diverse mix of business tenants such as Direct TV, Irvin Industries, Inc., Epson America, Inc., Mercedes Benz, Denso Sales California and Toyota. The 45-acre Long Beach Airport Business Park is composed of eight multi-story office buildings containing approximately 830,000 square feet of office space in addition to a 311-room hotel. Located in the northern part of the City, these facilities offer a combined total of more than 100 acres of office, commercial and industrial space in close proximity to the I-405 and I-710 Freeways, two major transportation arteries in the Southern California freeway system (see “—Transportation” below). The 45-acre Kilroy Airport Center provides approximately 950,000 square feet of office space within seven separate buildings. Kilroy Realty Corporation is currently marketing Phase IV of the Kilroy Airport Center, which is expected to contain 230,000 square feet of office space within multiple buildings.

Several hotels are located in the City, including the Westin Long Beach, Renaissance, Hilton, Hyatt Regency Long Beach, Holiday Inn, Golden Sails Hotel, Long Beach Airport Marriott, the Queen Mary Hotel and the Coast Long Beach Hotel. Plans for several all-suites and/or “conference” hotels in the downtown/ocean are also being constructed or formulated and some have been recently completed. Hotels currently under construction include the Residence Inn, which is to provide 178 rooms and is anticipated to be completed in 2010, and the Avia Hotel, which is to provide 138 rooms and is anticipated to be completed in early 2009.

The following table sets forth the City’s transient occupancy tax receipts (currently computed at 12%) during the period 2003-2007:

**TABLE XIII**  
**City of Long Beach**  
**2003-2007 Transient Occupancy Tax Receipts**  
**(in Millions)**

<u>Fiscal Year</u>	<u>Transient Occupancy Tax Receipts</u>
2003	\$13.1
2004	14.1
2005	15.5
2006	16.5
2007	18.3

Source: City of Long Beach; State of California, Department of Finance

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Taxable sales transactions in the City increased 8.3% between 2005 and 2006. During the period 2002 through 2006, taxable transactions increased 28.4%. The following table illustrates the City's annual volume of taxable transactions from 2002 through 2006:

**TABLE IX**  
**City of Long Beach**  
**Taxable Sales, 2002-2006**  
**(in Thousands)**

<u>Type of Business</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Apparel Stores	\$ 103,142	\$ 105,942	\$ 117,460	\$ 117,713	\$ 117,618
General Merchandise Stores	317,025	387,954	402,966	296,269	433,617
Food Stores	192,907	194,872	192,610	209,092	207,426
Eating/Drinking Places	489,759	520,374	571,824	606,028	670,018
Home Furnishings and Appliances	92,281	93,983	97,695	134,569	103,462
Building Materials and Farm Implements	500,446	516,578	685,805	228,915	814,610
Auto Dealers/Auto Supplies	328,824	314,220	331,628	472,287	313,240
Service Stations	268,523	336,850	413,270	448,430	527,327
Other Retail Stores	443,404	436,990	470,369	409,750	473,102
Retail Stores Totals	<u>\$2,736,311</u>	<u>\$2,907,763</u>	<u>\$3,283,627</u>	<u>\$3,062,101</u>	<u>\$3,660,420</u>
All Other Outlets	<u>852,224</u>	<u>739,611</u>	<u>802,251</u>	<u>1,193,770</u>	<u>946,833</u>
Total All Outlets	<u>\$3,588,535</u>	<u>\$3,647,374</u>	<u>\$4,085,878</u>	<u>\$4,255,871</u>	<u>\$4,607,253</u>

Source: State of California – Board of Equalization

### Construction

The City issued building permits valued at approximately \$294 million during Fiscal Year 2007. Of this total, approximately 71% consisted of residential construction and approximately 29% consisted of non-residential construction. The City's annual permit values since Fiscal Year 2003 are set forth below:

**TABLE X**  
**City of Long Beach**  
**Building Permit Valuations, 2003-2007**  
**(in Thousands)**

<u>Type of Permit</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Residential</b>					
New Single Dwelling	\$ 13,082.8	\$ 17,833.9	\$ 17,173.5	\$ 28,180.4	\$ 15,894.4
New Multi Dwelling	8,294.7	67,243.2	72,384.9	46,918.6	32,199.6
Additions/Alterations	<u>104,737.0</u>	<u>114,655.6</u>	<u>132,042.9</u>	<u>123,248.2</u>	<u>110,155.1</u>
Total Residential	<u>\$126,114.5</u>	<u>\$199,732.7</u>	<u>\$221,601.2</u>	<u>\$198,347.2</u>	<u>\$158,249.1</u>
<b>Non-Residential</b>					
New Commercial	\$ 18,693.9	\$ 17,086.9	\$ 10,125.3	\$ 7,342.4	\$ 44,986.5
New Industrial	1,300.2	5,935.8	2,300.0	3,387.3	0.0
Other	12,137.3	6,266.1	11,980.1	14,128.9	6,175.4
Additions/Alterations	<u>94,240.4</u>	<u>56,394.2</u>	<u>76,265.2</u>	<u>57,070.0</u>	<u>84,699.3</u>
Total Non-Residential	<u>\$126,371.7</u>	<u>\$ 85,682.9</u>	<u>\$100,670.5</u>	<u>\$ 81,919.5</u>	<u>\$135,861.2</u>
Total Valuation	<u>\$252,486.2</u>	<u>\$285,415.7</u>	<u>\$322,271.8</u>	<u>\$280,266.7</u>	<u>\$294,110.3</u>

Source: California Construction Industry Research Board

## **Visitor and Convention Business**

Tourism has long been a significant factor in the City's economy. Boating facilities, marinas, sport fishing, shops and eight miles of public beaches attract thousands of visitors to the City each year. Other recreational facilities and attractions include the Long Beach Aquarium of the Pacific, the Queen Mary, the Community Playhouse, a municipal band and symphony orchestra, the Sports Arena, the Terrace and Center Theaters, Belmont Plaza Pool, the Long Beach Grand Prix and the Long Beach Ice Dogs professional ice hockey team. The Long Beach Museum of Art and the Museum of Latin American Art are both located within the City.

The City is also home to The Pike at Rainbow Harbor, a premier waterfront attraction in Southern California comprised of 300 acres of prime oceanfront land adjacent to the City's commercial core. It includes the Long Beach Aquarium, Rainbow Harbor, the expanded Long Beach Convention Center and up to 500,000 square feet of entertainment/retail development. The Long Beach Aquarium and Rainbow Harbor opened to the public in June 1998.

The Queen Mary, a vintage ocean liner open to the public since 1971, provides the City with a unique and interesting tourist attraction. The six-deck "Living Sea Museum" is the only facility of its kind in the world. The Queen Mary features three major restaurants, three fast food service facilities and 40 specialty shops. The Queen Mary Hotel, with 365 rooms, is aboard the ship. In addition, a Russian submarine, the "Scorpion," is currently docked adjacent to the Queen Mary and is open for visitors. The Scorpion is another premier waterfront attraction complementing the popular Aquarium of the Pacific and the Queen Mary. Carnival Cruise Lines operates a homeport in Long Beach for its cruises to Mexico, adjacent to the Queen Mary.

The West Coast Long Beach Hotel, located on 18.8 waterfront acres west of the Queen Mary, is a development designed to afford 85% of the rooms with ocean views. The hotel consists of 200 rooms and offers resort style amenities in close proximity to the Queen Mary and Downtown attractions.

Formula 500 cars first raced through city streets and along the shoreline during the Long Beach Grand Prix in September 1975. The race was the first to be run on city streets in this country in 50 years. The City has hosted the United States Grand Prix West, now featuring "Indy" cars, every year since 1977 in what is now commonly known as the Long Beach Grand Prix. This event attracts approximately 200,000 visitors to the City each year.

### **Long Beach Convention and Entertainment Center**

The City has fostered convention business by expanding convention facilities and encouraging private sector participation. Trade shows, conventions, athletic contests and other events are held regularly at the Long Beach Convention and Entertainment Center (the "Convention Center"), which is part of the Pike at Rainbow Harbor oceanfront development. The Convention Center was enlarged in 1994 to accommodate 318,000 square feet of exhibit space. This expansion increased the total number of conventions and meetings held at the Convention Center, which competes with convention centers in cities such as Albuquerque, San Jose, Denver and Phoenix, and larger facilities in Los Angeles, Anaheim and San Diego. Marketing of the Convention Center by the Long Beach Convention and Visitors Bureau has resulted in increased occupancy rates for hotels serving the Convention Center.

A \$2.8 million renovation of the Convention Center was substantially completed in the fall of 2001. The renovation was completed pursuant to an agreement between the City and the Jehovah's Witness organization, under which the Jehovah's Witness organization supplied materials and labor for

the renovation in exchange for the City's permission to use the facility for 12.6 years. The City expended \$300,000 for permits, furniture and equipment in connection with the renovation.

The following table sets forth convention and delegate attendance since 2003:

**TABLE XI**  
**City of Long Beach**  
**Convention and Delegate Attendance**

<u>Calendar Year</u>	<u>Number of Conventions</u>	<u>Number of Delegates</u>
2003	187	470,283
2004	218	495,302
2005	235	440,083
2006	226	446,739
2007	201	475,769

Source: City of Long Beach Summary Financial Information Statement for Fiscal Year 2007

### **Shoreline Village**

Shoreline Village, which has proven to be an integral part of Long Beach visitor offerings, continues an aggressive marketing effort. With the addition of, among others, the Yard House and the Village Hat Shop, Shoreline Village is working to provide quality retail, dining and recreation as entertainment experiences for visitors, particularly those who stay at the downtown hotels.

### **Downtown Long Beach**

The Pine Avenue corridor has enjoyed success since the 1995 addition of such retailers as Z Gallerie, who opened an expanded version of their popular home furnishings store, and an assortment of restaurants. CityPlace, an urban retail development in the heart of downtown, covers eight city blocks. CityPlace is approximately 450,000 square feet of retail space and 341 of residential units. Tenants include Wal-Mart, Albertson's, Sav-On, Nordstrom Rack, and Ross Dress For Less and several other apparel stores and eateries. Hoteliers report that the area gives their guests a refreshing option for dining and entertainment alternatives. Pine Avenue's concentration of dining establishments confirms restaurants as the principal element of the area.

### **Long Beach Towne Center**

In November 1998, the development of the Long Beach Towne Center was completed. It is an approximately 850,000 square foot community retail shopping center located on approximately 81 acres within the City at the southwest corner of Carson Street and the I-605 Freeway. The current operator of the Long Beach Towne Center is CREA/PPC Long Beach Towne Center PO, LLC, a Delaware limited liability company.

### **The Pike at Rainbow Harbor**

The \$450 million The Pike at Rainbow Harbor, developed by Developers Diversified Realty, is one of the largest shoreline developments in California history. The Pike at Rainbow Harbor includes approximately 500,000 square feet of waterfront retail and entertainment space. The Pike at Rainbow Harbor is a joint venture of public and private investment. The development converted 300 acres of prime oceanfront property at the edge of downtown Long Beach into a major resort. The Pike at Rainbow

Harbor includes the Aquarium of the Pacific, Shoreline Park, Rainbow Harbor, a retail portion and a condominium housing portion.

Rainbow Harbor, named after Long Beach's famous Rainbow Pier from the early part of the twentieth century, offers visitors a wide variety of dinner cruises, fishing and diving charters, and water taxis that shuttle between the downtown entertainment district and the historic Queen Mary oceanliner. The Aquarium of the Pacific is located on a five-acre site within Rainbow Harbor, and contains exhibits with more than 12,000 ocean animals, representing over 550 species native to the Pacific Ocean. The Aquarium also contains a theater, learning center, shark lagoons, an indoor/outdoor restaurant and a large gift shop.

### **Petroleum Production**

The Wilmington Oil Field, which is one of the largest oil fields in the United States, traverses Long Beach. Since 1939, the City has developed and managed the oil operations on its Upland and Tideland properties. The Upland properties are owned by the City and the revenues can be used for general-purpose activities. The Tideland properties are owned by the City in trust for the State. The revenues generated by the Tideland properties, by legislation, are shared between the City, State and two contracting oil production companies, Occidental Petroleum Corp. and Tidelands Oil Production Company. The City's share can only be used in support of Tidelands purposes.

Operation of the Wilmington Oil Field is managed by two contractors, Tidelands Oil Production Company and Occidental Petroleum Corp.

The City administers all City oil operations, contract, leases and agreements and directs all subsidence control operations through its Department of Oil Properties. Recent increases in the price of oil have increased the amount of revenues transferred to the Tidelands Operating Fund and the General Fund.

### **Transportation**

Industry, business and residents all benefit from the excellent transportation network available in the City. Water, rail, air and highway facilities are highly developed throughout the City.

The County's 22-mile light rail line opened July 1, 1990, connecting the central business districts of Long Beach and Los Angeles. Ridership on the "Metro Blue Line" averages approximately 66,000 riders per average weekday.

The San Diego Freeway (I-405), the San Gabriel River Freeway (I-605), the Long Beach Freeway (I-710) and the Riverside Freeway (I-91) all traverse the City, as do State Highways 1, 19, 22 and 214. This highway grid places both the City of Los Angeles and Los Angeles International Airport within a 30-minute drive.

The Long Beach Public Transportation Company was incorporated in 1963 as a nonprofit corporation with all capital shares held by the City. Since that time, the company has provided transit service to the City and surrounding areas. The company's operations are locally supported through the Transportation Fund of the City. Interurban bus service is provided by the Long Beach Transit, the Los Angeles County Metropolitan Transportation Authority and the Orange County Regional Transportation District.



Rail transportation to Long Beach is provided by two major transcontinental railroads: the Burlington Northern Santa Fe Railroad Company and the Union Pacific Railroad Company. Reciprocal switching is available between the two lines.

### **Port of Long Beach**

The Port is owned by the City and operated by the Harbor Department, which was created by amendment to the City Charter in 1931. Functioning primarily as a landlord, the Harbor Department leases or assigns most docks, wharves, transit sheds, and terminals to shipping or terminal companies and other private firms for actual operation of these facilities. This Port is one of the most versatile shipping installations in the nation.

The Port covers 11.9 square miles, of which 7.1 square miles is water, and includes all harbor facilities of the City. The Port has 22 miles of waterfront with 65 deep water cargo berths. Container terminals occupy 1,356 acres, auto terminals occupy 182 acres, breakbulk and general cargo occupy 108 acres, dry bulk terminals occupy 100 acres, and petroleum and liquid bulk occupy 52 acres. The Port has seven container terminals with 70 cranes (owned mostly by the tenants) and one container freight stations. Five container terminals are served by on-dock railyards. Additional cargo handling facilities include five transit sheds and 12 warehouses. Transit sheds are of concrete and steel construction. Wharves are constructed of reinforced concrete supported by reinforced concrete pilings or sheet pile bulkhead. Wharf aprons at all transit shed berths average 50 feet in width. Rail tracks serve all major marine facilities. In total, the Port owns 82 miles of rail trackage. Current Harbor Department plans envision enlarging and consolidating several of the container terminals due to the demand for larger facilities.

The Port is the first Southern California port to offer dockside rail. Dockside rail helps to move cargo between ships and trains for efficient distribution to markets east of the Rocky Mountains, and removes unnecessary trucks from area freeways.

The Port is self-sufficient. Under the State's Tidelands laws, the Port must earn its revenue from activities related to commerce, navigation, recreation and fisheries, and must spend its money only on the same. The Port receives no tax revenues for its operations or expansions. Although it receives no tax support, the Port generates billions of dollars in revenue for private businesses and government entities, including the City.

In addition to containers, the harbor complex handles crude and refined petroleum products, dry bulk such as coke, and cement; automobiles, lumber, paper and fruit; steel and scrap metal. A free trade zone, Foreign Trade Zone #50, is also operated by the Port.

In 1989, the Port, the Port of Los Angeles (collectively, the "Ports"), the City and the City of Los Angeles formed the Alameda Corridor Joint Powers Authority ("ACTA") to develop and operate a 20-mile long, multiple-track consolidated rail transportation corridor (the "Alameda Corridor") along Alameda Street between the railroad freight yards located in the City of Los Angeles and the Ports in order to efficiently deal with the anticipated increase in volume of international freight, cargo and other goods to and from the Ports. Construction was completed and the Alameda Corridor opened for service in April 2002, at a cost of \$2.4 billion. The Alameda Corridor consolidates 90 miles of existing rail lines (4 rail lines were diverted onto 1 line) into an integrated system separated from nonrail traffic.

## Long Beach Airport

The City owns and operates the Long Beach Airport (the "Airport"), which has five runways varying from 4,200 to 10,000 feet in length. Pursuant to a court-ordered settlement reached in 1989, the current daily flight limits are 41 commercial jet airline and 25 commuter landings and takeoffs ("slots"). Included in the 41 aircraft slots are four cargo flights, operated by Airborne/DHL, FedEx and United Parcel Service. Commercial airline service is provided by Alaska Airlines, US Airways, Delta Airlines/Skywest, ExpressJet Airlines ("ExpressJet") and JetBlue Airways ("JetBlue"). However, ExpressJet will cease operating flights out of the Airport in September 2008, due to high fuel costs.

The Airport is JetBlue's west coast hub. JetBlue operates 28 of the 41 commercial slots at the Airport, with direct service to New York City, Washington, D.C., Boston, Ft. Lauderdale, Salt Lake City, Oakland and Las Vegas.

The movement of aircraft in and out of the Airport is controlled by the Federal Aviation Administration (the "FAA"). The FAA operates the airport's tower and navigation facilities. Navigation aids at the airport include Medium Intensity Approach Lights, Runway Visual Range, Direction Finding, Instrument Landing System, VHF, UHF and other radio communications equipment.

The Airport is an important aircraft manufacturing and completion center, proudly hosting two industry giants, The Boeing Company and Gulfstream Aerospace Corporation. Between these two firms, thousands of jobs help fuel the local economy. The Airport is landlord to almost 150 other businesses, mainly in the aviation and aerospace industry.

The following table sets forth operations at the Airport during Fiscal Years 2003 through 2007.

**TABLE XII**  
**Long Beach Airport Traffic**

<u>Fiscal Year</u>	<u>Passengers</u>	<u>Cargo (lbs.)</u>
2003	2,757,251	115,303,000
2004	2,941,971	113,419,000
2005	3,027,871	108,470,000
2006	2,815,015 <sup>2</sup>	102,303,000
2007	2,880,583 <sup>1</sup>	100,354,000

<sup>1</sup> All 41 air carrier flight slots were used: 37 flight slots from three passenger airlines – Alaska, JetBlue, and US Airways, and four flight slots from cargo carriers – Airborne Express/DHL, Federal Express and United Parcel Service. Of the 25 available commuter carrier flight slots, Delta/Skywest operated four and US Airways operated one. In late Fiscal Year 2007, ExpressJet was allocated six commuter flight slots scheduled to commence operation in early Fiscal Year 2008. However, due to high fuel costs, ExpressJet will cease operations at the Airport in September 2008.

<sup>2</sup> American Airlines left the Long Beach Airport on April 2, 2006.

Source: City of Long Beach Summary Financial Information Statement for Fiscal Year 2007

## Utilities

In 1931, a Charter amendment was passed which created the Board of Water Commissioners and authorized the City to join the Metropolitan Water District of Southern California. These decisions sought to ensure an adequate water supply for the City. Water and sewer services are provided by the Long Beach Water Department (the "Water Department").

There are a number of utilities service providers operating in the City. Local telephone service is provided by Verizon and SBC. Electricity is distributed to the residents, organizations and businesses of Long Beach by Edison International. Electricity can be purchased from a number of electricity providers. Natural gas is provided by the Gas and Oil Department.

In November 2000, the voters of the City approved Measure J to reduce the City’s utility users tax rate by one percentage point per year, from 10% to 5% during a five-year period. The current utility users tax rate is 5% for all utilities.

**Education**

The City is served by the Long Beach Unified School District, which provides primary and secondary educational instruction for approximately 90,000 students through the operation of 51 elementary schools, 26 junior high schools, 12 high schools, including one adult school. There are additionally five charter schools. Post-secondary education is available at Long Beach City College, a tax-supported two-year institution administered by the Long Beach Community College District. In addition to the lower division college program, extensive adult education and trade school facilities are offered at Long Beach City College, with a current enrollment that exceeds 26,837 per semester. California State University – Long Beach is located on a 320-acre site in the eastern portion of the City on land donated by the City. Opened in 1949 as Los Angeles-Orange County State College, the institution has been given university status and has a current enrollment of approximately 34,606 per semester. The University’s distinguished educational program offers various undergraduate and graduate degree programs. Enrollment in the educational system serving the City and its residents for the past five years is set forth below:

**TABLE XIII  
City of Long Beach  
Educational Enrollment**

<u>Year</u>	<u>Long Beach Unified School District</u>	<u>Long Beach City College *</u>	<u>California State University (Long Beach) *</u>
2003	97,370	32,411	33,745
2004	97,560	28,682	33,363
2005	96,319	25,722	32,756
2006	93,589	26,308	33,344
2007	90,633	26,837	34,606

\*Average enrollment per semester.  
Source: City of Long Beach Summary Financial Information Statement for Fiscal Year 2007

The City also serves as the permanent headquarters for the 23-campus California State University and College System. The California University and College System’s headquarters are located on a 6.4-acre site in the western portion of the City on land donated by the City. California State University Long Beach continues to be one of the most popular institutions in California. It has built a successful student recruitment program that continues to attract high-achieving students, while maintaining their historical commitment to access.

**Community Facilities**

Long Beach has four major community based hospitals and a Veterans Affairs Medical Center. The City operates the Main Library in the downtown Civic Center and eleven other branch libraries

throughout the City. Four newspapers, three radio stations and a cable television system are also located in the City.

The City's Parks, Recreation and Marine Department coordinates and maintains municipal and school recreational services, including 26 community centers, 61 sports fields, a mountain camp, 41 parks with playgrounds, 68 tennis courts and five golf courses. This department also administers the Long Beach Municipal Band, Leeway Sailing Center, El Dorado Nature Center, Rancho Los Cerritos and Rancho Los Alamitos, the Belmont Veterans Memorial Pier, Rainbow Harbor and Rainbow Lagoon. The City's Parks, Recreation and Marine Department also maintains 144 parks devoted to open space and recreation, and six miles of beaches. Additionally, the Department operated three marinas with a combined approximate 3,142 boat slips.

The Department provides free and fee-based recreational programs and leisure opportunities, both self-directed and organized, for people of all ages and cultures. Youth programs include free youth sports for ages 5 to 18 serving early 10,000 participants annually, summer and vacation day camps, 600 recreational and educational classes, sailing and aquatics instruction, teen center activities, skateboarding opportunities, and supervised after-school and weekend activities at parks, schools and mobile recreation sites.

Adult recreation opportunities include sports leagues, tennis and golf facilities and instruction, and more than 2,000 recreational and self-improvement classes annually. Recreation programs and social services for seniors are offered at community centers. Family recreation opportunities include Long Beach Municipal Band concerts, cultural arts programs, environmental programs, citywide and neighborhood special events, boating facilities, as well as general park and beach use.

The Long Beach Convention and Entertainment Center stages productions of the Long Beach Symphony Association, the Long Beach Grand Opera, the Long Beach Symphony Chorus, the Theater Festival and the Community Concert Association.

### **Insurance Coverage**

The City is self-insured for general, automobile and professional liability exposures. The City also self-insures for worker's compensation. As of June 30, 2008 a reserve of \$100,750,000 had been established to cover anticipated claims and judgments. Additionally, the City has in place all-risk property insurance in the amount of \$1 billion and a Public Employee Dishonesty, including Faithful Performance policy, with limits of \$5,000,000 which covers all employees, officers and elected officials.

### **Largest Taxpayers**

No single taxpayer accounts for more than 0.95% of the City's total assessed valuation. The largest taxpayer is The Boeing Company, which had an assessed valuation as of September 30, 2007 of approximately \$344 million. The City's top 10 principal taxpayers are presented in the following table:

**TABLE XIV**  
**City of Long Beach**  
**Major Taxpayers**  
**as of September 30, 2007**

<u>Taxpayer</u>	<u>Industry</u>	<u>Assessed Valuation (in Thousands)<sup>1</sup></u>	<u>Percentage of Total Net Assessed Valuation<sup>2</sup></u>
1. The Boeing Company	Industrial	\$ 344,164	0.95%
2. AES Alamitos LLC	Power Plant	267,600	0.74
3. Camden Realty Inc.	Apartments	137,302	0.38
4. GREIT One World Trade Center	Office Building	118,239	0.33
5. Trizehahn Colony Square GP LLP	Office Building	87,006	0.24
6. GRE Shoreline Square LP	Commercial	84,048	0.23
7. City Place Long Beach LLC	Commercial	73,068	0.20
8. 1900 Ocean Partners Holdings LLC et al.	Apartments	71,887	0.20
9. 350 Ocean Garage LLC	Commercial	70,589	0.20
10. Hughes Aircraft Company	Industrial	<u>67,256</u>	<u>0.19</u>
<b>Total</b>		<b><u>\$1,321,159</u></b>	<b><u>3.66%</u></b>

<sup>1</sup> Local secured assessed valuation. Excludes mineral rights, possessory interest and unsecured assessed valuation.

<sup>2</sup> 2006-2007 Local Secured Assessed Valuation: \$36,122,343,760.

Source: City of Long Beach Summary Financial Information Statement for Fiscal Year 2007, California Municipal Statistics, Inc.

## CITY FINANCIAL INFORMATION

### General

Accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. Operations of each fund are accounted for by providing a separate set of self-balancing accounts, which include its assets, liabilities, reserves, fund balances, revenues and expenditures.

The modified accrual basis of accounting is followed for the General Fund, Special Revenue Accounts, Capital Projects, Expendable Trust and Agency Funds. Under this method, expenditures (other than interest on long-term debt) are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they became measurable and available. The City considers the term "available" to mean collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. The accrual basis of accounting is utilized for all Proprietary and Internal Service Funds.

The City employs the encumbrance method of accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of applicable appropriations. Such commitments are provided for during the annual budget process as carried-over commitments.

### Budgetary Process

The City's Charter governs the budget development process and deadlines. Per the Charter, the City Council adopts an annual budget for all funds prior to the start of the new fiscal year, which begins on October 1. Based upon the City Council's priorities and community feedback received during the budget development process, the City Manager submits a proposed budget to the Mayor on or before

August 1. In a recent election, the Mayor was granted line-item veto. The Mayor then presents the City Manager's proposed budget with any additional recommendations to the City Council on or before August 15, after which public budget workshops and hearings are conducted with the City Council during which further amendments can be made. If the City Council does not successfully adopt a budget before October 1, the City manager's budget as proposed becomes the budget for the new fiscal year.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various governmental funds. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer appropriations within the departments, and within a given fund, without City Council approval; provided that the total appropriation at the fund level and at the department level does not change. Transfers of appropriations between funds or between departments require City Council approval. Appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered, however unspent appropriations in all-year funds and subfunds roll over into subsequent fiscal years until they are exhausted.

### **Financial Statements**

The accompanying financial statements were developed from City records. Certain information such as Fund Balances, Revenues, Expenditures and Transfers of Tax Supported Funds and the Tax Supported Fund cash flow analysis were developed by City staff for use in this Official Statement.

Each year the City adopts and maintains a balanced budget in accordance with California law. Certain recurring revenues received by the City and savings accrued as a result of the City's fiscal management are reserved in the General Fund. The City uses certain of its special funds to pay some of its general fund expenditures. The City has not increased general taxes to provide money for general fund expenditures since June 1992.

The following financial statements reflect transactions and balances in the City's General Fund. Table XV provides a statement of revenues, expenditures and changes in fund balances for the Fiscal Years ending September 30, 2003 through September 30, 2007. Table XVI reflects the General Fund balance sheet as of September 30, 2003 through September 30, 2007. Table XVII presents the City's final General Fund budget for Fiscal Year 2007, the City's audited actuals for the General Fund for Fiscal Year 2007 and the City's adopted General Fund budget for Fiscal Year 2008. These tables are excerpts from the City's financial statements and may not include all relevant information. A complete review of the City's financial statements attached hereto as "APPENDIX A— CITY OF LONG BEACH GENERAL PURPOSE FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2007" including the footnotes thereto, is necessary in order to make an informed investment decision.

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**TABLE XV**  
**City of Long Beach**  
**General Fund Revenues and Expenditures**  
**(in Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Revenues</b>					
Property Taxes	\$ 53,331	\$ 55,677	\$ 60,742	\$ 61,823	\$ 71,185
Other Taxes	127,843	122,917	126,389 <sup>1</sup>	134,309 <sup>1</sup>	144,237 <sup>1</sup>
Licenses and Permits	15,734	17,161	18,096	23,143	12,716
Fines and Forfeitures	11,017	13,570	14,738	16,387	17,644
Use of Money and Property	15,952	15,416	15,998	17,707	21,949
From Other Agencies	43,351	31,403	41,616	38,652	44,587
Charge for Services	42,294	43,854	44,621	26,980	23,468
Other	<u>3,451</u>	<u>3,182</u>	<u>5,868</u>	<u>6,310</u>	<u>7,212</u>
Total Revenue	<u>312,973</u>	<u>303,180</u>	<u>328,068</u>	<u>325,311</u>	<u>342,998</u>
<b>Expenditures</b>					
<b>Current:</b>					
Legislative and Legal	9,588	10,359	10,037	12,464	13,602
General Government	24,072	22,848	24,603	14,515	10,813
Public Safety	235,444	223,891	249,955	247,102	255,161
Public Health	4,428	4,749	4,742	4,332	4,833
Community and Cultural	42,313	42,665	41,091	43,304	48,143
Public Works	<u>30,710</u>	<u>30,105</u>	<u>30,509</u>	<u>26,406</u>	<u>28,466</u>
Total Current Expenditures	<u>346,555</u>	<u>334,617</u>	<u>360,937</u>	<u>348,123</u>	<u>361,018</u>
<b>Debt Service:</b>					
Principal	4,037	5,575	5,892	6,136	6,706
Interest	<u>6,443</u>	<u>6,088</u>	<u>6,696</u>	<u>5,374</u>	<u>8,278</u>
Total Expenditures	<u>357,035</u>	<u>346,280</u>	<u>373,525</u>	<u>359,633</u>	<u>376,002</u>
Excess of Revenues Over (Under)	<u>(44,062)</u>	<u>(43,100)</u>	<u>(45,457)</u>	<u>(34,322)</u>	<u>(33,004)</u>
<b>Expenditures</b>					
Other Financing Sources (Uses) Proceeds	3,643	15,910	-	2,902	1,962
From Other Long-Term Obligations	-	(10,729)	-	-	-
Payment to Refunded Bond Escrow Agent	-	(10,729)	-	-	-
Advances Change in Principal	2,432	1,663	1,757	1,780	3,377
Operating Transfers In	49,283	46,865	38,892	34,590	35,443
Operating Transfers Out	<u>(16,726)</u>	<u>(10,323)</u>	<u>(6,485)</u>	<u>(7,742)</u>	<u>(11,001)</u>
Total Other Financing Sources (Uses)	<u>38,632</u>	<u>43,386</u>	<u>34,164</u>	<u>31,530</u>	<u>29,781</u>
Excess of Revenues Over (Under)	<u>(5,340)</u>	<u>286</u>	<u>(11,293)</u>	<u>(2,792)</u>	<u>(3,223)</u>
<b>Expenditures and Other Uses</b>					
Fund Balance—October 1	<u>166,666</u>	<u>161,236</u>	<u>161,522</u>	<u>150,229</u>	<u>147,437</u>
Fund Balance—September 30	<u>\$161,236</u>	<u>\$161,522</u>	<u>\$150,229</u>	<u>\$147,437</u>	<u>\$144,214<sup>2</sup></u>

<sup>1</sup> Includes sales and use tax, utility users tax, other taxes and property tax in lieu of sales and use tax from Proposition 57.

<sup>2</sup> Of the \$144,214 million Fiscal Year 2007 actual ending Fund Balance, \$114,254 million is reserved and \$29,960 million is unreserved.

Source: City of Long Beach – Comprehensive Annual Financial Report – Fiscal Years 2003-2007

**TABLE XVI**  
**City of Long Beach**  
**General Fund Balance Sheet**  
**(in Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Assets</b>					
Pooled Cash and Cash Equivalents	\$ 42,121	\$ 33,547	\$ 28,670	\$ 40,164	\$ 87,465 <sup>2</sup>
Non-Pooled Cash and Cash Equivalents	43,960	35,611	35,385	5,629 <sup>1</sup>	6,219 <sup>2</sup>
Interest Receivable	21	21	20	21	21
Property Taxes	7,949	7,903	7,353	3,452	4,821
Accounts Receivable	14,117	16,998	20,260	24,661	20,086
Allowances for Receivables	(12,214)	(14,554)	(17,080)	(20,437)	(17,227)
Notes and Loans Receivable	2,413	2,413	2,370	2,266	2,218
Due From Other Governments	22,027	15,854	15,835	16,449	18,484
Due From Other Funds	4,269	20,284	21,341	12,155	12,453
Advances to Other Funds	99,868	100,531	100,455	100,924	103,001
Inventory	61	62	-	-	-
Other Assets	6	6	6	13	6
<b>Total Assets</b>	<u>224,598</u>	<u>218,676</u>	<u>214,615</u>	<u>185,297</u>	<u>237,547</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts Payable	7,404	6,454	7,833	7,329	6,187
Accrued Wages Payable	5,299	6,943	7,157	8,099	8,001
Accrued Interest Payable	826	437	900	-	2,436
Tax and Revenue Anticipation Notes	33,000	30,000	30,000	-	54,000
<b>Payable</b>					
Due to Other Funds	1,388	2,898	3,346	3,821	3,777
Advances From Other Funds	-	-	4,054	8,114	7,614
Deferred Revenues	12,319	8,191	8,054	7,609	8,204
Deposits and Collections Held in Trust	3,126	2,231	3,043	2,888	3,114
<b>Total Liabilities</b>	<u>63,362</u>	<u>57,154</u>	<u>64,387</u>	<u>37,860</u>	<u>93,333</u>
<b>Fund Balances (Reserved For)</b>					
Nonrecurrent Receivables	99,868	100,531	100,455	100,924	103,001
Asset Seizure Money	2,828	2,607	2,762	2,463	2,186
Encumbrances	1,279	2,762	1,714	1,274	1,248
Future Advances to Other Funds	1,486	1,486	1,486	1,486	1,486
Debt Service	7,074	5,672	5,407	5,812	6,333
Future Capital Projects and Special Programs	3,109	948	-	-	-
<b>Total Reserved Fund Balance</b>	<u>115,644</u>	<u>114,006</u>	<u>111,824</u>	<u>111,959</u>	<u>114,254</u>
<b>Fund Balances (Unreserved For)</b>					
Emergency Contingency	32,946	33,756	34,156	34,396	34,091
Subsequent Years' Appropriations	10,146	11,260	5,802	6,696	983
Undesignated	2,500	2,500	(1,554)	(5,614) <sup>2</sup>	(5,114)
<b>Total Unreserved Fund Balance</b>	<u>45,592</u>	<u>47,516</u>	<u>38,404</u>	<u>35,478</u>	<u>29,960</u>
<b>Total Fund Balances</b>	<u>161,236</u>	<u>161,522</u>	<u>150,228</u>	<u>147,437</u>	<u>144,214</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$224,598</u>	<u>\$218,676</u>	<u>\$214,615</u>	<u>\$185,297</u>	<u>\$237,547</u>

<sup>1</sup> Decrease in Fiscal Year 2006 is due to Tax and Revenue Anticipation Note ("TRANs") not being issued.

<sup>2</sup> Beginning in Fiscal Year 2007, the City held TRAN principal and interest reserves in its investment pool (Pooled Cash and Cash Equivalents) rather than with the Paying Agent (Non-Pooled Cash and Cash Equivalents).

<sup>3</sup> Undesignated funds of (\$5.6 million) represent the net of an annual \$2.5 million reserve, a \$8.1 million related to a long-term advance from the Subsidence Fund to be repaid over 20 years.

Source: City of Long Beach – Comprehensive Annual Financial Report –Fiscal Years 2003-2007



**TABLE XVII**  
**City of Long Beach**  
**Adopted General Fund Budgets for Fiscal Years 2007 and 2008**  
**and Actual General Fund Budget for Fiscal Year 2007**  
**(in Thousands)**

<u>Fiscal Year</u>	<u>Final 2007</u>	<u>Actual 2007<sup>1</sup></u>	<u>Adopted 2008<sup>1</sup></u>
Revenues			
Property Taxes	\$ 72,943	\$ 71,185	\$ 74,873
Other Taxes <sup>2</sup>	148,557	144,237 <sup>1</sup>	148,308
Licenses and Permits	13,154	12,716	13,688
Fines and Forfeitures	16,650	17,644	21,058
Use of Money and Property	20,100	21,949	21,284
From Other Agencies	44,316	44,587	48,938
Charge for Services	23,514	23,468	23,901
Other	<u>14,902</u>	<u>7,212</u>	<u>5,928</u>
Total Revenue	<u>354,136</u>	<u>342,998</u>	<u>357,978</u>
Expenditures			
Current:			
Legislative and Legal	14,465	13,602	14,108
General Government	8,805	10,813	11,478
Public Safety	258,608	255,161	261,100
Public Health	4,902	4,833	5,404
Community & Cultural	50,203	48,143	53,775
Public Works	<u>29,172</u>	<u>28,466</u>	<u>30,120</u>
Total Current Expenditures	<u>366,155</u>	<u>361,018</u>	<u>375,985</u>
Debt Service:			
Principal	6,343	6,706	5,585
Interest	<u>7,799</u>	<u>8,278</u>	<u>8,075</u>
Total Expenditures	<u>380,297</u>	<u>376,002</u>	<u>389,645</u>
Excess of Revenues Over (Under) Expenditures	<u>(26,161)</u>	<u>(33,004)</u>	<u>(31,667)</u>
Other Financing Sources (Uses) Proceeds from			
Other Long-term Obligations	1,730	1,962	700
Advances Capitalized Interest	-	3,377	-
Operating Transfers In	31,905	35,443	33,950
Operating Transfers Out	<u>(15,819)</u>	<u>(11,001)</u>	<u>(9,170)</u>
Total Other Financing Sources (Uses)	<u>17,816</u>	<u>29,781</u>	<u>25,480</u>
Excess of Revenues Over (Under) Expenditures and Financing Sources (Uses)	<u>(8,345)</u>	<u>(3,223)</u>	<u>(6,188)</u>
Beginning Fund Balance—October 1	146,163	147,437	142,969
Encumbrance, Beginning of the Year	1,274	-	1,248
Residual Equity Transfers	-	-	-
Ending Fund Balance—September 30	<u>\$139,092</u>	<u>\$144,214</u>	<u>\$138,029</u>

<sup>1</sup> Actual based on General Fund Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual figures (Non-GAAP budgetary basis).

<sup>2</sup> Includes sales and use tax, utility users tax, other taxes and property tax in lieu of sales and use tax from Proposition 57. Note that property tax in lieu of sales and use tax is categorized as revenues “From Other Agencies.”

Source: City of Long Beach – Comprehensive Annual Financial Report – Fiscal Year 2007

## **Pension Plans and Post-Retirement Health Care Benefits**

### ***CalPERS.***

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

The City contracts with the California Employee's Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, including annual cost-of-living adjustments ("COLA"), and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30, which differs from the City's September 30 fiscal year end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple tier retirement plan with benefits varying by plan. Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3% of the employee's highest paid year of employment for each year of credited service. Vested first and second tier non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service for the first tier, and for the second tier effected in Fiscal Year 2004. The City created tier III for non-safety employees hired after October 1, 2007. Vested tier III non-safety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service.

The City amended its safety and miscellaneous retirement plans to create second tiers in Fiscal Year 1990 and a third tier for miscellaneous employees in Fiscal Year 1996. During Fiscal Year 2002 the third tier was eliminated and plan participants were absorbed into the second tier. A third tier was set up effective for Fiscal Year 2007. Retirees under the first tier are eligible to receive a maximum annual 5% cost-of-living increase in their retirement benefit, while those under the second and third tier are eligible to receive a maximum annual 2% cost-of-living increase.

**Funding Policy.** In November 1998, the City was informed by CalPERS that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997. Accordingly, the City's employer contribution rates were reduced by CalPERS to zero for all plans effective November 13, 1998. Participants were required to contribute 7% of their earnings for all miscellaneous and 9% for all police, fire and lifeguard employees. The City continued to make these employee contributions as required by CalPERS law through July 2, 1999 at which time it was informed by CalPERS that no further contributions were required. The City was overfunded through September 30, 2004 and was not required to pay CalPERS any employee or employer contributions for any of its plans through Fiscal Year 2004.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. The City contribution payments to CalPERS for Fiscal Year 2007 for both Safety and Miscellaneous Plans was 16.563% and 12.012% respectively. The employee rate for Safety is 9% and Miscellaneous is 8%. Safety employees paid CalPERS 1% of the 9% employee rate and the City paid 8% through March 31, 2007. Beginning April 2007 Safety employees contribute 2% towards the 9% employee rate. Miscellaneous employees paid 2% of the 8% to CalPERS and the City paid 6%. Management employees and certain employee groups who serve in sensitive, confidential capacities went from 1% to 2% contribution of the 8% to CalPERS in Fiscal Year 2007.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. In the event that a plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

**Public Agency Retirement System-Defined Benefit Plan.** In November 1994, the City established Public Agency Retirement System (PARS) Defined Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (collectively, the "Public Agency Plans"). During Fiscal Year 2003, the plans were reported under a combined plan ("The Public Agency Plan"). The Public Agency Plan is a defined benefit, single employer retirement plan. The Public Agency Plan, which took effect on January 1, 1995, is administered for the City through a third party administrator. The Public Agency Plan provides for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The Public Agency Plan benefit is a lifetime monthly annuity equal to 1.50% times the final average of the participant's highest 36 consecutive months' salary times the years of service. The Public Agency Plan requires participant contributions of 6.2% of earnings for Contractors Special Status and 3.0% of earnings for Seasonal and Temporary Employees. All employees enter The Public Agency Plan upon hire, and all benefits are vested after five years of service for Contractors Special Status or immediately for Seasonal and Temporary Employers, and employees are always vested in their employee contributions. It is assumed that upon termination, employees will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below).

The City's funding policy is to make the contribution as determined by The Public Agency Plan's actuary as of September 30, 2007. The following information describes the calculation methodology:

(a) The Public Agency Plan's annual pension cost ("APC") for the Fiscal Year ended September 30, 2007 is based on the period from October 1, 2006 to September 30, 2007. The APC for this period was \$92,546, the same amount contributed for this period.

(b) The actuarial liabilities and assets are valued as of September 30, 2007.

(c) The actuarial funding method used is the projected-unit-credit-method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining The Public Agency Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between the past year and future years. This allocated is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

The unfunded actuarial liability is the difference between the actuarial accrued liability and plan assets. This difference is amortized as a level dollar amount (over an average nine year period in the 2007 actuarial valuation used to determine Fiscal Year 2009 Annual Pension Cost) to determine the unfunded actuarial liability rate. The actuarial value of plan assets is based on a five year smoothing of gain/loss starting with Fiscal Year 2007.

The interest rate for the 2007 valuation was 5.75%.

**Post-Retirement Health Care Benefits.** Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested; however, under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental and long-term care insurance premiums under the City's Retired Employees Health Insurance Program. Once the cash value of the retired employee's unused sick leave is exhausted, the retiree is required to pay all premiums. The City provided a one-time early retirement incentive of a maximum of \$25,000 for employees who retired during calendar year 1996. The amount of the incentive was based on age, and was credited to accumulated sick leave to be used towards health insurance costs during retirement. In Fiscal Year 2004, management was offered a 16 hour increase in sick leave per year of service for retirement by June 30, 2004.

At September 30, 2007, there were 693 participants in the City's Retired Employees Health Insurance Program, and the non-interest bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$17,617,000. Total premiums paid by the City under the Retired Employees Health Insurance Program for Fiscal Year 2007 were \$5,503,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

The City has recorded a liability in the Employee Benefits Internal Service Fund of \$71,897,000, based on an actuarial study of current and future retiree accumulated sick leave as of September 30, 2005 and updated as of September 30, 2007. A full valuation of Retired Employee Health Insurance Program was performed as of June 30, 2008 in conjunction with the implementation of GASB 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, in Fiscal Year 2008.

The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.0%; wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees, and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$5,600,000, recorded in current accrued wages and benefits, has been fully funded; the long-term portion of the liability of \$66,297,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

## **Employer/Employee Relations**

The City recognizes various certified employee organizations, the principal ones being the International Association of Machinists (“IAM”), Police Officers Association (“POA”) and Fire Fighters Association (“FFA”), which collectively represent over 95% of all City employees in a variety of classifications. City nonmanagement employees are covered by negotiated agreements.

The contracts with the IAM and the FFA are in effect until September 30, 2012. The POA is covered by an existing contract scheduled to expire on September 30, 2009. The City has not experienced a major work stoppage by City employees in the past five years.

## **Insurance Coverage**

The City has adopted separate self-insurance programs for workers’ compensation and general liability claims. As of September 30, 2007, the City accrued non-discounted estimates of \$100,750,000 for workers’ compensation and general liability claims. This represents estimates of amounts to be paid for actual, and incurred but not reported claims based upon past experience, modified for current trends and developments. The City does not have any outstanding annuities. The City has recorded a current liability of \$17,100,000 and a long-term liability of \$83,650,000 in the Insurance Internal Service Fund.

The ultimate amount of losses incurred through September 30, 2007 is dependent on future developments. Based upon information from the City Attorney, outside counsel and others involved with the administration of the programs, the City’s management believes that the aggregate accrual adequately represents such losses.

## **Bonded Indebtedness**

As of June 30, 2008 the City had outstanding revenue bonds (not payable from the City general fund) in the amount of \$1.98 billion, outstanding lease revenue bonds (payable from the City general fund) in the amount of \$414.0 million, outstanding redevelopment revenue bonds or tax allocation revenue bonds (not payable from the City general fund) in the amount of \$155.8 million, outstanding certificates of participation (a portion of which is payable from the City general fund) in the amount of \$8.35 million and outstanding pension obligation bonds (payable from the City general fund) in the outstanding amount of \$78.5 million. In addition to the outstanding revenue bonds (not payable from the City general fund) described in the previous sentence, the City has established commercial paper programs (not payable from the City general fund) for: (a) the Harbor Department in the aggregate principal amount of \$383,500,000 (\$60,150,000 aggregate principal amount of which was outstanding as of June 30, 2008); (b) the Water Department in the aggregate principal amount of \$15,000,000 (\$8,000,000 aggregate principal amount of which was outstanding as of June 30, 2008); (c) the Long Beach Airport in the aggregate principal amount of \$25,000,000 (\$8,032,000 aggregate principal amount of which was outstanding as of June 30, 2008); and the Gas and Oil Department in the aggregate principal amount of \$35,000,000 (\$17,259,000 aggregate principal amount of which was outstanding as of June 30, 2008). The City has no outstanding general obligation debt and has never defaulted on any principal or interest payments associated with any of its debt obligations. The City’s currently outstanding indebtedness is set forth below:

**TABLE XVIII**  
**City of Long Beach**  
**Summary of the City and Related Agencies**  
**Outstanding Debt**  
**(as of June 30, 2008)**

**Revenue Bonds**

<u>Issue Name</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
Series 2007A & B, Long Beach Bond Finance Authority ("LBBFA") Natural Gas Purchase Revenue Bonds (Fixed Rate) <sup>1</sup>	2032	\$635,665,000	\$635,665,000
Series 2007B LBBFA Natural Gas Purchase Revenue Bonds (LIBOR Index Rate) <sup>1</sup>	2033	251,695,000	251,695,000
Series 2005A LBBFA Limited Obligation Refunding Revenue Bonds	2015	2,100,000	1,135,000
Series 2005A & B Harbor Revenue Refunding Bonds	2025	257,975,000	234,840,000
Series 2005 Gas Utility Bonds <sup>2</sup>	2013	7,675,000	5,595,000
Series 2004A Taxable Variable Rate Demand Revenue Bonds (Towne Center)	2030	11,595,000	10,950,000
Series 2004A & B Harbor Revenue Refunding Bonds <sup>3</sup>	2018	113,410,000	88,080,000
Series 2002A & B Harbor Revenue Bonds	2027	300,000,000	165,695,000
Series 2000A Harbor Revenue Bonds	2025	275,000,000	232,320,000
Series 1998A Harbor Revenue Refunding Bonds	2019	206,330,000	138,755,000
Series 1997A Water Revenue Refunding Bonds	2024	46,945,000	32,200,000
Series 1994 Marina Subordinate Revenue Bonds <sup>4</sup>	2009	1,310,000	135,000
Series 1993 Belmont Shore Parking Meter Revenue Bonds <sup>4</sup>	2012	1,680,000	705,000

<sup>1</sup>Proceeds were used to prepay the costs of the acquisition of a specified supply of natural gas to be delivered over approximately 30 years under an agreement between Merrill Lynch Commodities, Inc ("Seller") and LBBFA. The Seller is obligated to deliver specified daily quantities of gas to the Issuer, make certain payments for any gas not delivered, to remarket gas not taken by the City and to make a termination payment upon any early termination of the agreement. Merrill Lynch & Co. unconditionally guarantees the payment obligations of the Seller under the agreement.

<sup>2</sup>Issued as part of Long Beach Bond Finance Authority Revenue Bonds (Redevelopment, Housing and Gas Utility Financings) 2005 Series A.

<sup>3</sup>Defeased the Series 1993 Harbor Revenue Bonds Aggregate principal of \$127,470,000.

<sup>4</sup>City holds bonds. Belmont Shore Revenue Bonds restructured in 2001.

Source: City of Long Beach

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**Lease Revenue Bonds**

<u>Issue Name</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
Series 2006B LBBFA Lease Revenue Bonds (Parks/Open Space Financing Project)	2031	\$ 24,320,000	\$ 24,320,000
Series 2006A LBBFA Lease Revenue Refunding Bonds (Rainbow Harbor Refinancing Project) <sup>1</sup>	2024	50,785,000	46,480,000
Series 2005A LBBFA Lease Revenue Refunding Bonds (Temple Willow Facility Refinancing Project) <sup>2</sup>	2028	8,145,000	7,395,000
Series 2003A (Non-AMT) & B (AMT) Southeast Resource Recovery Facility Authority Lease Revenue Bonds	2018	120,235,000	94,465,000
Series 2003 LBFFA Lease Revenue Bonds (Skylinks Golf Course Project)	2029	6,890,000	6,055,000
Series 2002 LBBFA Lease Revenue Bonds (Public Safety Facilities)	2031	40,915,000	38,410,000
Series 2001 LBBFA Lease Revenue Bonds (Plaza Parking Facilities) <sup>3</sup>	2027	11,500,000	10,170,000
Series 2001 LBBFA Lease Revenue Refunding Bonds (Aquarium of the Pacific Project)	2030	129,520,000	123,885,000
Series 1999 LBBFA Variable Rate Demand Lease Revenue Bonds (Long Beach Museum of Art)	2009	3,060,000	3,060,000
Series 1998B LBBFA Lease Revenue and Refunding Bonds (Temple Willow)	2027	29,565,000	24,565,000
Series 1997A LBBFA Lease Revenue Refunding Bonds (Civic Center Project)	2027	43,655,000	35,370,000

<sup>1</sup>Series 2005 LBBFA Lease Revenue Refunding Bonds (Rainbow Harbor) issued April 2006 refunded the Series 1999A LBBFA Revenue Bonds (Rainbow Harbor) and the 1997 Queensway Parking Facility Bonds.

<sup>2</sup>Series 2005 LBBFA Lease Revenue Refunding Bonds (Temple Willow) issued August, 2005 refunded the Series 1998A LBBFA Revenue Bonds (Temple Willow).

<sup>3</sup>Series 2001 LBBFA Lease Revenue Bonds (Plaza Parking Facilities) defeased a portion (\$8,755,000 original par) of the Series 1992 Tax Allocation Revenue Bonds (West Long Beach Industrial and Downtown Project).

Source: City of Long Beach

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**Tax Allocation Revenue Bonds**

<u>Issue Name</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
Series 2005C LBBFA Tax Allocation Revenue Bonds (Downtown and North Long Beach Redevelopment Project Areas) <sup>1</sup>	2031	\$ 35,045,000	\$ 34,980,000
Series 2005A and B LBBFA Revenue Bonds (Redevelopment, Housing and Gas Utility Financings) (Central Redevelopment, Los Altos Redevelopment, North Long Beach Redevelopment Poly High Redevelopment and West Beach Redevelopment Project Areas and Housing Projects)	2040	184,758,000	179,473,000
Series 2002A LBBFA Tax Allocation Revenue Bonds (Downtown Redevelopment; North Long Beach Redevelopment; Poly High Redevelopment and West Beach Redevelopment Project Areas)	2031	77,715,000	34,440,996
Series 2002B LBBFA Tax Allocation Revenue Bonds (Downtown Redevelopment and West Long Beach Industrial Redevelopment Project Areas) <sup>2</sup>	2024	47,780,000	42,035,000
Series 1992 Tax Allocation Revenue Refunding Bonds (West Long Beach Industrial and Downtown Project)	2017	117,490,000	46,440,000

<sup>1</sup> Series 2005C LBBFA Tax Allocation Revenue Bonds issued February 2006 partially defeased the Series 2002 Long Beach Bond Finance Authority Tax Allocation Revenue Bonds.

<sup>2</sup> Series 2002B LBBFA Tax Allocation Revenue Bonds issued December 2002 partially defeased the Series 1992 West Long Beach Allocation Revenue Bonds and the Series 1992A Downtown Project Refunding Bonds. Maturity date revised at partial defeasement of 1992 bonds by the Series 2002B LBBFA Tax Allocation Revenue Bonds.

Source: City of Long Beach

**Pension Obligation Bonds**

<u>Issue Name</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
Series 2002A & B Pension Obligation Refunding Taxable Bonds*	2021	\$ 87,950,000	\$66,280,000
Series 1995 Pension Obligation Refunding Bonds	2011	108,635,000	10,995,000

\* Series 2002A&B Pension Obligation Refunding Taxable Bonds partially defeased Series 1995 Pension Obligation Refunding Bonds in September 2002. The remaining issue amount after partial defeasement of the Series 1995 Pension Obligation Bonds was \$23,920,000. Series 2002A&B Pension Obligation Bonds were remarketed on December 30, 2005 to a fixed rate from auction rate.

Source: City of Long Beach

**Certificates of Participation**

<u>Issue Name</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
Series 1993 Airport	2016	\$16,815,000	\$8,350,000

Source: City of Long Beach



A schedule of the City's direct and overlapping debt as of June 30, 2008, is below:

**TABLE XIX  
City of Long Beach  
Direct and Overlapping Debt**

2007-2008 Assessed Valuation	\$42,272,614,524		
Redevelopment Incremental Valuation	<u>9,758,562,709</u>		
Adjusted Assessed Valuation	<u>\$32,514,051,815</u>		
		<u>% Applicable</u>	<u>Debt 06/30/08</u>
<b>OVERLAPPING TAX AND ASSESSMENT DEBT</b>			
Los Angeles County Flood Control District		3.703%	\$ 3,673,746
Metropolitan Water District		1.842	6,027,300
Long Beach Community College District		87.778	142,318,759
Other Community College Districts		Various	1,467,673
Long Beach unified School District		87.775	212,209,229
Los Angeles Unified School District		0.049	3,589,272
Paramount Unified School District		6.740	4,312,924
Other Unified School Districts		Various	939,752
City of Long Beach Community Facilities Districts		100.	95,575,000
City of Long Beach 1915 Act Bonds		100.	5,355,000
Los Angeles County Regional Park and Open Space Assessment District		3.698	<u>9,984,415</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT<sup>1</sup></b>			<b><u>\$ 485,453,070</u></b>
<b>DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			
Los Angeles County General Fund Obligations		3.698%	\$ 37,703,062
Los Angeles County Pension Obligations		3.698	13,026,405
Los Angeles County Superintendent of Schools Certificates of Participation		3.698	660,502
Los Angeles County Sanitation District No. 3 Authority		83.965	24,346,436
Los Angeles County Sanitation District No. 19 Authority		37.969	2,609,757
Other Los Angeles County Sanitation Authorities		Various	585,849
Long Beach Community College District Certificates of Participation		87.778	29,339,797
Compton Unified School District Certificates of Participation		0.022	11,538
Long Beach Unified School District Certificates of Participation		87.775	44,611,644
Los Angeles Unified School District Certificates of Participation		0.049	244,080
Paramount Unified School District Certificates of Participation		6.740	1,919,215
<b>City of Long Beach General Fund Obligations</b>		<b>100.</b>	<b><u>290,290,000</u><sup>1</sup></b>
<b>City of Long Beach Pension Obligations</b>		<b>100.</b>	<b><u>83,540,000</u></b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b><u>\$ 528,888,285</u></b>
Less: Los Angeles Unified School District self-supporting Qualified Zone Academic Bonds			15,779
<b>City of Long Beach self-supporting obligations (Southeast Resource Recovery Facility Authority issues)</b>			<b><u>94,465,000</u></b>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b><u>\$ 434,407,506</u></b>
<b>GROSS COMBINED TOTAL DEBT<sup>2</sup></b>			<b><u>\$1,014,341,355</u><sup>2</sup></b>
<b>NET COMBINED TOTAL DEBT</b>			<b><u>\$ 919,860,576</u></b>

<sup>1</sup> Excludes issues to be sold.

<sup>2</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-2008 Assessed Valuation

Total Overlapping Tax and Assessment Debt..... 1.15%

Ratios to Adjusted Assessed Valuation

**Gross Combined Direct Debt (\$373,830,000) ..... 1.15%**

**Net Combined Direct Debt (\$279,365,000) ..... 0.86%**

Gross Combined Total Debt..... 3.12%

Net Combined Total Debt ..... 2.83%

STATE SCHOOL BUILDING AID REPAYABLE AS OF JUNE 30, 2008: \$140

Source: California Municipal Statistics, Inc.

**Assessed Valuation**

The City uses the facilities of the County for tax assessment and collection. City taxes are assessed and collected at the same times and on the same tax rolls as County, school and special district taxes.

Under California law, two additional types of exemptions were authorized beginning in the tax year 1969-70. The first of these exempts 50% of the assessed valuation of business inventories from taxation. The second provides an exemption of \$7,000 of the assessed valuation of an owner-occupied dwelling from which application has been made to the County Assessor. Under a recently enacted constitutional amendment, the California Legislature can raise this exemption. Revenue estimated to be lost to local taxing agencies due to such exemption is reimbursed from State sources. The reimbursement is based upon total taxes due upon these exempt values and therefore is not reduced by any amounts for estimated delinquencies.

Summarized below is the assessed valuation and tax collection record of the City for the most recent five-year period:

**TABLE XX**  
**City of Long Beach**  
**Assessed Valuations and Tax Collection Record**  
**Fiscal Years 2003-2007**  
**(in Thousands)**

<b>Fiscal Year</b> <sup>1</sup>	<b>Estimated Full Market Valuation</b>	<b>Valuation For Revenue Purposes</b>	<b>Total City Tax Levy</b>	<b>Total Current Tax Levy Collections</b>	<b>Percent of Levy Collected</b>
2003 <sup>2</sup>	\$26,454,417	\$25,731,996	\$ 83,222	\$ 85,699	103.0%
2004	29,613,229	28,830,023	100,538	99,745	99.2
2005	32,069,712	31,391,249	116,299	113,610	97.7
2006	35,519,905	34,603,448	139,172	130,147	93.5
2007	39,277,469	38,915,969	155,850	145,113	93.1

<sup>1</sup> Based on the County’s Fiscal Year ending June 30.

<sup>2</sup> Fiscal Year 2003 total current tax levy collections includes approximately \$2.87 million in unsecured redevelopment tax increments receipts as a result of a secured parcel audit for the entire city and its redevelopment areas for Fiscal Year 1998 through Fiscal Year 2002. The audit corrected misallocated tax rate areas.

Source: City of Long Beach – Comprehensive Annual Financial Report – Fiscal Year 2007

See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

**Tax Rates**

Historically, properties in the County have been subject to taxation at varying rates by 80 municipalities, including the City and numerous special purpose districts. Each entity would set its budget expenses and then determine, subject to certain legal limitations, the property tax rate to be levied in order to raise sufficient funds. In 1979, the Constitution of the State of California was amended by Article XIII A (“Proposition 13”) which provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the real property as shown on the 1975-76 tax bill or the appraisal value of real property when purchased or newly constructed after the 1975 assessment. The “full cash value” may also be annually adjusted to reflect inflation at a rate not to exceed 2% per year, a

reduction in the consumer price index or comparable local data, or decreases in property value caused by damage, destruction or other factors. Proposition 13 prohibits the levying of any other ad valorem property taxes except for property taxes required to pay debt service for voter-approved general obligation bonds.

Prior to the adoption of Proposition 13, real property was assessed at 25% of market value, and the tax rate was \$4 per \$100 of assessed value. Beginning in 1982, assessed valuation is calculated at 100% of market value, which reduces the tax rate to \$1 per \$100 of assessed value.

On November 7, 2000, the voters of the City approved Measure J, which provided for a reduction in the tax rate imposed upon users of electricity, gas, telephone and water services within the City. Measure J requires the utility users tax on changes made for such services to be reduced by 50% (10% each year for five years, commencing October 1, 2000). Proceeds from the utility users tax are considered a general fund revenue and are used to provide basic City services, such as police, fire and paramedic. No assurance can be given that the voters of the City will not, in the future, approve additional initiatives which reduce or repeal local taxes, assessments, fees or changes that currently are deposited in the City's General Fund.

The following chart summarizes all property tax rates for all overlapping governments per \$100 of assessed real property value within the City for the last five fiscal years:

**TABLE XXI**  
**City of Long Beach**  
**Property Tax Rates Per \$100 of Assessed Value**  
**Fiscal Years 2003-2007**

<u>Fiscal Year</u> *	<u>City Direct Rate</u>	<u>Los Angeles County</u>	<u>Unified Schools</u>	<u>Community Colleges</u>	<u>Special Districts</u>	<u>Total</u>
2003	\$1.000000	\$0.001000	\$0.035190	\$ —	\$0.042800	\$1.078990
2004	1.000000	0.000992	0.042849	0.011705	0.006562	1.062108
2005	1.000000	0.000923	0.046671	0.012394	0.006045	1.066033
2006	1.000000	0.000795	0.040750	0.018569	0.005249	1.065363
2007	1.000000	0.000663	0.106814	0.021462	0.004752	1.133691

\* Based on Los Angeles County's Fiscal Year Ending June 30.  
Source: City of Long Beach – Comprehensive Annual Financial Report – Fiscal Year 2007

Beginning in Fiscal Year 1975, redevelopment tax increments were allocated to the City of Long Beach Redevelopment Agency. These redevelopment tax increments are computed on the basis of the redevelopment property increment values multiplied by the total tax rate for the fiscal year. Redevelopment property increment values represent the difference between the base value of properties designated for redevelopment and their market value.

**Tax Receipts**

Taxes received by the City include Property Taxes, Utility Users Taxes, Sales and Use Taxes, Transient Occupancy Taxes, Business License Taxes, and an Oil Production Tax. Of such taxes, Property Taxes, Utility Users Taxes and Sales and Use Taxes constitute the major sources of tax revenues. None of the general taxes currently imposed by the City are affected by Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS— Proposition 218."

The following table sets forth tax revenues received by the City, by source:

**TABLE XXII**  
**City of Long Beach**  
**Tax Revenues by Source**  
**Fiscal Years 2003-2007**  
**(in Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Property Tax <sup>1</sup>	\$ 87,264 <sup>2</sup>	\$107,825	\$124,463	\$141,081	\$161,786
Utility Users Tax <sup>3</sup>	50,883	45,339	39,216	40,637	41,694
Sales & Use Tax	44,863	42,383	48,216 <sup>4</sup>	51,557 <sup>4</sup>	55,848 <sup>4</sup>
Transient Occupancy Tax	13,134	14,089	15,527	16,548	18,309
Business License Tax	8,430	9,284	9,879	10,345	10,909
Franchises	13,363	14,460	16,670	18,501	22,340
Oil Production Tax	2,245	2,306	2,335	2,245	3,123
Other <sup>5</sup>	<u>5,670</u>	<u>6,478</u>	<u>6,826</u>	<u>10,652</u>	<u>10,524</u>
Total <sup>6</sup>	<u>\$225,852</u>	<u>\$242,164</u>	<u>\$263,132</u>	<u>\$291,567</u>	<u>\$324,533</u>

<sup>1</sup> Includes delinquent tax collections and supplemental or redemption revenue.

<sup>2</sup> Includes parcel audit results of misallocated tax rate areas.

<sup>3</sup> Utility users tax revenue decrease is due to measure J – A voter initiative that lowered this tax from 10% to 5%. The reduction took place over 5 years starting in Fiscal Year 2001 and reduced the rate 1% a year until Fiscal Year 2005 when the rate went to 5% and remains. Figures for Fiscal Years 2003-2005 are net of refunds and adjustments.

<sup>4</sup> Includes property tax in lieu of sales and use tax as provided in Proposition 57.

<sup>5</sup> Includes real property transfer, special parking, miscellaneous taxes and transfers in lieu of taxes.

<sup>6</sup> Tax revenues by source include all governmental fund types (general, special revenue, and capital projects funds), including property tax and transient occupancy tax, also referred to as hotel tax, for the Long Beach Redevelopment Agency, in accordance with generally accepted accounting principles.

Source: City of Long Beach – Comprehensive Annual Financial Report – Fiscal Year 2007

### Investment of City Funds

The City maintains an Investment Policy, which, pursuant to the provisions of Section 53646 of the California Government Code, is annually submitted to and reviewed by the Investment Committee of the City and approved by the City Council. Quarterly reports, which summarize the investment activity and portfolio balances, are also provided to the City Manager, the City Auditor and the City Council. In addition, the Investment Committee, comprised of the City Manager, the City Auditor, the City Attorney, the Director of Financial Management, the City Treasurer, the City Controller, the Budget Manager and the Chief Financial Officers of the Harbor and Water Departments, meets quarterly, or as needed, to review investment policies and strategies and to make recommendations consistent with approved investment policies.

The goal of the Investment Policy is to invest public funds in a prudent manner, maintaining maximum security, meeting the daily cash flow demand of the City and conforming to all State and local statutes governing the investment of public funds. The objectives of the Investment Policy are, in the following order of priority:

FIRST, *Safety of Principal*, through management of both credit risk and market risk as well as the application of the “Prudent Investor Rule.” Credit risk is to be mitigated through prudent investment choices and portfolio diversification. Market risk is to be mitigated by limiting the weighted average maturity of the City’s portfolio to a maximum of three years.

SECOND, *Return on Investment*, to attain market average rates of return through economic cycles. The investment strategy is to seek above market average rates of return consistent with the risk limitations and prudent investment principles of the City's Investment Policy. The City has established two benchmark measures for the pool funds portfolio: the 91-day U.S. Treasury Bill rate for the short-term portfolio and the Merrill Lynch one-to three-year Government/Corporate Index for the long-term portfolio.

The City's investment alternatives are specified in California Government Code Sections 53600 et seq. Within this framework, the Investment Policy specifies authorized investments, subject to certain limitations.

According to the City Treasurer's Monthly Report for the quarter ending June 30, 2008, the City's invested funds market value totaled approximately \$1.8 billion. The investment portfolio includes a variety of fixed income securities that vary in maturity from one day to five years. These securities include U.S. Treasury Notes, U.S. Agency Notes, Medium-Term Corporate Notes, and other fixed income instruments. On June 30, 2008, approximately 71.28% of the total City Portfolio was invested in U.S. Treasury and Agency Notes, 4.95% in Medium-Term Notes, 12.43% in Commercial Paper and the remaining 11.34% in the State of California Local Agency Investment Pool (LAIF) and cash.

A summary of the City Treasurer's Quarterly Report for the quarter ending June 30, 2008, is set forth below:

Invested Market Balance	\$1,807,683,813
Portfolio Market Yield	3.38%
Average Portfolio Maturity in Days	653 days
Average Portfolio Maturity in Years	1.79 years

Source: City of Long Beach – Department of Financial Management – Fiscal Year 2007

In October 2000, Standard & Poor's Ratings Services issued and presently maintains, a credit quality rating on the City's investment portfolio of "AAA" and a volatility rating of "S1." Any explanation of the significance of such a rating may be obtained from Standard & Poor's Ratings Services.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

### Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and

bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

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

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) 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 school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The City is unable to predict the nature or magnitude of future revenue sources that may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

### **Article XIII B**

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

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges and user fees to the extent such proceeds exceed the cost of providing the service or regulation; (b) the investment of tax revenues; and (c) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and

adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City's option, either (a) the percentage change in California per capita personal income, or (b) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

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

### **Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges. The City is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the City's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the City's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. However, the City does not presently believe that the potential impact on the financial condition of the City as a result of the provisions of Proposition 218 will adversely affect the City's ability to make principal and premium, if any, and interest payments on the Notes and perform its other obligations payable from the General Fund as and when due.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax that the City imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election held within two years of November 5, 1996. These voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues through General Fund taxes, 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 requirements.

Article XIII C also expressly extends to voters the power to reduce or repeal local taxes, assessments, fees and charges through the initiative process, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

The initiative powers extended to voters under Article XIII C likely excludes actions construed as impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk

of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City’s General Fund. Further, “fees” and “charges” are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges. The City is unable to predict whether the courts will ultimately interpret the initiative provision to be limited to property related local taxes, assessments, fees and charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the City’s General Fund. The City believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the City, including its General Fund, would be materially adversely affected.

Article XIII D of Proposition 218 adds several new requirements to make it more difficult for local agencies to levy and maintain “assessments” for municipal services and programs. “Assessment” is defined in Proposition 218 and SB 919 as any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in City service areas and in special districts.

Article XIII D also adds several provisions, including notice requirements and restrictions on use, affecting “fees” and “charges” which are defined as “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” The annual amount of revenues that are received by the City and deposited into its General Fund which may be considered to be property related fees and charges under Article XIII D of Proposition 218 is not substantial. Accordingly, presently the City does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the City to pay the principal and premium, if any, of and interest on the Notes as and when due. However, no assurance can be given that the City may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the California Legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the City.

## **Proposition 62**

Proposition 62 was adopted by the voters at the November 4, 1986 general election and (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax; (c) restricts the use of revenues from a special tax to



the purposes or for the service for which the special tax was imposed; (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution; (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara City Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of 1% was a special tax that, under Section 53722 of the California Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, the special tax was found to be invalid.

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

### **Proposition 1A**

Proposition 1A, proposed by the California Legislature in connection with the 2004-2005 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the California Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-2009, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the VLF rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. The City presently anticipates that the operation of Proposition 1A will not adversely affect the ability of the City to pay the principal, premium, if any, and interest on the Notes or any of its other obligations as and when due.

## **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. The limitations imposed upon the City by these provisions hinder the City's ability to raise revenues through taxes or otherwise and may therefore prevent the City from meeting increased expenditure requirements. The City expects that other initiative measures will be adopted, some of which may place further limitations on the ability of the State, the City or local districts to increase revenues or to spend money or which could have other financially adverse effects such as requiring the City to undertake new responsibilities. Such other initiatives could have a material adverse effect on the City's financial condition.

## **State of California Financial Condition**

The State's fiscal condition is improving due largely to continued stronger than expected growth in general fund revenues. The City receives approximately 20% of its general fund revenues from the State (including funds provided by the State for specific State and federal programs). The financial condition of the State has an impact on the level of these revenues. There can be no assurances that the State's efforts to balance the State general fund will not materially adversely affect the financial condition of the City.

*Recent State Budgets.* Certain information about the State budgeting process and the State Budget is available through several State sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the City or the Remarketing Agents and is not incorporated herein by reference.

The California State Treasurer Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Bonds-Public Finance—Bond Sales," posts various State of California Official Statements, many of which contain a summary of the current State Budget and past State Budgets.

The California State Treasurer's Office Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Bonds-Public Finance—Financial Information," posts the State's audited financial statements. In addition, the "Bonds-Public Finance—Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues.

The California Department of Finance's Internet home page at [www.dof.ca.gov](http://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 LAO's home page at [www.lao.ca.gov](http://www.lao.ca.gov).

*Governor's 2008-2009 Proposed Budget.* Governor Schwarzenegger announced his proposed Fiscal Year 2008-2009 State Budget (the "Proposed 2008-2009 Budget") on January 10, 2008. The Proposed 2008-2009 Budget estimates an operating deficit of approximately \$14.5 billion in Fiscal Year 2008-2009 and includes 10% across-the board reductions to all State General Fund departments and programs, Boards, Commissions and elected offices, including the legislative and judicial branches, except where such a reduction conflicts with the State Constitution (e.g., reductions in debt service payments and contributions to public retirement systems) or is impractical (e.g., reductions in departments that generate significant revenue such as the Franchise Tax Board).

The Proposed 2008-2009 Budget introduces numerous statutory changes to reduce current and future spending, including certain reductions which are to take effect by March 1, 2008. In order to meet this timeline and to avoid a predicted Fiscal Year 2007-2008 \$3.3 billion budget deficit, the Governor, under Proposition 58, the California Balanced Budget Act, declared a fiscal emergency and called a special session of the Legislature in which the Legislature has 45 days to act on the Proposed 2008-2009 Budget or will be precluded from either acting on other legislation or adjourning.

The deterioration from budget year 2007-2008 is also projected to result in a cash shortage in March, July and August of 2008. The cash management solutions included in the Proposed 2008-2009 Budget includes the sale of approximately \$3.313 billion in Economic Recovery Bonds ("ERBs") as well as postponing the prepayment of certain outstanding ERBs originally scheduled for 2008-2009.

***May Revision to Proposed 2008-2009 Budget.*** The May Revision to Governor Schwarzenegger's Proposed 2008-2009 Budget (the "May Revision"), released on May 14, 2008, presents a projected State budget deficit that has grown to \$24.3 billion, up from the \$14.5 billion deficit projected in January, 2008. The May Revision proposes a combination of spending reductions and revenue solutions, as well as providing a reserve of \$2 billion. It proposes \$12.6 billion in expenditure reductions across State government. While it retains the vast majority of 10 percent across-the-board reductions proposed in January, the May Revision makes some significant adjustments to address the larger deficit.

The Governor has proposed a constitutional amendment, the Budget Stabilization Act ("BSA"), to: (1) prevent the spending of temporary revenue increases for ongoing programs and (2) create mechanisms to avoid future budget crises. It calls for the creation of the Revenue Stabilization Fund ("RSF") where revenues above a reasonable, long-term average rate of growth will be deposited, and available only for transfers to the General Fund to bring revenues up to the long-term average in years with below-average revenue growth, such as 2008-2009. The May Revision proposes to capitalize the RSF in 2008-2009 and thus provide \$5.1 billion to the General Fund. The May Revision proposes to securitize future revenues of the State lottery to fund the RSF, through the issuance of bonds, similar to the Tobacco Securitization Act, which authorized the issuance of bonds against future tobacco settlement revenues. It is anticipated that the proposed lottery bonds will yield \$5.1 billion in revenue for the State Budget in 2008-2009 and a total of \$15 billion by 2010-2011, after providing education the \$1.2 billion in annual funding that it currently receives.

The May Revision projects General Fund revenues to be \$101.190 billion in Fiscal Year 2007-2008 and \$102.987 billion in Fiscal Year 2008-2009. This represents a decrease of \$40 million in 2007-08 and an increase of \$83 million in 2008-2009 compared to the Governor's Proposed 2008-2009 Budget, and includes \$11.7 billion in revenues solutions proposed to close the budget gap: \$3.3 billion in 2007-2008 from the sale of authorized Economic Recovery Bonds, \$1.9 billion from a change in accrual accounting, \$5.1 billion of lottery proceeds in 2008-09 from the proposed fund transfer from the RSF to the General Fund and \$1.4 billion in other initiatives. In the absence of these revenue solutions, 2007-2008 revenues would be \$97.7 billion and 2008-09 revenues would be \$94.8 billion. Accordingly, revenues would grow by 2.4 percent in 2007-2008 and decline by 3.0 percent in 2008-2009.

The full text of the Proposed 2008-2009 Budget and the May Revision may be found at the internet website of the California Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget", and the Legislative Analyst's Office ("LAO") overview and analysis of the Proposed 2008-2009 Budget and the May Revision may be found at [www.lao.ca.gov](http://www.lao.ca.gov). No information from these websites is incorporated into this Official Statement. The LAO provides fiscal and policy information and advice to the Legislature.

## TAX MATTERS

### General

In the opinion of Kutak Rock LLP, Note Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the City with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Notes. Failure to comply with such requirements could cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The City has covenanted to comply with such requirements. Note Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Notes. Note Counsel is further of the opinion that under existing statutes, regulations, rulings and judicial decisions, interest on the Notes is exempt from all present State of California personal income taxes.

Notwithstanding Note Counsel's opinion that interest on the Notes is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The amount treated as interest on the Notes and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Service Notice 94-84, 1994-2 C.B. 559. Notice 94-84 states that the Internal Revenue Service (the "Service") is studying whether the amount of the payment at maturity excluded from gross income for federal income tax purposes for debt obligations such as the Notes that are sold with an original issue premium is either (i) the stated interest payable at maturity or (ii) the difference between the issue price of the Notes and the aggregate amount to be paid at maturity of the Notes (the "original issue discount"). For this purpose, the issue price of the Notes is the first price at which a substantial amount of the Notes is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the Service provides further guidance, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt debt obligations with a term that is not more than one year from the date of issue in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of Notes if the taxpayer elects original discount treatment.

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

## **Backup Withholding**

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Notes is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Notes from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

## **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or could adversely affect the market value of the Notes. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to Notes issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Notes. It cannot be predicted whether any such regulator action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Notes or the market value thereof would be impacted thereby. Purchasers of the Notes should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Note Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Notes and Note Counsel expresses no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

## **Original Issue Premium**

The Notes are being sold at a premium. An amount equal to the excess of the issue price of a Note over its stated redemption price at maturity constitutes premium on such Note. An initial purchaser of a Note must amortize any premium over such Note's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Note is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Note prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Notes should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Note.

## **LITIGATION**

No litigation is pending or, to the best of the knowledge of the City, threatened, concerning the validity of the Notes, and a Certificate of the City Attorney to that effect will be furnished to the initial purchasers at the time of the original delivery to the Notes. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to levy and collect ad valorem taxes or to collect or receive revenues sufficient to timely pay pledged revenues as required by the terms of the Notes or contesting the City's ability to issue and retire the Notes.

There are a number of lawsuits and claims pending against the City, but should any suit against the City result in a judgment adverse to the City during Fiscal Year 2008-2009, the City would pay such claim or judgment from funds that have been appropriated for that purpose. The aggregate amount of the uninsured liabilities of the City which may result from such suits and claims will not, in the opinion of the City Attorney, materially affect the City's finances so as to impair its ability to repay the Notes.

### **Legality for Investment**

Under provisions of the California Financial Code, the Notes are legal investments for commercial banks in California to the extent that the Notes, in the informed opinion of the bank, are prudent for the investment of funds of its depositors, and are eligible to secure deposits of public moneys in California under provisions of the California Government Code.

### **UNDERWRITING**

The Notes are being purchased for reoffering by [UNDERWRITER] (the "Underwriter"). The Underwriter has agreed to purchase the Notes at a price of \$\_\_\_\_\_ (being the principal amount of the Notes plus a premium of \$\_\_\_\_\_, less \$\_\_\_\_\_ in underwriter's discount and costs of issuance). The Contract of Purchase provides that the Underwriter will purchase all of the Notes, if any are purchased. Furthermore, the obligation to make such purchase is subject to certain terms and conditions set forth in the Contract of Purchase and certain other conditions.

The Underwriter may offer and sell the Notes to certain dealers and others at a price lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

### **CONTINUING DISCLOSURE**

The City will undertake responsibility for any continuing disclosure to owners of the Notes as described below.

The City will execute a Confirming Disclosure Certificate, to be dated the date of delivery of the Notes (the "Continuing Disclosure Certificate"), which provides for, certain disclosure obligations as part of the City. Under the Continuing Disclosure Certificate, the City will covenant for the benefit of Owners and Beneficial Owners of the Notes to provide notices of the occurrence of certain enumerated events (the "Listed Events"), if material. The notices of material events will be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any then existing State Repository for the State of California. Currently, there is no State Repository for the State of California. This covenant will be made in order to assist the Underwriter of the Notes in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The City has not failed to comply with any prior such undertaking under the Rule. See "APPENDIX C—PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE."

### **RATINGS**

Moody's Investors Service Inc., Standard and Poor's Rating Services, a division of the McGraw Hill Companies Inc. and Fitch Inc., are expected to assign ratings of "MIG-1," "SP-1+" and "F1+," respectively, to the Notes. Such ratings reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from each rating agency. Further, there is no assurance that any of the ratings will be retained for any given period of time or that any of the ratings will not be revised or withdrawn entirely by such rating agencies if, in its judgment, circumstances

so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the trading value and the market price of the Notes.

### **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc., Los Angeles, California, as Financial Advisor in connection with the authorization and delivery of the Notes. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees of the Financial Advisor are contingent upon the sale, issuance and delivery of the Notes.

Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

### **FINANCIAL STATEMENTS**

The financial statements of the City for the Fiscal Year ended September 30, 2007 and the accompanying Notes to the Financial Statements, the Management's Discussion and Analysis and certain supplementary information, and the Report of KPMG LLP, independent accountant, dated June 25, 2008 (collectively, the "2007 Financial Statements") are included as Appendix A to this Official Statement. The 2007 Financial Statements have been audited by KPMG LLP, as stated in their report dated June 25, 2008.

The 2007 Financial Statements have been extracted from the City's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2007 (the "2007 CAFR"). The complete 2007 CAFR has not been included in this Official Statement. Certain page references contained in the 2007 Financial Statements, included in Appendix A, are references to pages as they appear in the complete version of the 2007 CAFR. Potential investors should not rely upon such page references. Potential investors may request a complete copy of the 2007 CAFR from the City at the office of the City Treasurer, City of Long Beach, 6<sup>th</sup> Floor, City Hall, 333 West Ocean Boulevard, Long Beach, California 90802.

### **MISCELLANEOUS**

The execution of this Official Statement has been authorized by the City.

At the time of delivery and payment for the Notes, the City Manager or his designee, will deliver a certificate that, to the best of his knowledge, this Official Statement does not contain any untrue statement of a material fact or omit to state any material fact required to be stated herein or necessary to make the statements herein, in light of the circumstances under which they have been made, not misleading. Such certificate will also certify that, to the best of his knowledge, from the date of this Official Statement to the date of such delivery and payment, there was no material adverse change in the information set forth herein.

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Additional information may be obtained from the City by contracting the City Treasurer, City of Long Beach, 6<sup>th</sup> Floor, City Hall, 333 West Ocean Boulevard, Long Beach, California 90802. The City maintains a website at [www.longbeach.gov](http://www.longbeach.gov). Information on such website is not part of this Official Statement nor has such information been incorporated by reference herein and should not be relied upon in deciding whether to invest in the Notes.

CITY OF LONG BEACH

By: \_\_\_\_\_  
Patrick H. West, City Manager



**APPENDIX A**

**CITY OF LONG BEACH GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDING SEPTEMBER 30, 2007**

**APPENDIX B**

**PROPOSED FORM OF OPINION OF NOTE COUNSEL**

\_\_\_\_\_, 2008

City of Long Beach  
Long Beach, California

\$ \_\_\_\_\_  
CITY OF LONG BEACH, CALIFORNIA  
2008-2009 Tax and Revenue Anticipation Notes

Ladies and Gentlemen:

We have acted as Note Counsel in connection with the authorization and issuance by the City of Long Beach, California (the "Issuer") of its aggregate principal amount of \$ \_\_\_\_\_ City of Long Beach, California 2008-2009 Tax and Revenue Anticipation Notes, dated October 6, 2008 (the "Notes"), pursuant to the resolution of the Issuer adopted September 9, 2008 (the "Resolution"), and the constitution and laws of the State of California (the "State"), including Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (the "Government Code"). We have examined the constitution and the laws of the State, including the Government Code, and such certified proceedings and other papers as we deemed necessary to render this opinion.

The Notes bear interest at a rate of \_\_\_% per annum and are issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple thereof and are numbered from R-1 consecutively upward in the order of their issuance, and 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").

The Notes are dated the date of their delivery and will mature, without option of prior redemption, on September 30, 2009. Interest and principal on the Notes are payable at the maturity of the Notes in lawful moneys of the United State of America upon presentation and surrender at the office of The Bank of New York Mellon Trust Company, N.A., as paying agent.

We have reviewed the record of proceedings submitted to us relative to the Notes including the Resolution, certifications and opinions of counsel to the Issuer and others, and such other records, documents and matters as we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the representations of the Issuer contained in the Resolution and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination as set forth above, it is our opinion that:

1. The Notes have been duly authorized, executed and delivered by the Issuer and constitute valid and legally binding special obligations of the Issuer, payable solely from and secured by a pledge of

the Pledged Revenues (as that term is defined in the Resolution) of the Issuer. Pursuant to Section 53857 of the California Government Code, the Notes are general obligations of the Issuer and, to the extent the Notes are not paid from the Pledged Revenues, the Notes are payable from any other moneys of the Issuer lawfully available therefore. The Notes do not constitute a debt, liability or general obligation of the State or any political subdivision of the State other than the Issuer.

2. The Resolution has been duly adopted by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable upon the Issuer.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Notwithstanding the preceding sentence, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

4. The opinion set forth above in paragraph 3 with respect to the exclusion from gross income for federal income tax purposes assumes the accuracy of certain representations and compliance by the Issuer with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Notes. Failure to comply with such requirements could cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The Issuer has covenanted to comply with such requirements. Note Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Notes.

5. Under existing statutes, regulations, rulings and judicial decisions, interest on the Notes is exempt from all present State of California personal income taxes.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or events occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and we have assumed the accuracy of the factual matters represented, warranted or certified in the documents. In addition, we call your attention to the fact that the foregoing obligations of the Issuer under the Notes and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting creditors' rights generally. In addition, the enforceability of the Notes and the Resolution is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the possible unavailability of specific enforcement or injunctive relief, regardless of whether considered in a proceeding in equity or at law. We express no opinion regarding the availability of equitable remedies.

This opinion letter is issued to and for the sole benefit of the above addressee and is issued for the sole purpose of the transaction specifically referred to herein. No persons other than the above addressee may rely upon this letter without our express prior written consent. This letter may not be utilized by you for any other purpose whatsoever and may not be quoted by you without our express prior written consent except that a copy of this opinion may be attached to the Official Statement for the Notes and included in the transcript of proceedings for the Notes. We assume no obligation to review or supplement this letter subsequent to its date, whether by reason of a change in the current laws, by legislative or regulatory action, by judicial decision or for any other reason.

Very truly yours,

**KUTAK ROCK LLP**

## APPENDIX C

### PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is entered into by the City of Long Beach, California (the "City") in connection with the issuance by the City of Long Beach of its \$\_\_\_\_\_ aggregate principal amount of City of Long Beach, California, 2008-2009 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a Resolution adopted by the City Council of the City on September 9, 2008 (the "Resolution"). The City covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Notes and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

*"Dissemination Agent"* shall mean the City, or any successor Dissemination Agent designated in writing by the City.

*"Listed Events"* shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

*"National Repository"* shall mean any Nationally Recognized Municipal Securities Information Repository under the Rule.

*"Participating Underwriter"* shall mean any of the original underwriters of the Notes required to comply with the Rule in connection with the offering of the Notes.

*"Repository"* shall mean each State Repository, if any, and National Repository.

*"Rule"* shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

*"State Repository"* shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

#### **Section 3. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 3, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

(i) principal and interest payment delinquencies or delinquencies in any scheduled deposit into a Repayment Account;

- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) adverse tax opinions or events affecting the tax-exempt status of the Notes;
- (vi) modifications to rights of Noteholders;
- (vii) contingent or unscheduled Note calls;
- (viii) defeasances;
- (ix) release, substitution or sale of property securing repayment of the Notes;
- (x) rating changes;
- (xi) substitution of credit or liquidity providers, or their failure to perform;

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in clauses (a)(viii) and (ix) need not be given under this paragraph any earlier than the notice, if any, of the underlying event is given to holders of affected Notes pursuant to the Resolution.

**Section 4. 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 Notes. If such termination occurs prior to the maturity of the Notes, the City shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

**Section 5. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the City.

**Section 6. 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 Section 3(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 Notes, 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 Notes, 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 Notes; or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Notes.

**Section 7. 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 notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

**Section 8. Default.** In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Notes 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; provided that any such action may be instituted only in the Superior Court of the State of California in the County of Los Angeles or in a U.S. District Court in or nearest to the City of Long Beach. A default under this Disclosure Certificate shall not be deemed a default under the Resolution 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 9. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the 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 obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

**Section 10. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

**Section 11. Filing With Central Post Office.** Any filing under this Certificate may alternatively be made by transmitting such filing to the Texas Municipal Advisory Council as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the Texas Municipal Advisory Council dated September 7, 2004.

Dated as of September \_\_\_, 2008.

CITY OF LONG BEACH, CALIFORNIA

By \_\_\_\_\_  
Patrick H. West, City Manager



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**PAYING AGENT/REGISTRAR AGREEMENT**

by and between

**CITY OF LONG BEACH, CALIFORNIA,**  
as Issuer

and

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**  
Paying Agent and Registrar

Dated as of October 1, 2008

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## PAYING AGENT/REGISTRAR AGREEMENT

**THIS PAYING AGENT/REGISTRAR AGREEMENT** (this “Agreement”), is entered into as of October 1, 2008, by and between the **CITY OF LONG BEACH, CALIFORNIA** (the “Issuer”), and **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.** (“Bank”), as paying agent and registrar.

### WITNESSETH:

WHEREAS, the Issuer has duly authorized and provided for the issuance of its Notes, entitled the “City of Long Beach, California 2008-2009 Tax and Revenue Anticipation Notes” (the “Notes”) in an aggregate principal amount of \$[AMOUNT] to be issued as fully registered Notes without coupons; and

WHEREAS, the Issuer will ensure all things necessary to make the Notes the valid obligations of the Issuer, in accordance with their terms, will be done upon the issuance and delivery thereof; and

WHEREAS, the Issuer and the Bank wish to provide the terms under which the Bank will act as paying agent to hold and pay the principal of and interest on the Notes, in accordance with the terms thereof, and under which the Bank will act as registrar for the Notes; and

WHEREAS, the Bank has agreed to serve in such capacities for and on behalf of the Issuer and has full power and authority to perform and serve as paying agent and registrar for the Notes; and

WHEREAS, the Issuer has duly authorized the execution and delivery of this Agreement, and all things necessary to make this Agreement a valid agreement have been done;

NOW, THEREFORE, it is mutually agreed as follows:

### ARTICLE I

#### DEFINITIONS

For all purposes of this Agreement except as otherwise expressly provided or unless the context otherwise requires:

“*Bank*” means The Bank of New York Mellon Trust Company, N.A., a national banking association, or any successor thereto, when it is performing the function of paying agent or registrar for the Notes.

“*Fiscal Year*” means the fiscal year of the Issuer ending on September 30 of each year.

“*Issuer*” means the City of Long Beach, California.

“*Issuer Request*” means a written request signed in the name of the Issuer and delivered to the Bank.

“*Note*” or “*Notes*” means any one or all of the \$[AMOUNT] in aggregate principal amount of Notes entitled “City of Long Beach, California 2008-2009 Tax and Revenue Anticipation Notes.”

“*Note Register*” means the book or books of registration kept by the Bank, as registrar, in which are maintained the names and addresses and principal amounts registered to each Registered Owner.

“*Note Resolution*” means the Resolution of the Issuer pursuant to which the Notes were issued.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government or any entity whatsoever.

“*Registered Owner*” means a Person in whose name a Note is registered in the Note Register.

“*S&P*” means Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies.

“*Stated Maturity*,” when used with respect to any Note, means September 30, 2009, as the date on which the principal of and accrued interest on such Note is due and payable.

## ARTICLE II

### APPOINTMENT OF PAYING AGENT AS PAYING AGENT AND REGISTRAR

**Section 2.01. Appointment and Acceptance.** The Issuer hereby appoints the Bank to act as paying agent with respect to the Notes, to pay the Registered Owners in accordance with the terms and provisions of this Agreement and the Note Resolution, the principal of and interest on all or any of the Notes.

The Issuer hereby appoints the Bank as registrar with respect to the Notes. As registrar, the Bank shall keep and maintain for and on behalf of the Issuer, books and records as to the ownership of the Notes and with respect to the transfer and exchange thereof as provided herein and in the Note Resolution.

The Bank hereby accepts its appointment, and agrees to act as paying agent and registrar.

**Section 2.02. Compensation.** As compensation for the Bank’s services as paying agent and registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in a separate agreement between the Issuer and the Bank.

In addition, the Issuer agrees to reimburse the Bank, upon its request, for all reasonable and necessary out-of-pocket expenses, disbursements and advances, including without limitation by the Bank in connection with entering into and performing under this Agreement and in connection with investigating and defending itself against any claim or liability in connection with its performance hereunder.

### **ARTICLE III**

#### **PAYING AGENT**

**Section 3.01. Duties of Paying Agent.** As paying agent, the Bank, provided sufficient collected funds have been provided to the Bank for the purposes described herein, by or on behalf of the Issuer, shall pay on behalf of the Issuer, the principal of and interest on each Note in accordance with the provisions of the Note Resolution.

**Section 3.02. Payment Dates.** The Issuer hereby instructs the Bank to pay the principal of and interest on the Notes on the dates specified in the Note Resolution.

### **ARTICLE IV**

#### **REGISTRAR**

**Section 4.01. Initial Delivery of Notes.** The Notes will be initially registered and delivered to the purchaser designated by the Issuer as one Note for each maturity. If such purchaser delivers a written request to the Bank not later than five business days prior to the date of initial delivery, the Bank will, on the date of initial delivery, deliver Notes of authorized denominations, registered in accordance with the instructions in such written request.

**Section 4.02. Duties of Registrar.** The Bank, as registrar, shall provide for the proper registration of transfer, exchange and replacement of the Notes.

Every Note surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an eligible guarantor institution, in form acceptable to the Bank, duly executed by the Registered Owner thereof or his attorney duly authorized in writing. The Registrar may request any supporting documentation it deems necessary or appropriate to effect a re-registration. The Bank may require repayment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Notes.

**Section 4.03. Unauthenticated Notes.** If the Notes are not registered with The Depository Trust Company as the Owner thereof, the Issuer shall provide to the Bank on a continuing basis, an adequate inventory of unauthenticated Notes to facilitate transfers. The Bank agrees that it will maintain any such unauthenticated Notes in safekeeping.

**Section 4.04. Form of Note Register.** The Bank, as registrar, will maintain its records as Note Registrar in accordance with the Bank's general practices and procedures in effect from time to time.

**Section 4.05. Reports.** The Issuer may request the information in the Note Register at any time the Bank is customarily open for business; provided that reasonable time is allowed the Bank to provide an up-to-date listing and to convert the information into written form.

The Bank will not release or disclose the content of the Note Register to any person other than to the Issuer at its written request, except upon receipt of a subpoena or court order or as may otherwise be required by law. Upon receipt of a subpoena or court order the Bank will notify the Issuer.

**Section 4.06. Cancelled Notes.** All Notes surrendered for payment, redemption, transfer, exchange or replacement, if surrendered to the Bank, shall be promptly cancelled by it and, if surrendered to the Issuer, shall be delivered to the Bank and, if not already cancelled, shall be promptly cancelled by the Bank. The Issuer may at any time deliver to the Bank for cancellation any Notes previously authenticated and delivered which the Issuer may be acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Bank. All cancelled Notes held by the Bank for its retention period then in effect and shall thereafter be destroyed and evidence of such destruction furnished to the Issuer upon its written request.

**Section 4.07. General Obligation.** The Bank and the Issuer hereby agree that notwithstanding that the Bank shall serve as the paying agent for the Notes, the Notes shall remain a general obligation of the Issuer payable from certain revenues attributable to the Issuer's 2008-2009 Fiscal Year. Although certain funds will be held by the Bank, as paying agent (but only to the extent described in Section 3.01 of this Agreement), investment losses while such funds are held by the Bank as paying agent shall be borne by the Issuer, so that the obligation to repay the Notes remains a general obligation of the Issuer until the maturity date of the Notes, and the transfer of funds and/or securities to the Bank as paying agent does not extinguish the Issuer's obligation to repay the Notes.

**Section 4.08. Mutilated, Destroyed, Lost and Stolen Notes.** If any mutilated Note is surrendered to the Bank, or the Bank receives evidence to its satisfaction of the destruction, loss or theft of any Note, and there is delivered to the Issuer and the Bank such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Issuer or the Bank that any such destroyed, lost or stolen Note has been acquired by a bona fide purchaser, the Issuer shall execute and, upon the Issuer's written request, the Bank shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note (upon surrender of such Note), a new Note of the same maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

Upon the issuance of any new Note under this Section, the Issuer or the Bank may require the payment of a sum sufficient to cover any tax or other governmental charge.

## ARTICLE V

### DUTIES AND RIGHTS OF PAYING AGENT

**Section 5.01. Duties of Paying Agent.** The Bank, as paying agent, undertakes to perform the duties set forth herein. No implied duties or obligations shall be read into this



Agreement against the Bank. The Bank hereby agrees to use the funds deposited with it for payment of the principal of and interest on the Notes to pay the same as it shall become due and further agrees to establish and maintain such accounts and funds as may be required for the Bank to function as paying agent.

**Section 5.02. Reliance on Documents, Etc.**

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions expressed therein, on certificates or opinions furnished to the Bank by the Issuer.

(b) The Bank shall not be liable for any error of judgment made in good faith. The Bank shall not be liable for other than its gross negligence or willful misconduct in connection with any act or omission hereunder.

(c) No provision of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the existence of any of its rights or powers.

(d) The Bank may rely, or be protected in acting or refraining from acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Bank need not examine the ownership or any Note, but shall be protected in acting upon receipt of Notes contained an endorsement or instruction of transfer of power of transfer which appears on its face to be signed by the Registered Owner or agent of the Registered Owner.

(e) The Bank may consult with counsel, and the written advice or opinion of counsel shall be authorization and protection with respect to any action taken, suffered or omitted by it hereunder in good faith and reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys and shall not be liable for the actions of such agent or attorney if appointed by it with reasonable care.

(g) The Bank shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Bank and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

(h) The Bank agrees to accept and act upon instructions or directions pursuant to this agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that (a) the Issuer, subsequent to such transmission of written instructions, shall provide the originally executed instructions or directions to the Bank in a timely manner, (b) such originally executed instructions or

directions shall be signed by a person as may be designated and authorized to sign for the Issuer or in the name of the Issuer, by an authorized representative of the Issuer, and (c) the Issuer shall provide to the Bank an incumbency certificate listing such designated person, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Issuer elects to give the Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Bank in its discretion elects to act upon such instructions, the Bank's understanding of such instructions shall be deemed controlling. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bank, including without limitation the risk of the Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(i) The Issuer acknowledges that regulations of the Comptroller of the Currency grant the Issuer the right to receive brokerage confirmations of the security transactions as they occur, at no additional cost. To the extent permitted by law, the Issuer specifically waives compliance with 12 C.F.R. 12 and hereby notifies the Bank that no brokerage confirmations need to be sent relating to the security transactions as they occur. The Bank shall have no obligation to invest and reinvest any cash held by it hereunder in the absence of timely and specific written direction from the Issuer. In no event shall the Bank be liable for the selection of investments or for investment losses incurred thereon. The Bank shall have no liability in respect of losses incurred as result of the liquidation of any investment prior to its stated maturity or the failure of the Issuer to provide timely written investment direction. The Bank may purchase or sell to itself or any affiliate, as principal or agent, investment authorized by this Agreement. The Bank may conclusively rely upon such written direction from the Issuer as to both the suitability and legality of the directed investments.

**Section 5.03. Recitals of Issuer.** The recitals contained in the Resolution and the Notes shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

**Section 5.04. May Own Notes.** The Bank, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not the paying agent and registrar for the Notes.

**Section 5.05. Money Held by Bank.** Money held by the Bank, as paying agent, hereunder need not be segregated from other funds. The Bank shall have no duties with respect to the investment of funds deposited with it and shall be under no obligation to pay interest on any money received by it hereunder.

Any money deposited with or otherwise held by the Bank for the payment of the principal or interest on any Note and remaining unclaimed for two years after such deposit will be paid by the Bank to the Issuer, and the Issuer and the Bank agree that the Registered Owner of

such Note shall thereafter look only to the Issuer for payment thereof, and that all liability of the Bank with respect to such moneys shall thereupon cease.

**Section 5.06. Other Transactions.** The Bank may engage in or be interested in any financial or other transaction with the Issuer.

**Section 5.07. Interpleader.** The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand or controversy over its person as well as funds on deposit, in a court of competent jurisdiction. The Issuer and the Bank further agree that the Bank has the right to file an action in interpleader in any court of competent jurisdiction to determine the rights of any person claiming any interest herein.

**Section 5.08. Indemnification.** To the extent permitted by law, the Issuer shall indemnify the Bank, its officers, directors, employees and agents (“Indemnified Parties”) for, and hold them harmless against any loss, cost, claim, liability or expense arising out of or in connection with the Bank’s acceptance or administration of the Bank’s duties hereunder or under the Resolution (except any loss, liability or expense as may be adjudged by a court of competent jurisdiction to be attributable to the Bank’s gross negligence or willful misconduct), including the cost and expense, including its counsel fees, of defending powers or duties under this Agreement. Such indemnity shall survive the termination or discharge of this Agreement or discharge of the Notes.

## ARTICLE VI

### MISCELLANEOUS PROVISIONS

**Section 6.01. Amendment.** This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

**Section 6.02. Assignment.** This Agreement may not be assigned by either party without the prior written consent of the other party.

**Section 6.03. Notices.** Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the address shown herein, or such other address as may have been given by one party to the other by 15 days’ written notice.

**Section 6.04. Effect of Headings.** The Article and Section headings herein are for convenience of reference only and shall not affect the construction hereof.

**Section 6.05. Successors and Assigns.** All covenants and agreements herein by the Issuer and the Bank shall bind their successors and assigns, whether so expressed or not.

**Section 6.06. Severability.** If any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

**Section 6.07. Benefits of Agreement.** Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy or claim hereunder.

**Section 6.08. Entire Agreement.** This Agreement and the Note Resolution (to the extent that its provisions are specifically referenced herein) constitute the entire agreement between the parties hereto relative to the Bank acting as paying agent and registrar.

**Section 6.09. Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

**Section 6.10. Term and Termination.** This Agreement shall be effective from and after its date and until the Bank resigns or is removed in accordance with the Resolution; provided, however, that no such termination shall be effective until a successor has been appointed and has accepted the duties of the Bank hereunder. The Bank may resign at any time by giving written notice thereof to the Issuer. If the Bank shall resign, be removed or become incapable of acting, the Issuer shall promptly appoint a successor paying agent or registrar. If an instrument of acceptance by a successor paying agent and registrar shall not have been delivered to the Bank within 30 days after the Bank gives notice of resignation, the Bank may petition any court of competent jurisdiction at the expense of the Issuer for the appointment of a successor paying agent and registrar. In the event of resignation or removal of the Bank as paying agent and registrar, upon the written request of the Issuer and upon payment of all amounts owing the Bank hereunder the Bank shall deliver to the Issuer or its designee all funds and unauthenticated Notes, and a copy of the Note Register. The provisions of Sections 2.02 and 5.08 hereof shall survive and remain in full force and effect following the termination of this Agreement.

**Section 6.11. Governing Law.** This Agreement shall be construed in accordance with and shall be governed by the laws of the State of California.

**Section 6.12. Documents To Be Filed With Bank.** At the time of the Bank's appointment as paying agent and registrar, the Issuer shall file with the Bank the following documents: (a) a certified copy of the Resolution and a specimen Note; (b) a copy of the opinion of Note counsel provided to the Issuer in connection with the issuance of the Notes; and (c) an Issuer Request containing written instructions to the Bank with respect to the issuance and delivery of the Notes, including the name of the Registered Owners and the denominations of the Notes.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

CITY OF LONG BEACH

By \_\_\_\_\_  
David S. Nakamoto, Treasurer

Address: City of Long Beach  
City Hall  
333 West Ocean Boulevard  
Long Beach, CA 90802-4664

Approved as to Form:

By \_\_\_\_\_  
Heather Mahood, Assistant City Attorney

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Paying Agent  
and Registrar

By \_\_\_\_\_  
Aaron Masters, Assistant Treasurer

Address: The Bank of New York Mellon Trust  
Company, N.A.  
700 S. Flower Street, Suite 500  
Los Angeles, CA 90017