

New Issue-Book-Entry Only

RATINGS: Moody's "Aaa"
S&P "AAA"
(See "RATINGS" herein)

In the opinion of Lofton & Jennings, San Francisco, California, Special Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, the portion of each Lease Payment designated as and representing interest and received by Owners of the 2002 Series A Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Special Counsel, such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other federal or state tax consequences related to the ownership or disposition of, or the accrual or receipt of the interest with respect to the 2002 Series A Certificates. See "TAX MATTERS" herein.



\$16,295,000
CITY OF OAKLAND
REFUNDING CERTIFICATES OF PARTICIPATION
(Oakland Museum)
2002 Series A

Dated: Date of Delivery

Due: April 1, as shown on inside cover

This cover page contains information for quick reference only. It is not a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2002 Series A Certificates will be executed and delivered in fully registered form initially registered in the name of Cede & Co., as nominee for the Depository Trust Company, New York, New York ("DTC"). Individual purchases of 2002 Series A Certificates will be made in book-entry-only form, in denominations of \$5,000 or any integral multiple thereof. The interest portion of Lease Payments represented by the 2002 Series A Certificates is payable on April 1 and October 1 of each year, commencing October 1, 2002. Payments of principal of, premium, if any, and interest on the 2002 Series A Certificates will be made to JPMorgan Chase Bank, a New York State banking corporation, as Trustee (the "Trustee"), to Cede & Co., as nominee for DTC, as registered owner of the 2002 Series A Certificates, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the 2002 Series A Certificates, all as further described herein.

The 2002 Series A Certificates are subject to mandatory redemption prior to maturity as more fully described herein. The 2002 Series A Certificates are not subject to optional redemption.

The 2002 Series A Certificates represent undivided proportionate rights to Lease Payments by the City of Oakland, California (the "City") under the Amended and Restated Lease Agreement Relating to Museum Facilities dated as of May 15, 1992, as amended and supplemented by a First Supplement to Amended and Restated Lease Agreement Relating to Museum Facilities dated March 21, 2002 (collectively, the "Lease Agreement"), between the City, as Lessee, and the Redevelopment Agency of the City of Oakland (the "Agency"), as Lessor. The 2002 Series A Certificates are being executed and delivered under an Amended and Restated Trust Agreement Relating to Museum Facilities dated as of March 1, 2002 among the City, the Agency and the Trustee, as amended and supplemented by a First Supplement to Amended and Restated Trust Agreement Relating to the Museum Facilities dated March 21, 2002 (collectively, the "Trust Agreement").

The proceeds of the 2002 Series A Certificates will be applied to fund an escrow to refund and legally defease all \$15,900,000 of the aggregate principal amount of the outstanding Refunding Certificates of Participation (Oakland Museum) 1992 Series A maturing April 1, 2012 (the "Refunded 1992 Series A Certificates") and to pay costs of issuance. (See "PLAN OF FINANCE".) The obligations of the City under the Lease Agreement and of the Agency under the Trust Agreement do not constitute an indebtedness of the City, the Agency, the State of California or any other political subdivision thereof, or a pledge of the full faith and credit of the City, the Agency, the State of California or any other political subdivision thereof.

Payment of the principal of and interest due with respect to the 2002 Series A Certificates when due will be guaranteed by a Financial Guarantee Insurance Policy (the "Financial Guaranty Insurance Policy") to be issued simultaneously with the delivery of the 2002 Series A Certificates by Ambac Assurance Corporation. See "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND" herein.

Ambac

NEITHER THE 2002 SERIES A CERTIFICATES NOR THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS CONSTITUTES AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. NEITHER THE 2002 SERIES CERTIFICATES NOR THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR VIOLATES ANY STATUTORY DEBT LIMITATION OR CONSTITUTES A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS.

The 2002 Series A Certificates will be offered when, as and if issued, subject to the approval of validity by Lofton & Jennings, San Francisco, California, Special Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the City by John Russo, City Attorney of the City. Certain legal matters will be passed upon for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California, Underwriters' Counsel. Pryce Parker Hill, LLP, Los Angeles, California is acting as Disclosure Counsel to the City. It is expected that the 2002 Series A Certificates will be available for delivery through the DTC book-entry system in New York, New York on or about March 21, 2002.

JACKSON SECURITIES INC.

E. J. DE LA ROSA & CO., INC.

THE CHAPMAN COMPANY

Dated: March 12, 2002.

MATURITIES, INTEREST RATES AND PRICES OR YIELDS

**\$16,295,000
CITY OF OAKLAND
REFUNDING CERTIFICATES OF PARTICIPATION
(Oakland Museum)
2002 Series A**

Maturity Date (April 1)	Principal Amount	Interest Rate	Price or Yield
2008	\$2,900,000	4.00%	3.75%
2009	3,020,000	5.00	3.94
2010	1,150,000	4.25	4.09
2010	2,015,000	5.00	4.09
2011	3,315,000	5.00	4.20
2012	3,895,000	5.00	4.30

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 2002 Series A Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2002 Series A Certificates. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of the documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. 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, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the 2002 Series A Certificates other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriters. 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 2002 Series A Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriters. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the 2002 Series A Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2002 Series A Certificates to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

THE 2002 SERIES A CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2002 SERIES A CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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**CITY OF OAKLAND
MAYOR AND CITY COUNCIL**

Edmund G. Brown, Jr., *Mayor*

Ignacio De La Fuente, *President of the City Council*

Larry Reid, *Vice – Mayor*

Jane Brunner

Henry Chang, Jr.

Moses Mayne, Jr.

Nancy Nadel

Richard Spees

Danny Wan

CITY STAFF

Robert C. Bobb, *City Manager*

Dolores E. Blanchard, *Assistant City Manager*

Dr. George G. Musgrove, *Assistant City Manager*

Deborah Edgerly, *Director, Financial Services Agency*

Roland E. Smith, *City Auditor*

John Russo, *City Attorney*

Ceda Floyd, *City Clerk*

Joseph T. Yew, Jr., *Treasury Manager*

PROFESSIONAL SERVICES

Lofton & Jennings, *Special Counsel*

Public Financial Management, Inc., *Financial Advisor*

Pryce Parker Hill, LLP, *Disclosure Counsel*

JPMorgan Chase Bank, a New York State banking corporation, *Trustee and Escrow Agent*

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority for Execution and Delivery	1
General	2
Certificate Insurance.....	2
Continuing Disclosure.....	2
PLAN OF FINANCE	2
The Refunding Plan.....	2
Amendments to Trust Agreement and Lease Agreement.....	3
ESTIMATED SOURCES AND USES OF FUNDS	4
DEBT SERVICE SCHEDULE	4
THE 2002 SERIES A CERTIFICATES.....	5
Description of the 2002 Series A Certificates	5
No Optional Redemption.....	5
Mandatory Redemption From Proceeds of Insurance or Condemnation.....	5
Notice of Redemption	5
SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES	6
Nature of the Certificates	6
Lease Payments	6
Establishment and Application of Lease Payment Account.....	7
Insurance	8
Substitution or Release of the Site and Facilities	9
Additional Certificates and Additional Certificates for Refunding	9
Establishment and Application of Reserve Account	9
RISK FACTORS	10
Lease Payments Are Limited Obligation of City; Article XIIIB Appropriations Limit.....	10
Abatement Risk Due to Damage or Destruction of Facilities	10
Litigation Regarding 2% Limitation	11
Seismic Considerations	11
No Acceleration Upon Default.....	12
Risk of State Legislation	12
No Liability of Agency to the Owners of Certificates.....	12
Loss of Tax Exemption	12
Bankruptcy Risk.....	12
THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND	13
Payment Pursuant to Financial Guaranty Insurance Policy.....	13
Reserve Account-Ambac Assurance Surety Bond	14
Ambac Assurance Corporation	15
Available Information	15
Incorporation of Certain Documents by Reference	16
THE MUSEUM SITE AND FACILITIES.....	17
THE CITY AND THE AGENCY	17
The City.....	17
The Agency	18

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS	18
Article XIII A of the State Constitution	18
Article XIII B of the State Constitution	19
Unitary Property	19
Statutory Spending Limitations	20
Right to Vote on Taxes Initiative—Proposition 218	20
TAX MATTERS	22
CONTINUING DISCLOSURE.....	23
LEGAL MATTERS	24
LITIGATION	24
RATINGS.....	24
FINANCIAL ADVISOR.....	25
UNDERWRITING	25
MISCELLANEOUS.....	25
EXECUTION AND DELIVERY	25
APPENDIX A - CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND.....	A-1
APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY OF OAKLAND.....	B-1
APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.....	C-1
APPENDIX D - PROPOSED FORM OF OPINION OF SPECIAL COUNSEL.....	D-1
APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT.	E-1
APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM.....	F-1
APPENDIX G - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY.....	G-1

OFFICIAL STATEMENT

**\$16,295,000
CITY OF OAKLAND
REFUNDING CERTIFICATES OF PARTICIPATION
(Oakland Museum)
2002 Series A**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices (this "Official Statement"), is to provide certain information concerning the City of Oakland, California (the "City") and its Refunding Certificates of Participation (Oakland Museum), 2002 Series A (the "2002 Series A Certificates").

This introduction contains only a brief summary of certain of the terms of the 2002 Series A Certificates being offered and a brief description of this Official Statement. Prospective investors should read the entire Official Statement (including the Appendices). Certain risks associated with any purchase of the 2002 Series A Certificates are described herein in the section captioned "RISK FACTORS," but such description is not intended to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2002 Series A Certificates. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. The offering of the 2002 Series A Certificates to potential investors is made only by means of the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California or any other documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings given such terms in the Trust Agreement. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Selected Definitions" for definitions of certain words and terms used, but not otherwise defined, herein.

Purpose and Authority for Execution and Delivery

The 2002 Series A Certificates are being executed and delivered for the purpose of refunding and defeasing all of the \$15,900,000 Refunding Certificates of Participation (Oakland Museum) 1992 Series A maturing on April 1, 2012 (the "Refunded 1992 Series A Certificates"). The Refunding Certificates of Participation (Oakland Museum) 1992 Series A (the "1992 Series A Certificates") were originally executed and delivered in the amount of \$39,408,025. Upon the execution and delivery of the 2002 Series A Certificates, \$11,688,025 of the 1992 Series A Certificates will remain outstanding and are payable from Lease Payments on a parity with the 2002 Series A Certificates.

The 2002 Series A Certificates evidence proportionate and undivided interests of the Owners thereof in certain Lease Payments to be paid by the City under an Amended and Restated Lease Agreement Relating to Museum Facilities dated as of May 15, 1992 (the "Original Lease Agreement"), by and between the City and the Redevelopment Agency of the City of Oakland (the "Agency"), as amended and supplemented by a First Supplement to Amended and Restated Lease Agreement Relating to Museum Facilities dated March 21, 2002 (collectively, the "Lease Agreement"). The 2002 Series A Certificates are also being executed and delivered pursuant to Resolution No. 76948 adopted by the City on January 29, 2002, Ordinance No. 12398 enacted by the City on February 5, 2002 and Resolution No. 02-04 adopted by the Agency on January 29, 2002, and pursuant to the Amended and Restated Trust Agreement Relating to Museum Facilities dated as of March 1, 2002, among the City, the Agency and JPMorgan Chase Bank, a New York State banking corporation, as trustee (the "Trustee"), as amended and supplemented by the First Supplement to Amended and Restated Trust Agreement Relating to Museum Facilities dated March 21, 2002 (collectively, the "Trust Agreement").

General

The 2002 Series A Certificates are being executed and delivered principally to provide funds for the refunding and defeasance of the Refunded 1992 Series A Certificates. See "PLAN OF FINANCE" herein. The 2002 Series A Certificates have the terms, bear interest and will mature as set forth on the inside cover of this Official Statement. See also "THE 2002 SERIES A CERTIFICATES" herein. The City will make Lease Payments to the Agency pursuant to the Lease Agreement for the use and possession of the Museum Facilities (hereinafter defined), in such amounts and at such times as are sufficient to cause principal and interest on the Certificates, including the 2002 Series A Certificates, to be paid as scheduled. The Lease Payments have been assigned by the Agency to the Trustee pursuant to an Assignment Agreement dated as of May 15, 1992 and have been pledged to the Trustee by the City pursuant to the Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Lease Payments" herein.

Certificate Insurance

Payment of the principal of and interest with respect to the 2002 Series A Certificates when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2002 Series A Certificates. See "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND" herein.

Continuing Disclosure

The City, as the "obligated person" with respect to the 2002 Series A Certificates for purposes of Rule 15c2-12 of the U.S. Securities and Exchange Commission, has covenanted in the Trust Agreement to provide certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events, if material, pursuant to a Continuing Disclosure Agreement dated as of March 21, 2002 between the City and the Trustee as dissemination agent. See "CONTINUING DISCLOSURE" and APPENDIX E - "FORM OF CONTINUING DISCLOSURE AGREEMENT" herein. The specific nature of the information to be contained in the notices of material events and information as to the dissemination thereof is set forth in APPENDIX E - "FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

PLAN OF FINANCE

The Refunding Plan

Concurrently with the delivery of the 2002 Series A Certificates, a portion of the proceeds thereof will be deposited into the Escrow Fund created pursuant to the Escrow Agreement relating to the Refunded 1992 Series A Certificates and entered into between the City and JPMorgan Chase Bank, a New York State banking corporation, as Escrow Bank. The moneys deposited pursuant to the Escrow Agreement will be applied to pay the principal of the Refunded 1992 Series A Certificates, including the redemption premium and interest accrued to April 1, 2002, the date of redemption. Upon the deposit of such proceeds, the Refunded 1992 Series A Certificates will be deemed defeased and no longer outstanding for purposes of the Trust Agreement and the Lease Agreement and the holders of the Refunded 1992 Series A Certificates will be entitled to payment solely out of the moneys or securities deposited pursuant to the Escrow Agreement. The Escrow Fund established under the Escrow Agreement is being fully funded, so that amounts deposited therein, without reinvestment, will be sufficient to pay all amounts due on April 1, 2002 with respect to the Refunded 1992 Series A Certificates.

Amendments to Trust Agreement and Lease Agreement

Amendment to Permit Partial Defeasance and Other Matters. The 1992 Series A Certificates were executed and delivered pursuant to a Trust Agreement Relating to Museum Facilities dated as of May 15, 1992 (the "Original Trust Agreement") among the City, the Agency and Ameritrust Texas, N.A., the predecessor to the Trustee. Prior to the execution and delivery of the 2002 Series A Certificates, the Original Trust Agreement is being amended to expressly provide for the execution and delivery of the 2002 Series A Certificates to partially defease the 1992 Series A Certificates. In addition, the City and the Agency are making certain mechanical, non-material changes to the Trust Agreement requested by the Trustee, the successor to Ameritrust Bank, N.A.

Amendment with Consent of Certificate Owners. The Original Trust Agreement and the Original Lease Agreement both contain provisions permitting the amendment of those agreements with the consent of a majority in aggregate principal amount of the Certificates Owners. Purchasers of the 2002 Series A Certificates are, by their purchase thereof, deemed to have consented to such amendments. Because the 2002 Series A Certificates will represent greater than a majority of the Certificates Outstanding, these amendments will become effective upon execution and delivery of the 2002 Series A Certificates. The amendments permit the City to (i) execute and deliver Additional Certificates, (ii) substitute a letter of credit, line of credit or surety bond for an amount in the Reserve Account, (iii) substitute other property and improvements for the Museum Facilities, and (iv) release a portion of the Museum Facilities from the Lease Agreement. In addition, the City is changing the Lease Payment Date under the Lease Agreement from the 15th day of the month preceding each Payment Date to the 25th day of the month preceding each Payment Date and is changing the Reserve Requirement from \$3,754,993.75 to an amount equal to the maximum annual debt service for all Certificates Outstanding.

Withdrawal of Funds from Reserve Account. In connection with the execution and delivery of the 2002 Series A Certificates, the City is withdrawing all funds from the Reserve Account established under the Trust Agreement and depositing therein the Reserve Fund Surety Bond issued by Ambac Assurance Corporation. See "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND" herein.

The description of the Trust Agreement and the Lease Agreement in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" herein reflects these amendments and changes.

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ESTIMATED SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the 2002 Series A Certificates:

Sources

Principal Amount of 2002 Series A Certificates	\$16,295,000.00
Original Issue Premium.....	<u>788,018.90</u>
Total Sources of Funds	\$17,083,018.90

Uses

Deposit to Escrow Fund	\$16,536,000.00
Underwriters' Discount	74,631.10
Costs of Issuance*	<u>472,387.80</u>
Total Uses of Funds	<u>\$17,083,018.90</u>

* Includes fees for services of special counsel and disclosure counsel, rating agencies, financial advisor, the premium for the Financial Guaranty Insurance Policy and the Reserve Fund Surety Bond and other costs related to the issuance of the 2002 Series A Certificates.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service on all Certificates Outstanding following the execution and delivery of the 2002 Series A Certificates.

Period Ending <u>June 30</u>	1992 Series A <u>Certificates**</u>	<u>2002 Series A Certificates</u>		<u>Total Debt Service</u>	<u>Total Certificate Debt Service</u>
		<u>Principal</u>	<u>Interest</u>		
2002	\$2,749,480.00				\$2,749,480.00
2003	2,746,450.00		\$798,711.81	\$798,711.81	3,545,161.81
2004	2,748,750.00		777,125.00	777,125.00	3,525,875.00
2005	2,746,562.50		777,125.00	777,125.00	3,523,687.50
2006	2,750,000.00		777,125.00	777,125.00	3,527,125.00
2007	2,750,000.00		777,125.00	777,125.00	3,527,125.00
2008		\$2,900,000	777,125.00	3,677,125.00	3,677,125.00
2009		3,020,000	661,125.00	3,681,125.00	3,681,125.00
2010		3,165,000	510,125.00	3,675,125.00	3,675,125.00
2011		3,315,000	360,500.00	3,675,500.00	3,675,500.00
2012		<u>3,895,000</u>	<u>194,750.00</u>	<u>4,089,750.00</u>	<u>4,089,750.00</u>
TOTAL	<u>\$16,491,242.50</u>	<u>\$16,295,000</u>	<u>\$6,410,836.81</u>	<u>\$22,705,836.81</u>	<u>\$39,197,079.31</u>

** Does not include debt service on the Refunded 1992 Series A Certificates.

THE 2002 SERIES A CERTIFICATES

Description of the 2002 Series A Certificates

The 2002 Series A Certificates are being executed and delivered in the aggregate principal amount of \$16,295,000, evidencing proportionate interests in the Lease Payments and any prepayments thereof. The 2002 Series A Certificates will be dated the date of delivery thereof and will mature, subject to redemption in accordance with the provisions of the Trust Agreement, as set forth on the cover of this Official Statement. The 2002 Series A Certificates will be issued in denominations of \$5,000 each or any integral multiple thereof, in fully registered form, without coupons, with interest payable semiannually on each April and October, each a "Payment Date," commencing October 1, 2002, to the registered owners whose names appear on the Certificate registration books of the Trustee as of the close of business on the 15th day of the month proceeding each payment date. The Trustee will act as paying agent and registrar for the 2002 Series A Certificates.

The 2002 Series A Certificates, when issued, 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 2002 Series A Certificates. Ownership interests in the 2002 Series A Certificates may be purchased in book-entry form only. Purchasers will not receive securities certificates representing their interests in the 2002 Series A Certificates purchased. Payments of principal of and interest on the 2002 Series A Certificates will be paid by the Trustee to DTC which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2002 Series A Certificates. See APPENDIX F - "DTC AND THE BOOK-ENTRY ONLY SYSTEM" herein.

Principal will be payable on the dates and in the amounts set forth on the inside front cover hereof.

No Optional Redemption

The 2002 Series A Certificates are not subject to optional redemption.

Mandatory Redemption From Proceeds of Insurance or Condemnation

The 2002 Series A Certificates are subject to mandatory redemption in whole on any date or in part on any Payment Date, in such order of maturity as the City shall direct and by lot within a maturity premium, at the principal amount, together with accrued interest to the Payment Date fixed for redemption, from the Net Proceeds of condemnation or insurance relating to an accident to or destruction of any part of the Museum Facilities, if an amount of \$5,000 or more is deposited with the Trustee pursuant to the provisions of the Lease Agreement, and the City determines that repair, reconstruction or replacement of the damaged or destroyed portion of the Museum Facilities shall not be completed within two years of such damage or destruction.

Notice of Redemption

When redemption is authorized or required pursuant to the provisions hereof, the Trustee shall give to the Owners of the 2002 Series A Certificates notice of the redemption of the 2002 Series A Certificates. Such notice shall specify: (a) that the whole or a designated portion of the 2002 Series A Certificates is to be redeemed, (b) the date of redemption, and (c) the place or places where the redemption will be made. Such notice shall further state that on the specified date of redemption there shall become due and payable with respect to each 2002 Series A Certificate or portion thereof to be redeemed, the principal with respect thereto and premium, if any, together with interest accrued from the next preceding Payment Date to which interest has been paid and that from and after such date of redemption interest with respect thereto shall cease to accrue and be payable.

Notice of such redemption shall be given by mail, postage prepaid, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date, to the Owners of any 2002 Series A Certificates which are to be redeemed. Such mailing shall not be a condition precedent to such redemption, and failure to mail any such notice, or any defect in such notice as mailed shall not affect the validity of the proceedings for the redemption of the 2002 Series A Certificates.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Nature of the Certificates

Each Certificate, including the 2002 Series A Certificates, represents a direct, undivided fractional interest of the Owner of such Certificate in the Lease Payments and any prepayments thereof to be made by the City to the Trustee under the Lease Agreement. The City is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease Agreement to include all Lease Payments coming due in its annual budgets and to make the necessary appropriations therefore. The Agency, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease Agreement (excepting only its right to receive reasonable attorneys' fees and expenses incurred in the event of a default), including the right to receive Lease Payments and any prepayments, to the Trustee for the benefit of the Owners of the Certificates. Scheduled Lease Payments are calculated to be equal to the amount necessary to pay the principal, if any, and interest due with respect to the Certificates on the next succeeding Payment Date. The City will pay Lease Payments directly to the Trustee, as assignee of the Agency. See "Lease Payments" below.

Lease Payments

The Lease Agreement provides that the City shall pay to the Agency the Lease Payments set forth therein for the right to possession and use of the Museum Facilities. Each Lease Payment shall be for the right to possess the Site and the Facilities for the semiannual period commencing the 25th of March and September of each calendar year. For each semiannual rental period, the City shall make Lease Payments during said semiannual period as required by the Lease Agreement. An amount equal to the Lease Payment attributable to each semiannual payment period will be due and payable by the City on the 25th day of the month prior to each preceding Payment Date in each year as specified in the Lease Agreement, with a credit for any amount of investment earnings on the Reserve Fund. The scheduled Lease Payments are due at such times and in such amounts as will be sufficient to pay scheduled principal and interest coming due on the Certificates, including the 2002 Series A Certificates. The City will make such payments directly to the Trustee for deposit in the Lease Payment Account. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Lease Agreement" herein.

In the Lease Agreement, the City covenants to take such action as may be necessary to include all Lease Payments (other than the amount of any Lease Payment which is subject to a credit from funds deposited with the Trustee, as reported by the Trustee to the City and other payments required to be made pursuant to the Lease Agreement in its annual budget and annually to appropriate an amount necessary to make such Lease Payments. The Lease Agreement provides that the covenants of the City to budget and appropriate Lease Payments shall be deemed to be and shall be construed to be ministerial duties imposed by law and that it shall be the duty of each and every public official of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements of the City in the Lease Agreement. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Lease Agreement" herein.

The Agency has directed in the Trust Agreement that the City make the Lease Payments directly to the Trustee for deposit in the Lease Payment Account. The Lease Agreement provides that, notwithstanding any dispute between the City and the Agency, the City shall make or cause to be made each and all Lease Payments when due and may not withhold or permit to be withheld any Lease Payments pending the final resolution of such dispute nor may the City assert nor permit to be asserted any right of setoff or counterclaim against the obligation to make Lease Payments as set forth therein. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Lease Agreement" herein.

Pursuant to the Trust Agreement, the Lease Payments are assigned and transferred by the Agency to, and shall be used by the Trustee for, the punctual payment of the principal of and interest on the Certificates, and, except as provided therein, the Lease Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. All amounts on deposit with the Trustee under the Trust Agreement, including, without limitation, in the Museum Facilities Trust Fund, the Lease Payment Account, the Reserve Account, and the Redemption Fund (but not including the Rebate Fund) are assigned to the Owners of the 2002 Series A Certificates as provided therein. The Trust Agreement provides that the foregoing assignments constitute a first and exclusive lien on the Lease Payments and accounts and any moneys otherwise on deposit with the Trustee under the Trust Agreement (other than the Rebate Fund) for the payment of the Certificates in accordance with the terms thereof.

Establishment and Application of Lease Payment Account

(a) Within the Museum Facilities Trust Fund, there is established a separate account to be designated the "Lease Payment Account." Such account shall be maintained by the Trustee until the Lease Payments are paid in full pursuant to the terms of the Lease Agreement. Lease Payments paid to the Trustee, as assignee of the Agency pursuant to the Lease Agreement and the Assignment Agreement, shall be deposited by the Trustee in the Lease Payment Account.

(b) The Trustee shall withdraw from the Lease Payment Account, on each Payment Date, that amount of the Lease Payment due on the March 25 or September 25 prior to such Payment Date as will be sufficient for the purpose of, and shall cause the same to be applied to, the payment of principal and interest payments due with respect to the Certificates on such Payment Date. If on any Payment Date, the amount of all payments due and payable with respect to the Certificates exceeds the amount on hand in the Lease Payment Account, taking into account any transfers made from the Reserve Account pursuant to the Trust Agreement, the Trustee shall apply the moneys on hand therein first to the payment of all interest past due with respect to all Certificates, second to the payment of that portion of the unpaid principal component of each Certificate which is then past due, third to the payment of interest then due with respect to the Certificates, and last to the payment of the unpaid principal component of each Certificate which is then due, in each case pro rata if necessary.

(c) Upon transfer of any amounts to the Lease Payment Account pursuant to the Trust Agreement, said amounts shall be segregated into a separate subaccount and applied as a credit against the principal component of the Lease Payments due to be paid by the City following the date of such deposit in successive order until full disbursement of said amounts.

(d) Whenever there has been a prepayment, for any reason, of Lease Payments, the Trustee shall instruct the Agency to prepare and transmit to the City a revised Lease Payment schedule reflecting such prepayment.

(e) All Lease Payments received by the Trustee, any proceeds from the lease of the Museum Facilities by the Trustee after a default by the City, and any other moneys required to be

deposited pursuant to the Lease Agreement or Trust Agreement, shall be deposited in the Lease Payment Account, except to the extent required to be deposited in the Reserve Account to remedy a deficiency therein resulting from a prior withdrawal to make payments with respect to the Certificates.

(f) Any surplus remaining in the Lease Payment Account, after redemption and payment of the principal and interest component of all Certificates, and payment of any applicable fees to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall then be remitted to the City.

(g) The City has obtained a Financial Guarantee Insurance Policy to protect the 2002 Series A Certificate Owners in the event that any portion of the principal of and interest on the 2002 Series A Certificates which may become due for payment but, which may be unpaid by reason of non payment by the City. See "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND" herein.

Insurance

Public Liability Insurance. The City is required to maintain or cause to be maintained, throughout the term of this Lease Agreement, a comprehensive general public liability insurance policy or policies against direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the construction or operation of the Site and the Museum Facilities. The policy or policies for comprehensive general public liability insurance shall provide a total coverage in amounts authorized by the City's liability insurance program, and may be subject to a deductible amount in an amount not to exceed \$500,000, or such greater amount as may be authorized by the City's liability insurance program.

Workers' Compensation Insurance. The City is required to maintain or cause to be maintained throughout the term of this Lease Agreement, Workers' Compensation Insurance or self-insurance to cover all persons employed in connection with the Museum Facilities who are not otherwise covered as required by the Labor Code of the State of California, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof.

Fire and Special Extended Coverage Endorsement. The City is required to maintain or cause to be maintained, throughout the term of this Lease Agreement, (i) fire, lightning and special extended coverage insurance, which includes vandalism and malicious mischief, on all improvements constituting any part of the Museum Facilities at a level equal to the greater of replacement value or the amount of the Outstanding Certificates, or (ii), subject to the consent of the Insurer, the insurance required by clause (i) above provided through a joint powers association formed exclusively for the purpose of providing such insurance for municipalities, or (iii), subject to the consent of the Insurer, the insurance required by clause (i) above provided through other means. All insurance required to be maintained pursuant to this Section may be subject to such deductible amounts as may be authorized by the City's property insurance program.

Rental Interruption Insurance. The City is required to maintain or cause to be maintained throughout the term of this Lease Agreement, rental interruption insurance in an amount not less than the maximum total Lease Payments payable by the City on any four consecutive dates for payment of semiannual Lease Payments hereunder, to insure against loss of Lease Payments to the Agency or its assignee caused by perils covered by fire, lightning, vandalism and malicious mischief insurance coverage.

Title Insurance. The City is required to maintain or cause to be maintained at its own expense, an American Land Title Association title insurance policy (Standard Coverage) with endorsement so as to be payable to the Trustee (as Assignee of the Agency pursuant to the Assignment Agreement). Such policy insures the City's fee title and the Agency's leasehold title to the Site and the Agency's title to the Museum Facilities, subject only to Permitted Encumbrances.

The title insurance policy is a principal amount equal to the aggregate unpaid principal component of Lease Payments for the Museum Facilities.

Substitution or Release of the Site and Museum Facilities

The City has the option at any time and from time to time during the term of the Lease Agreement, to substitute other land, facilities, improvements or other property for the Museum Facilities or any portion thereof, provided that the City comply with certain conditions precedent specified in the Lease Agreement, which include a certification that the substituted property serves the municipal purposes and constitutes property which the City is permitted to lease under the laws of the State and that the City delivers to the Trustee and the Agency evidence in the form of a written appraisal that such substitute property and improvements is of a value at least equal to the principal amount of the Outstanding Certificates and has a useful life at least equal to the remaining term of any Outstanding Certificates. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Lease Agreement" herein. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

The City also has the option at any time and from time to time during the term of the Lease Agreement to release any portion of the Museum Facilities, provided that the City comply with certain conditions precedent specified in the Lease Agreement, which include evidence in the form of a written appraisal that the remaining Museum Facilities, as revised by such release, is of a value at least equal to the principal amount of the Outstanding Certificates and has a useful life at least equal to the remaining term of any Outstanding Certificates.

Additional Certificates and Additional Certificates for Refunding

Upon written request of an Authorizing Officer of the City, the Trustee may, from time to time, execute and deliver one or more series of Additional Certificates or Additional Certificates for Refunding secured by Lease Payments under the Lease Agreement, on a parity with the Outstanding Certificates. The Trustee shall execute and deliver the Additional Certificates or the Additional Certificates for Refunding of any series only upon the receipt by the Trustee of certain documents, including a copy of a supplement or amendment to this Trust Agreement authorizing such series of Additional Certificates or Additional Certificates for Refunding and a certificate of the City to the effect that the Museum Facilities have sufficient value to support the Lease Payments on all Certificates. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Trust Agreement".

Establishment and Application of Reserve Account

Within the Museum Facilities Trust Fund, there is established a separate account to be designated the "Reserve Account." Such account shall be maintained by the Trustee until the Lease Payments are paid in full pursuant to the terms of the Lease Agreement. The Reserve Account is required to be maintained at an amount equal to the Reserve Requirement, which is equal to the maximum annual debt service on all Certificates Outstanding. Upon execution and delivery of the 2002 Series A Certificates, the Reserve Requirement will be \$4,089,750. All of the Certificates, including the 2002 Series A

Certificates, are secured on a parity basis by amounts in the Reserve Account. Upon execution and delivery of the 2002 Series A Certificates, the City will deposit the Reserve Fund Surety Bond in the Reserve Account and will withdraw all amounts currently therein. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Trust Agreement".

RISK FACTORS

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating an investment in the 2002 Series A Certificates. The following discussion is not intended to be a comprehensive or definitive listing of the risks associated with an investment in the 2002 Series A Certificates and the order in which these factors are presented does not necessarily reflect the relative importance of various risks. There can be no assurance that other risk factors will not become evident at any future time.

Lease Payments Are Limited Obligation of City; Article XIII B Appropriations Limit

NEITHER THE 2002 SERIES A CERTIFICATES NOR THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS CONSTITUTES AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. NEITHER THE 2002 SERIES A CERTIFICATES NOR THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR VIOLATES ANY STATUTORY DEBT LIMITATION OR CONSTITUTES A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS.

In the event that the City's available revenue sources for payment of Lease Payments are less than its total obligations with respect to the Lease Agreement and other obligations to provide municipal services, the City could choose to breach the Lease Agreement and fund other municipal services in lieu of or before making Lease Payments and other payments due under the Lease Agreement. Neither the Lease Agreement nor the Trust Agreement restrict the ability of the City to incur additional obligations payable from its General Fund revenues. It is likely that the City will undertake additional obligations payable from its General Fund revenues in the future. To the extent that the City incurs such additional obligations and does not experience an offsetting increase in General Fund revenues, the moneys available to the City to make Lease Payments may be decreased.

Although the City has determined that the Lease Payments fall within an exception to the appropriations limit restrictions of Article XIII B of the California Constitution, the same result could possibly occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Abatement Risk Due to Damage or Destruction of Facilities

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and possession by the City of any portion of the Museum Facilities, Lease Payments due under the Lease Agreement with respect to the Museum Facilities will be abated proportionately, and the City waives any and all rights to terminate the Lease Agreement by virtue of any

such interference and the Lease Agreement shall continue in full force and effect. However, although the City has agreed in the Lease Agreement to maintain insurance with respect to the Museum Facilities, such insurance will insure against only limited kinds of casualties, and the amounts actually collected by the City with respect to such insurance may not be sufficient to completely address all losses. In addition, it is possible under the terms of the Lease Agreement for the Lease Payments to be abated indefinitely, possibly even for the remaining maturity of the 2002 Series A Certificates, and there is no assurance that such abated Lease Payments, after the application of any available insurance proceeds for the repair or reconstruction of the Museum Facilities, if undertaken by the City, will be sufficient to pay all of the principal or interest on the 2002 Series A Certificates.

Litigation Regarding 2% Limitation

On November 2, 2001, the Orange County, California Superior Court issued a Minute Order in the case of County of Orange v. County of Orange County Assessment Appeals Board No. 3. The case involved the assessed value of a property that exceeded the prior year's assessed value by more than 2%. The increase of a property's assessed value by more than 2% is a common practice among California assessors when the prior year value of the property is less than the base year value of the property (the value assigned upon change of ownership or new construction) and the current year, market value of property is equal to or higher than the computed base year value for the current year. Such instances occur when the prior year value of the property was determined by a Proposition 8 appeal and the condition causing reduction (e.g., recession in the real estate market) has ceased to influence the value of property.

The court ruled that the California Constitution and the California Revenue and Taxation Code limit the year to year change in value of property to 2% except in situations described in law but not limited to the instances mentioned above. The court also found that the California Constitution does not authorize a temporary decline in the base value of property that can be restored at a rate higher than 2%. At this time, the Orange County Superior Court is considering possible class certification for a challenge to the Orange County assessors practice. It is unclear whether, or to what extent, this potential class may affect assessments outside of Orange County.

The City is unable to predict the effect on the City's General Fund if the ruling described above is ultimately determined to have applicability to the County of Alameda. However, the City does not believe that such effect, if any, would materially adversely affect the City's ability to make Lease Payments.

Seismic Considerations

The City is located in a region considered to be seismically active. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes. These faults include the San Andreas Fault, as well as the Hayward Fault and the Calaveras Fault which run through the central and eastern portions of the City, respectively. The Hayward Fault runs within approximately 10 miles of the Museum Facilities.

The City does not maintain earthquake insurance for the Museum Facilities because of the prohibitive costs for the insurance. The Agency has covenanted with the City for the term of the Lease Agreement that in the event of any damages to or destruction of the Museum Facilities resulting from earthquake, to repair, replace or reconstruct any such damaged or destroyed portion of the Museum Facilities such that, the fair rental value of the Site and Museum Facilities following such repair or replacement is at least equal to the Lease Payments during the remaining term of the Lease Agreement.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The Trustee is not empowered to sell a fee simple, leasehold or other interest in the Museum Facilities and use the proceeds of such sale to prepay the 2002 Series A Certificates or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, statutory and judicial limitations on lessors' remedies under real property leases, other terms of the Lease Agreement and limitations on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Risk of State Legislation

The City relies on a number of revenue sources that could be reduced or eliminated by State legislation, including, among others, sales and use taxes, and license and permit fees. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND” herein. There can be no assurance that the State will not adopt legislation to reduce or eliminate one or more of these revenue sources.

In addition, a number of statutes and constitutional amendments have been adopted as measures that qualified for the ballot through California's initiative process as described under “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.” There can be no assurance that other initiative measures won't be adopted affecting the City's revenues.

No Liability of Agency to the Owners of Certificates

Except as expressly provided in the Trust Agreement, the Agency will not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City or the Agency of other agreements and covenants required to be performed by it contained in the Lease Agreement, the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Loss of Tax Exemption

As discussed under the heading “TAX MATTERS,” the interest represented by the 2002 Series A Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the 2002 Series A Certificates as a result of acts or omissions of the City in violation of its covenants in the Trust Agreement and the Lease Agreement. Should such an event of taxability occur, the 2002 Series A Certificates would not be subject to a special prepayment and would remain Outstanding until maturity or until prepaid under the prepayment provisions contained in the Trust Agreement.

Bankruptcy Risk

In addition to the limitations on remedies contained in the Lease Agreement and the Trust Agreement, the rights and remedies provided in the Trust Agreement and the Lease Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Authority could be prohibited or severely restricted

from taking any steps to enforce their rights under the Lease Agreement and from taking any steps to collect amounts due from the City under the Lease Agreement. In addition, bankruptcy courts exercise substantial discretionary powers to alter existing contracts of a bankrupt entity and could permit the trustee in bankruptcy to remake the Lease Agreement and significantly alter its terms.

THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the 2002 Series A Certificates effective as of the date of issuance of the 2002 Series A Certificates. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2002 Series A Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2002 Series A Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2002 Series A Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2002 Series A Certificates, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2002 Series A Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2002 Series A Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on an 2002 Series A Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2002 Series A Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2002 Series A Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2002 Series A Certificate, appurtenant coupon, if any, or right to payment of principal or interest on such 2002 Series A Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Reserve Account-Ambac Assurance Surety Bond

The Trust Agreement requires the establishment of a Reserve Account in an amount equal to the maximum annual debt service on all Certificates Outstanding. The Trust Agreement authorizes the City to obtain a Reserve Fund Surety Bond in place of fully funding the Reserve Account. Accordingly, application has been made to Ambac Assurance for the issuance of a Reserve Fund Surety Bond (the "Reserve Fund Surety Bond") for the purpose of funding a portion of the Reserve Account. The 2002 Series A Certificates will only be delivered upon the issuance of such Reserve Fund Surety Bond. The premium on the Reserve Fund Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2002 Series A Certificates. The Reserve Fund Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Certificates when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Certificates, but in no event exceeding the Surety Bond Coverage, as defined in the Reserve Fund Surety Bond.

Pursuant to the terms of the Reserve Fund Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Reserve Fund Surety Bond and the City is required to reimburse Ambac Assurance for any draws under the Reserve Fund Surety Bond with interest at a market rate. Upon such reimbursement, the Reserve Fund Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the City is subordinate to the City's obligations with respect to the 2002 Series A Certificates.

In the event the amount on deposit, or credited to the Reserve Account, exceeds the amount of the Reserve Fund Surety Bond, any draw on the Reserve Fund Surety Bond shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Reserve Fund Surety Bond, includes amounts available under a letter of credit, insurance policy, Reserve Fund Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Fund Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trust Agreement provides that the Reserve Account shall be replenished in the following priority: (i) principal and interest on the Reserve Fund Surety Bond and on the Additional Funding Instrument shall be paid from first available Revenues on a pro rata basis; (ii) after all such amounts are paid in full,

amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Reserve Fund Surety Bond and the Additional Funding Instrument shall be deposited from next available Revenues.

The Reserve Fund Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Reserve Fund Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,303,000,000 (unaudited) and statutory capital of approximately \$3,240,000,000 (unaudited) as of December 31, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the City of the 2002 Series A Certificates. No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee.

Ambac Assurance makes no representation regarding the 2002 Series A Certificates or the advisability of investing in the 2002 Series A Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE RESERVE FUND SURETY BOND".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;
- 2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- 3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001; and
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
- 5) The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;
- 6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;
- 7) The Company's Current Report on Form 8-K dated and filed on September 17, 2001;
- 8) The Company's Current Report on Form 8-K dated and filed on September 19, 2001;
- 9) The Company's Current Report on Form 8-K dated and filed on October 22, 2001;
- 10) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001;
- 11) The Company's Current Report on Form 8-K dated and December 3, 2001 and filed on December 4, 2001; and
- 12) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

THE MUSEUM SITE AND FACILITIES

The Oakland Museum of California (the "Museum Facilities") opened in 1969 at a cost of \$7.6 million and is one of the most architecturally interesting museums in the country. The museum site is located at Oak and 10th Streets in downtown Oakland and it occupies a four-square-block, 7.7 acre site on the south shore of Lake Merritt. It is a graceful, three-tiered blend of spacious galleries, terraces, patios, sculpture gardens and ponds. The Museum Facilities encompass approximately 108,000 square feet and attracted more than 250,000 visitors in 2001. There are several galleries in the Museum Facilities: California Gallery (30,000 sq. ft.), History Gallery (28,000 sq. ft.), Nature Gallery (38,000 sq. ft.), and a Temporary Exhibition Gallery (12,800 sq. ft.). In addition, there is a 300-seat auditorium, 100-seat lecture room, 250-space public parking garage, restaurant, bookstore and administrative offices.

The Museum Facilities are owned by the Agency and leased to the City pursuant to the Lease Agreement as amended and restated. At the termination of the Lease Agreement, ownership of the Museum Facilities will transfer to the City. The site of the Museum Facilities, which is owned by the City and ground leased to the former owner, was assigned to the Agency in 1987. The Oakland Museum was designated a Landmark by the City Council in 1995 (Ordinance No. 11769 C.M.S.). Designation as a City Landmark has the following impact: (1) City-designated Landmarks are considered "historic" properties for purposes of the California Environmental Quality Act - any proposed project that may cause a substantial adverse change in the significance of the historic resource, such as demolition or major addition, would generally require preparation of an Environmental Impact Report; and (2) design review in accordance with the Planning Code is required for alterations to the exterior appearance and any designated interior architectural features. Proposed demolition of the Landmark, alterations and additions require certain findings to be made and may not be approved at all.

The Museum Facilities are insured at approximately \$53 million with an additional \$8.5 million for personal property. The City believes that the Museum Facilities have a higher estimated market value. The City may issue one or more Series of Additional Certificates on a parity with the Certificates then Outstanding with the Site and Museum Facilities being the leased asset, in such principal amount as may be determined by the City. The Trust Agreement also permits the City to substitute another asset for the Museum Facilities. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS- Trust Agreement".

On March 5, 2002, the City's General Municipal Election included an initiative measure to authorize the issuance of \$59,000,000 in general obligation bonds to acquire, renovate, improve, construct and finance existing and additional facilities at the Oakland Museum of California, the Oakland Zoo, and the Chabot Space & Science Center, and to qualify for private matching funds ("Measure G"). The measure was approved by two-thirds of the voters and the bonds authorized thereby will be issued upon the order of the City Council.

THE CITY AND THE AGENCY

The City

The City is the county seat of the County of Alameda, the third largest city in the San Francisco Bay Area and the eighth largest city in California. See APPENDIX A - "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND" herein for additional information relating to the City. See APPENDIX B - "AUDITED FINANCIAL STATEMENTS OF THE CITY OF OAKLAND" herein for financial information relating to the City.

The Agency

The Redevelopment Agency of the City of Oakland (the "Agency") is the ground lessee of the site of the Museum Facilities and the owner of the Museum Facilities. The Agency has leased the Museum Facilities and the site thereof to the City and has assigned its rights to receive the Lease Payments to the Trustee.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978 or (2) any certificated 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. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or 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 to reflect a change in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The 1% property tax is automatically levied by the County of Alameda and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment could serve to reduce the property tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

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

Article XIII A has also been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, provided that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster. See APPENDIX A - "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND- Property Taxation".

Article XIII B of the State Constitution

Article XIII B of the State Constitution limits the annual appropriations of the State and of 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 for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The initial version of Article XIII B provided that the "base year" for establishing an appropriations limit was the 1978-79 Fiscal Year, which was then adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Proposition 111 revised the method for making annual adjustments to the appropriations limit by redefining changes in the cost of living and in population. It also required that beginning in Fiscal Year 1990-91 each appropriations limit must be recalculated using the actual 1986-87 appropriations limit and making the applicable annual adjustments as if the provisions of Proposition 111 had been in effect.

Appropriations of an entity of local government subject to Article XIII B include generally authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity and the proceeds of State subventions, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (2) the investment of tax revenues. Article XIII B permits any government entity to change the appropriations limit by a vote of the electors in conformity with statutory and constitutional voting effective for a maximum of four years. As amended by Proposition 111, Article XIII B provides for testing of appropriations limits over consecutive two-year periods. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years. As amended by Proposition 98, Article XIII B provides for the payment of a portion of any excess revenues received by the State to a fund established to assist in financing certain school needs.

Article XIII B does not limit the appropriation of moneys to pay debt service or indebtedness existing or authorized as of January 1, 1979, or for certificated indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose. Furthermore, in 1990, Article XIII B was amended to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long-term general fund lease obligations (including the Lease Payments due under the Lease Agreement) are generally excluded from the City's appropriations limit.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) ("AB 454") provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property") commencing with the 1988-89 fiscal year will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior

year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenue or greater than 102% of the previous years revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

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

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters in the State at the November 4, 1986 election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote of the electorate in order for a local government or district to impose a special tax. The *Guardino* decision did not address the question of whether or not it should be applied retroactively.

On December 15, 1997, the Court of Appeals for the State of California, Fourth Appellate District, in *McBrearty v. City of Brawley*, concluded that (i) *Guardino* is to be applied retroactively to require voter approval of previously enacted taxes, and (ii) the three-year statute of limitations applicable to such taxes runs from the date to the *Guardino* decision. In the opinion of the City Attorney, the City should be exempt from the provisions of Proposition 62 because, as a charter city under the California Constitution, it should not be affected by a statutory initiative such as Proposition 62.

Several questions raised by the *Guardino* and *McBrearty* decisions remain unresolved. Proposition 62 provides that if a jurisdiction imposes a tax in violation of Proposition 62, the portion of the one percent general *ad valorem* property tax levy allocated to that jurisdiction is reduced by \$1 for every \$1 in revenue attributable to the improperly imposed tax for each year that such tax is collected. The practical applicability of this provision has not been fully determined. Potential future litigation and legislation may resolve some or all of the issues raised by the *Guardino* decision.

Right to Vote on Taxes Initiative—Proposition 218

On November 5, 1996, California voters approved an initiative to amend the California Constitution known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 requires

majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 will continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. Proposition 218 also extends the initiative power to reducing or repealing local property-related taxes, assessments, fees and charges, 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 impositions after November 6, 1996 and absent other legal authority, could result in retroactive reduction in any existing taxes, assessments, fees and charges. In addition, Proposition 218 limits the application of assessments, fees and charges and requires certain existing, new and increased assessments, fees and charges to be submitted to property owners for approval or rejection, after notice and public hearing.

The City is not able to predict whether Proposition 218 will be held to be constitutional in the courts or its application limited in certain respects. If upheld, Proposition 218 could substantially restrict the City's ability to raise future revenues, subject 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.

Pursuant to Proposition 218 (Article XIII C) 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 which 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 which must be held within two years of November 5, 1996. Since December 31, 1994, the City has increased two classes of taxes within its Business License Tax Ordinance, for firearms and electricity sales. The Firearms Business License Tax was enacted after the passage of Proposition 218, and was not collected until it was approved by the voters on June 2, 1998. The Electric Business License Tax was enacted prior to the passage of Proposition 218 and was collected for a two-year period. However the Electric Business Tax was rejected by the voters on November 3, 1998, and the City has discontinued collecting this tax. The voter approval requirements of Proposition 218 reduces the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase taxes in the future to meet increased expenditure needs.

Proposition 218 (Article XIII D) also adds several new provisions making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that the assessment must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, and (iii) a majority protest procedure which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected property. "Assessment" in Article XIII D is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This would include maintenance assessments for open space areas, street medians, street lights and parks. If the City were unable to continue to collect assessment revenues for these programs, the programs might have to be curtailed and/or funded by amounts in the City's General Fund. All but one of the City's assessments are security for Certificated indebtedness, and should be exempt from the provisions of Article XIII D. The remaining assessment is levied by the Landscape and Lighting Assessment District, which was approved by the citizens through an initiative, and should be exempt from the provisions of Article XIII D.

In addition, Proposition 218 (Article XIII D) adds several provisions affecting “fees” and “charges,” defined for purposes of Article XIII D to mean “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.” All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. This may require the City's General Fund to forego collecting some or all of the annual amounts it collects from the City's enterprise funds. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (these “property related” fee requirements also do not apply to fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge (essentially the same procedure required for approval of assessments) or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The only enterprise fund operated by the City which may be subject to Proposition 218 is the Sewer Enterprise Fund. The fees and charges of the Sewer Enterprise Fund may be determined to be fees and charges subject to the initiative power referred to in Article XIII C, as described below. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

Proposition 218 (Article XIII C) also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. “Assessments,” “fees” and “charges” are not defined in Article XIII C, and it is unclear whether these terms are intended to have the same meaning for purposes of Article XIII C as for Article XIII D described above. If not, the scope of the initiative power under Article XIII C potentially could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

Further analysis and future judicial interpretations may affect the City's estimate of the impact of Proposition 218 on current general fund revenues.

TAX MATTERS

In the opinion of Lofton & Jennings, San Francisco, California, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest with respect to the 2002 Series A Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Special Counsel is also of the opinion that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in

adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed opinion of Special Counsel is set forth in APPENDIX D hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the 2002 Series A Certificates. The City and the Agency have covenanted to comply with certain restrictions designed to ensure that interest on the 2002 Series A Certificates will not be included in federal gross income. Failure to comply with these covenants may result in interest with respect to the 2002 Series A Certificates being included in gross income for federal income tax purposes, possibly from the date of execution and delivery of the 2002 Series A Certificates. The opinion of Special Counsel assumes compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the 2002 Series A Certificates may adversely affect the value of, or the tax status of interest with respect to the 2002 Series A Certificates. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest with respect to the 2002 Series A Certificates. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Tax-exempt obligations, such as the 2002 Series A Certificates, which are purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earliest call date) ("Premium Obligations") will be treated as having an amortizable premium. No deduction is allowable for the amortizable premium in the case of Premium Obligations, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Obligation and, under Treasury Regulations, the amount of tax-exempt interest received, will be reduced by the amount of the amortizable premium properly allocable to such purchaser. Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

Certain requirements and procedures contained or referred to in the Lease Agreement, the Trust Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2002 Series A Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any 2002 Series A Certificates or the interest with respect thereto if any such change occurs or action is taken or omitted upon the advice or approval of Special Counsel other than Lofton & Jennings.

Although Special Counsel is of the opinion that interest with respect to the 2002 Series A Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest with respect to, the 2002 Series A Certificates may otherwise affect a Certificate owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the 2002 Series A Certificate Owner or the 2002 Series A Certificate Owners' other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the 2002 Series A Certificates to provide certain financial information and operating data relating to the City not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for Fiscal Year 2001-02 (the "Annual Report") and to provide notices of the occurrence of certain enumerated

events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX E—"FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The City is not in default with respect to any previous undertaking made with regard to said Rule. The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual financial information or notices of material events.

LEGAL MATTERS

The validity of the 2002 Series A Certificates and certain other legal matters are subject to the approving opinion of Lofton & Jennings, San Francisco, California. A complete copy of the proposed form of Special Counsel's opinion is contained in APPENDIX D hereto. Special Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement. Pryce Parker Hill, LLP, Los Angeles, California, is serving as Disclosure Counsel to the City and the Agency. Certain legal matters will be passed upon for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California, Underwriters' Counsel. Special Counsel, Disclosure Counsel and Underwriters' Counsel will receive compensation contingent upon the successful sale and delivery of the 2002 Series A Certificates. Certain legal matters will be passed upon for the City and for the Agency by John Russo, Oakland City Attorney.

LITIGATION

No litigation is pending or threatened against the City or the Agency, concerning the validity of the 2002 Series A Certificates, the Lease Agreement or the Trust Agreement, and an opinion of John Russo, Oakland City Attorney, to that effect will be furnished at the time of the original delivery of the 2002 Series A Certificates. The City is not aware of any litigation pending or threatened questioning the political existence of the City, or the Agency or contesting the City's ability to appropriate or make Lease Payments and Additional Payments, if any.

There are a number of lawsuits and claims pending against the City. Except as disclosed in this Official Statement, the City has no claims pending against it that, if successful, would materially affect the ability of the City to meet its respective obligations as described in this Official Statement. See APPENDIX A - "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND—Litigation" herein.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's"), have assigned the 2002 Series A Certificates the long-term ratings of "Aaa" and "AAA" respectively, with the understanding that concurrently with the delivery of the 2002 Series A Certificates, the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Service, 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317; and Standard & Poor's, 55 Water Street, New York, New York 10041, telephone number (212) 208-1002. There is no assurance that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market

price of the 2002 Series A Certificates. No underlying ratings of any credit rating organization have been secured or requested for the 2002 Series A Certificates.

FINANCIAL ADVISOR

Public Financial Management, Inc. (the "Financial Advisor") has assisted the City with various matters relating to the planning, structuring and delivery of the 2002 Series A Certificates. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2002 Series A Certificates.

UNDERWRITING

The Underwriters (listed on the cover page) have agreed, subject to certain conditions, to purchase from the City the 2002 Series A Certificates described on the cover page of this Official Statement at an aggregate purchase price equal to \$17,008,387.80 and to reoffer such 2002 Series A Certificates at the yields to maturity set forth on the inside cover page hereof. The 2002 Series A Certificates may be offered and sold to certain dealers (including dealers depositing the 2002 Series A Certificates into investment trusts) at prices lower than such public offering prices and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the 2002 Series A Certificates if any 2002 Series A Certificates are purchased.

MISCELLANEOUS

The summaries of the 2002 Series A Certificates, the Trust Agreement, Lease Agreement and laws and documents referred to in this Official Statement do not purport to be complete. Reference is made to such documents and the text of the laws for full and complete statements of their provisions. All statements in this Official Statement involving matters of opinion, estimates, forecast, projections or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such opinions or the like will be realized. The agreements of the City and Agency relating to the 2002 Series A Certificates are set forth in the Trust Agreement. This Official Statement is not to be construed as a contract or agreement between the City, Agency and the purchasers or owners of any of the 2002 Series A Certificates.

EXECUTION AND DELIVERY

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

CITY OF OAKLAND, CALIFORNIA

By: /s/ Deborah Edgerly
Director, Financial Services Agency

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND

General Information

Overview. The City of Oakland (the "City") is located in the County of Alameda (the "County") on the east side of San Francisco Bay, approximately seven miles from downtown San Francisco via the San Francisco-Oakland Bay Bridge. The City ranges from industrialized lands bordering the Bay on the west to suburban foothills in the east. Formerly the industrial heart of the Bay Area, the City has developed into a financial, commercial and governmental center. The City is also the hub of an extensive transportation network which includes a freeway system and the western terminals of major railroads and trucking firms, as well as one of the largest container-ship ports in the United States. The City supports an expanding international airport and rapid-transit lines which connect it with most of the Bay Area. The City is the seat of government for the County and is the eighth most populous city in the State of California (the "State").

City Government. The City was incorporated as a town in 1852 and as a city in 1854, and became a charter city in 1889. The Charter provides for the election, organization, powers and duties of the legislative branch, known as the City Council; the powers and duties of the executive and administrative branches; fiscal and budgetary matters, personnel administration, franchise, licenses, permits, leases and sales; employee's pension funds; and the creation and organization of the Port of Oakland (the "Port"). The City is governed by an eight-member City Council, seven of whom are elected by district and one of whom is elected on a city-wide basis. The Mayor is not a member of the City Council but is the City's chief elective officer. The Mayor and Council members serve four-year terms staggered at two-year intervals. The City Attorney is nominated and elected in the same manner, and for the same term, as the Council member-at-Large. The Mayor, subject to confirmation by the City Council, appoints a City Manager who is responsible for daily administration of City affairs and preparation and submission of the annual budget under the direction of the Mayor and City Council for the Mayor's submission to the City Council.

Subject to civil service regulations, the City Manager appoints City employees except the City Attorney, City Clerk and City Auditor. The City Clerk is appointed by the City Manager, subject to City Council confirmation. The City Auditor is elected at the same time as the Mayor. The Director of the Financial Services Agency serves as the City's Treasurer and supervises the City's financial affairs.

The City's charter was most recently amended through the approval of ballot Measure X by voters on November 3, 1998. Changes ratified at that time included the creation of the Mayor-Council form of government, the provision of a two-term limit for the Mayor, the institution of a requirement for voter approval for increases to City Council compensation, and a provision for the election of the City Attorney.

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under State law. These services include public safety (police and fire), sanitation and environmental health enforcement, recreational and cultural activities, public improvements, planning, zoning and general administrative services.

Budget Process. The City's budget is developed on the Generally Accepted Accounting Principles ("GAAP") basis (modified accrual for governmental funds and accrual for proprietary and pension trust funds). The City Charter requires that the City Council adopt a balanced budget by June 30,

preceding the start of the fiscal year on July 1. The City's budget cycle is a two-year process which promotes long-term decision making, increases funding stability and allows for greater performance evaluation. In advance of each two-year cycle, the City Manager and Agency heads conduct internal budget hearings to develop budget proposals for presentation to the Mayor. Within 60 to 90 days before the end of the prior two-year cycle, the Mayor submits the proposed two-year budget to the City Council and formal public budget hearings are scheduled. Upon conclusion of the public hearings, the City Council may make adjustments and/or revisions. The City Council adopts the City's operating budget on or before June 30. It contains appropriations for all funds and two-year appropriations for the five-year Capital Improvements Program.

As part of the two-year budget process, the City has designated specific criteria for mid-cycle (end of year one) review and/or revisions in Federal and State mandates, significant changes in mid-year revenue projections and any full cost-covered program changes. Additionally, one-third of any year-one surplus in the General Fund will roll forward to year two, one-third to programs, and one-third to the General Fund balance.

The City Council employs an independent certified public accountant who examines books, records, inventories, and reports of all officers and employees who receive, control, handle or disburse public funds, and those of any other employees or departments as the City Council directs. These duties are performed both annually and upon request. The City's independent auditor for fiscal years 1998-1999 and 1999-2000 was KPMG Peat, who also served as auditors for fiscal year 2000-2001.

Within a reasonable period following the fiscal year end, the accountant submits the final audit to the City Council. The City then publishes the financial statements as of the close of the fiscal year.

Investment Policy

The authority to invest the City's Operating Fund is derived from Council Resolution No. 56127 which delegates to the Director, Financial Services Agency/Treasurer the authority to invest this Operating Fund within the guidelines of Section 53600 et seq. of Government Code of the State of California (the "Code"). The Code also directs the City to present an annual investment policy for confirmation to the City Council. The City Council adopted a policy for Fiscal Year 2001-2002 on July 10, 2001. The Investment Policy is subject to revision at any time.

The objectives of the Investment Policy are to preserve capital, provide adequate liquidity to meet cash disbursements of the City and reduce overall portfolio risks while maintaining market average rates of return.

Current Investment Portfolio

The City currently maintains approximately \$175 million in operating funds, excluding capital, debt service funds, special revenue funds and pension trust funds. The Operating Fund is broken out by different types of investment securities and is invested in accordance with the Investment Policy. The composition of these operating funds, including the average term and days to maturity, is provided below as of January 31, 2002. As of January 31, 2002, the City maintained approximately 60.36% of the Operating Fund in investments that mature in one year or less.

CITY OF OAKLAND
Operating Fund
Portfolio Master Summary
January 31, 2002

Investments	Book Value	Percent of Portfolio	Average Term-Days	Days To Mat./Call	--- Yield To Maturity -	
					360 Equivalent	365 Equivalent
Federal Agency Issues-Coupon	\$79,678,529.13	45.29	1,556	495	5.366	5.441
LAIF-Bond Proceeds	20,990,785.52	11.93	1	1	4.685	4.750
Money Market	41,810,000.00	23.77	1	1	1.864	1.890
Local Agency Investment Funds	32,300,000.00	18.36	1	1	3.186	3.230
Certificates of Deposit	1,150,000.00	0.65	148	115	2.020	2.048
TOTAL INVESTMENTS	\$ 175,929,314.65	100.00%	706	225	4.030%	4.086%

Source: City of Oakland Financial Services Agency

Fitch Inc. ("Fitch") has assigned a managed fund credit rating of "AAA" and a market risk rating of "V-1+" to the City Portfolio. Fitch's managed fund credit ratings are an assessment of the overall credit quality of a fund's portfolio. Ratings are based on an evaluation of several factors, including credit quality and diversification of assets in the portfolio, management strength and operational capabilities. Fitch managed fund market risk ratings are an assessment of relative market risks and total return stability in the portfolio. Market risk ratings are based on, but not limited to, analysis of interest rate, derivative, liquidity, spread and leverage risk. Fitch's managed fund credit and market risk ratings are based on information provided to Fitch by the City. Fitch does not verify the underlying accuracy of this information. These ratings do not constitute recommendations to purchase, sell or hold any security.

Financial Obligations

The City has never defaulted on the payment of principal of or interest on any of its indebtedness or lease obligations.

General Obligation Debt. As of June 30, 2001, the City had outstanding a total of \$137,080,000 aggregate principal amount of general obligation bonds. The bonds are general obligations of the City; the City is obligated to levy ad valorem taxes upon all property that is within the City and which is subject to taxation by the City, for the payment of principal and interest.

\$12,000,000 City of Oakland General Obligation Bonds, Series 1991 A (Measure K). On November 9, 1990, 66.8% of the voters passed a measure authorizing the City to issue \$60 million in general obligation bonds for the purposes of acquisition of open space and the rehabilitation, development and expansion of park and recreational facilities within the City. The 1991A Measure K Bonds were the first series to be issued under this authorization. On July 25, 2000, maturities from 2003 to 2015 were refunded via Series 2000E, leaving an outstanding balance of \$1.16 million.

\$50,000,000 City of Oakland General Obligation Bonds, Series 1992A (Measure I). By a measure passed on July 15, 1992 by 74.3% of the voters, the City received authorization to issue \$50

million general obligation bonds to be used for enhancement of the City's emergency response capabilities, and for seismic reinforcement of infrastructure and essential public facilities.

\$15,000,000 City of Oakland General Obligation Bonds, Series 1995B (Measure K). Issued on March 1, 1995, the 1995B Measure K Bonds represented the second series of bonds issued under the 1990 authorization of Measure K. Bond proceeds were used for the purchase of Vista Madera Stables, construction of the West Oakland Senior Center, Chinese Gardens, Tassaforanga Gym and Woodminster Cascades, maintenance and improvements at the Oakland Museum and Raimondi Field, and the Oakland Zoo.

\$22,250,000 City of Oakland General Obligation Bonds, Series 1997C (Measure K). On April 1, 1997, the 1997C Measure K Bonds were the third series of bonds issued under the 1990 Measure K authorization. These bonds have been used for open space acquisition, Oakland Zoo development projects and other site development projects.

\$45,420,000 City of Oakland General Obligation Bonds, Series 1997A (Measure I). On November 5, 1996, the electorate authorized this bond issue by a 77.6% vote, for the purpose of financing life enrichment improvements on various City-owned properties. These improvements include the repair, construction, acquisition and improvement of certain libraries, recreation centers and playing fields, the Oakland Zoo, the Oakland Museum and the Chabot Observatory Space and Science Center.

\$10,750,000 City of Oakland General Obligation Bonds, Series 2000D (Measure K). On July 20, 2000, the 2000D Measure K Bonds were the fourth series of bonds issued under the 1990 authorization of Measure K and utilized the remainder of such authorization. These bonds have been used to expand, develop, and rehabilitate park and recreation facilities.

\$9,000,000 City of Oakland General Obligation Bonds, Series 2000E (Measure K). On July 11, 2000, the 2000E Measure K Bonds were issued to refund a portion of Series 1991A bonds issued under 1990 Measure K authorization.

On March 5, 2002, the City's General Municipal Election included an initiative measure to authorize the issuance of \$59,000,000 in general obligation bonds to acquire, renovate, improve, construct and finance existing and additional facilities at the Oakland Museum of California, the Oakland Zoo, and the Chabot Space & Science Center, and to qualify for private matching funds ("Measure G"). The measure was approved by two-thirds of the voters and the bonds authorized thereby will be issued upon the order of the City Council.

Short-Term Obligations. The City implemented a short-term financing program in 1981 to finance general fund temporary cash flow deficits during the fiscal year (July 1 through June 30). The City has issued short-term notes for each of the last 11 Fiscal Years, including the issuance of \$65,000,000 Tax and Revenue Anticipation Notes for the Fiscal Year ended June 30, 2002. The City has never defaulted on the payment of any of these notes.

Lease Obligations. *\$52,300,000 Variable Rate Demand Certificates of Participation (Certain Capital Improvement Projects) 1985 Series.* On December 1, 1985, the City entered into various simultaneous agreements to finance the acquisition and construction of capital improvements on City property, such as traffic control devices, street resurfacing, parking lots, garages and the rehabilitation of various lease payments to the Civic Improvement Corporation. The leased assets are a portion of the City's sewer system.

\$39,408,000 City of Oakland Additional Certificates for Refunding of Participation (Oakland Museum), 1992 Series A. On May 15, 1992, the proceeds of the certificates were used to defease the outstanding Certificates of Participation 1987 Series A, which were issued in the amount of \$35,310,000, which in turn refunded and defeased the 1982 Municipal Improvement Revenue Bonds and provided new money for the Redevelopment Agency to acquire the Museum and its improvements from Oakart Associates Limited Partnership.

Under an amended and restated lease agreement, which provides for the sublease of the Museum by the City, the City has agreed to make lease payments to the Agency through maturity of the certificates in 2012. The Certificates are Aaa/AAA rated by Moody's and S&P, respectively, as a result of the bond insurance policy provided by AMBAC Indemnity Corporation.

\$197,700,000 Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Project) 1995 Series. The 1995 bonds were issued by the Authority to finance improvements to the Coliseum stadium, and to cover relocation costs for the National Football League team, the Oakland Raiders.

The Bonds comprise \$9,200,000 Fixed Rate Refunding Lease Revenue Bonds (Series A) and \$188,500,000 aggregate principal Variable Rate Lease Revenue Bonds (Series B). The Series A bonds are rated Aa3/AA- and the Series B bonds have long term ratings of Aa3/AA- and short-term ratings of A-1/P-1, by Moody's and S&P, respectively, based on a direct-pay letter of credit provided by Canadian Imperial Bank of Commerce.

These bonds are a joint and several obligations of both the City and the County of Alameda; each entity has covenanted to budget and appropriate one-half of the annual lease payments.

On May 20, 2000, the Authority refunded the 1995 Series B bonds with its Lease Revenue Bonds (Oakland Coliseum Project) 2000 Refunding Series C (Tax-Exempt) bonds in the amount of \$150,800,000 and 2000 Refunding Series D (Taxable) bonds in the amount of \$50,500,000 (of which \$48,300,000 remains currently outstanding). The 1995 Series A bonds are still outstanding.

\$140,000,000 Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Arena Project), 1996 Series A. The 1996 bonds were issued by the Authority to finance the costs of constructing the arena located at the Coliseum complex as well as other payments and costs associated with the retention of the Golden State Warriors to play basketball at the arena.

The bonds are comprised of \$70,000,000 Series A-1 Variable Rate Lease Revenue Bonds (Taxable) (Series A-1) and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Taxable) (Series A-2). On July 26, 2001, the Authority substituted an irrevocable direct pay letter of credit relating to the Series A-1 bonds issued severally and not jointly by The Bank of New York and California State Teachers' Retirement System and an irrevocable direct pay letter of credit relating to the Series A-2 bonds issued severally and not jointly by The Bank of New York and Allied Irish Banks, p.l.c., New York Branch.

The Series A-1 bonds have been assigned long-term ratings of "Aa2", "AA-" and "AA" and short-term ratings of "VMIG 1", "A-1+" and "F1+" by Moody's, S&P and Fitch, respectively. The Series A-2 bonds have been assigned long-term ratings of "Aa3", "A+" and "AA-" and short-term ratings of "VMIG 1", "A-1" and "F1+" by Moody's, S&P and Fitch, respectively.

These bonds are a joint and several obligation of both the City and the County; each entity has covenanted to budget and appropriate one-half of the annual lease payments.

\$103,945,000 Oakland Joint Powers Financing Authority Lease Revenue Bonds (Oakland Administration Buildings), Series 1996. These bonds were issued to finance, design, construct, rehabilitate and equip two buildings and a civic plaza that are at the heart of the administrative complex of the City of Oakland for a total project cost of \$102 million.

Under a lease agreement between the City and the Joint Powers Financing Authority, the City will make lease payments to use and occupy the property. In addition to a \$13 million cash contribution made by the City, proceeds of the bonds have been used to fund the Construction Fund, Capitalized Interest Fund, Reserve Fund, and costs of issuance.

The bonds, insured by AMBAC Indemnity Corporation and rated Aaa/AAA, by Moody's and S&P, respectively, are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor, pursuant to a Lease Agreement, dated as of March 1, 1996.

\$187,500,00 Oakland Joint Powers Financing Authority, 1998 Series A-1/A-2. The 1998 bonds were issued by the Joint Powers Authority on August 3, 1998, to refund the City of Oakland's Special Refunding Revenue Bonds (Pension Financing), Series 1998 A. The bonds were sold in a variable-rate mode, in two series: \$131,500,000 Series A-1 and \$56,000,000 Series A-2, both with a final maturity of August 1, 2021. The bonds are limited obligations of the Authority, payable by base rental payments for the right to use and possession of a portion of the City's sewer system.

The City entered into a \$170,000,000 forwarding-starting, floating-to-fixed "synthetic-fixed-rate" swap with Goldman Sachs, which commenced on July 31, 1998 and terminates on July 31, 2021. The swap entitles the City to receive variable rate payments equal to the Bond Market Association Municipal Swap Index in exchange for a fixed rate payment to Goldman Sachs. The notional value of the swap declines in accord with the outstanding principal on the bonds.

\$134,890,000 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Convention Centers), Series 2001. The Oakland Joint Powers Financing Authority issued \$134,890,000 Lease Revenue Refunding Bonds (Oakland Convention Centers), Series 2001 on May 23, 2001. This issue was used to redeem and defease the \$149,825,000 California Statewide Communities Development Authority, 1992 Lease Revenue Bonds (City of Oakland Convention Centers Project).

In the fiscal years 2001-02 through 2005-06 the City is required to make combined debt and lease obligations as shown below:

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CITY OF OAKLAND DEBT AND LEASE OBLIGATIONS

Fiscal Year	General Obligation	Pension Obligation	Lease Obligation	Total
2001-02	11,535,605	24,831,276	20,303,145	56,670,026
2002-03	11,894,515	33,645,046	20,333,553	65,873,113
2003-04	11,409,256	34,708,383	20,404,504	66,522,143
2004-05	11,279,154	35,799,517	20,387,158	67,465,829
2005-06	11,208,073	36,925,655	20,449,666	68,583,393
Principal Balance ⁽¹⁾	\$137,080,000	\$235,574,659	\$418,440,000	\$791,094,659

(1) as of July 1, 2001

Source: City of Oakland Financial Services Agency

Pension Obligation Bonds. \$436,289,000 *City of Oakland, Taxable Pension Obligation Bonds, Series 1997.* On February 1, 1997, the City issued Taxable Pension Obligation Bonds Series 1997, Sub-series A, comprised of \$393,790,000 of Current Interest Bonds and \$26,705,000 of Capital Appreciation Bonds and Sub-series B in the amount of \$15,795,000 Current Interest Bonds. The proceeds of the bonds were used to fund (1) a portion of the current balance of the City's unfunded actuarial accrued liability (UAAL) for retirement benefits to members of the Oakland Police and Fire Retirement System (PFRS), (2) a portion of the City's current normal contribution to PFRS for the fiscal year ended June 30, 1997, and (3) pay costs of issuance of the Bonds. A portion of these bonds were refunded by the City's Taxable Pension Obligation Bonds, Series 2001.

\$195,636,449.10 *City of Oakland, Taxable Pension Obligation Bonds, Series 2001.* On October 17, 2001, the City of Oakland issued \$195,636,449.10 Taxable Pension Obligation Bonds, Series 2001. The Series 2001 Bonds were issued (1) to provide funds to purchase for cancellation and to legally defease a portion of the City's outstanding Taxable Pension Obligation Bonds, Series 1997 and (2) to pay costs of issuance. The issuance of the Series 2001 Bonds was part of a plan of finance undertaken by the city to extend the maturity of the bonds to reduce annual debt service on the 1997 Bonds and to minimize the need for the City to use General Fund revenues to pay such debt service on the 1997 and 2001 Bonds.

Other Long-Term Borrowings. \$2,020,000 *City of Oakland 1994 Refunding Improvement Bonds Medical Hill Parking Assessment District, Series 3.* In April 1994, the City issued these bonds to defease the City of Oakland Medical Hill Parking Assessment District Refunding Bonds dated March 2, 1989. The bonds are rated Aaa/AAA by Moody's and Standard & Poor's and are insured by MBIA. The bonds are rated Aaa/AAA by Moody's and Standard & Poor's and are insured by MBIA. The original bonds were issued to finance the construction of a parking garage to serve facilities in the Medical Hill Area. The refunding bonds are payable from assessments levied against property owners in the Medical Hill District. In the event of continuing delinquencies in the payment of any property owner's installments, the City, in the absence of any other bidder, is obligated to purchase the delinquent property owner's property at a delinquent assessment sale and pay delinquent and future installments of assessments and interest thereon until the land is resold or redeemed.

Estimated Direct And Overlapping Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, certificates of participation, and special assessment bonds. The direct and overlapping debt of the City as of February 1, 2002, according to California Municipal Statistics, Inc., is shown below. The City makes no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from this debt statement.

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CITY OF OAKLAND
Statement of Direct and Overlapping Debt, As of February 1, 2002

2001-02 Assessed Valuation: \$23,302,961,991
 Redevelopment Incremental Valuation: 3,051,729,606
 Adjusted Assessed Valuation: \$20,251,232,385

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/02</u>
East Bay Municipal Utility District	20.715%	\$ 1,309,188
East Bay Municipal Utility District, Special District No. 1	52.663	23,629,888
East Bay Regional Park District	10.935	18,310,111
Peralta Community College District	54.619	45,055,213
Berkeley and Castro Valley Unified School Districts	0.006 & 0.062	21,311
Oakland Unified School District	99.996	229,319,433
San Leandro Unified School District	19.011	4,170,063
City of Oakland	100.000	134,985,000
City of Oakland 1915 Act Bonds	100.000	8,875,000
City of Emeryville 1915 Act Bonds	4.183	<u>564,914</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$466,240,121
Less: East Bay Municipal Utility District (100% self-supporting)		<u>1,309,188</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$464,930,933

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Alameda-Contra Costa Transit District Certificates of Participation	21.567%	\$ 4,964,723
Alameda County and Coliseum Authority General Fund Obligations	18.276	106,720,777
Alameda County Pension Obligations	18.276	81,797,562
Alameda County Board of Education Public Facilities Corporation	18.276	891,869
Chabot-Las Positas Community College District Certificates of Participation	2.241	98,044
Oakland Unified School District Certificates of Participation	99.996	48,688,052
San Leandro Unified School District Certificates of Participation	19.011	3,087,386
Castro Valley Unified School District Certificates of Participation	0.062	1,872
City of Oakland and Coliseum Authority General Fund Obligations	100.000	631,160,525 (1)
City of Oakland Pension Obligations	100.000	<u>419,464,842</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,296,875,652
 GROSS COMBINED TOTAL DEBT		 \$1,763,115,773 (2)
NET COMBINED TOTAL DEBT		\$1,761,806,585

(1) Excludes lease revenue bonds to be sold

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

Ratios to 2001-02 Assessed Valuation:

Direct Debt (\$134,985,000)..... 0.58%

Total Gross Direct and Overlapping Tax and Assessment Debt... 2.00%

Total Net Direct and Overlapping Tax and Assessment Debt 2.00%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$1,185,610,367) 5.85%

Gross Combined Total Debt 8.71%

Net Combined Total Debt..... 8.70%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$1,220,431 YV:(\$400)

Property Taxation

Ad Valorem Property Taxes. City property taxes are assessed and collected by the County of Alameda (the "County") at the same time and on the same rolls as are County, school and special district property taxes. The County is permitted under State law to pass on costs for certain services provided to local government agencies including the collection of property taxes. The County imposed a fee on the City of approximately 0.55% of taxes collected for tax collection services provided in Fiscal Year 2001-2002.

Assessed Valuations. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

The passage of Assembly Bill 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program requiring the assignment of the assessment value of all unitary and operating non-unitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable county-wide rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in fiscal year 1988-89. This legislation requires each County to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

The following table represents a five-year history of assessed valuations in the City:

**CITY OF OAKLAND
ASSESSED VALUATIONS¹
(in \$000's)**

Fiscal Year	Local Secured	Utility	Unsecured	Total
1997-98	\$15,265,600	\$80,139	\$2,413,259	\$17,758,998
1998-99	15,927,351	78,976	2,670,736	18,677,063
1999-00	16,993,037	64,608	2,518,336	19,575,981
2000-01	18,453,636	62,398	2,574,565	21,090,599
2001-02	20,529,197	53,823	2,719,940	23,302,960

⁽¹⁾ Net of exemptions before redevelopment tax allocation increment deduction

Source: Alameda County Auditor-Controller.

Tax Levies, Collections and Delinquencies. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. A supplemental roll is developed when property changes hands or new construction is completed that produces additional revenue.

Secured property taxes are due on November 1 and March 1 and become delinquent, if not paid by December 10 and April 10, respectively. A 10% percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Each county levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries.

The following table represents a five-year history of the secured tax levy and of uncollected amounts in the City:

**CITY OF OAKLAND
SECURED TAX LEVY
AND AMOUNTS UNCOLLECTED
(in \$000's)**

Year Uncollected	Secured Tax Levy	Amount Uncollected as of June 30	Percent as of June 30
1996	\$94,756	\$5,368	5.67%
1997	95,519	5,554	5.82
1998	106,732	5,696	5.34
1999	105,036	6,411	6.10
2000	117,765	6,757	5.74
2001	117,129	6,257	5.34

Source: Alameda County Auditor-Controller

Tax Rates. The City is divided into thirty-three Tax Rate Areas. The largest Tax Rate Area within the City is Tax Rate Area 17-001 which has a total assessed valuation of \$12,748,989,870, or 60.45% of the City's total assessed valuation. A ten-year history of the property tax rates received by the City and the County of Alameda is shown below.

**CITY OF OAKLAND
PROPERTY TAX RATES**

Fiscal Year Ending June 30	City of Oakland	Alameda County	Others ⁽¹⁾	Total
1992	0.5198%	0.3086%	0.4092%	1.2376%
1993	0.5222	0.3086	0.4130	1.2438
1994 ⁽²⁾	0.4690	0.1555	0.6224	1.2469
1995	0.4643	0.1597	0.6169	1.2409
1996	0.4627	0.1595	0.6412	1.2634
1997	0.4468	0.1575	0.6412	1.2455
1998	0.4932	0.1567	0.6434	1.2933
1999	0.4568	0.1570	0.6370	1.2508
2000	0.5059	0.1570	0.6151	1.2780
2001	0.4694	0.1570	0.6775	1.3039
2002	0.4856	0.1570	0.6817	1.3243

⁽¹⁾ "Others" includes: County-wide Tax, Oakland Unified School District, Peralta Community College District, Bay Area Rapid Transit District, East Bay Regional Park District, East Bay Municipal Utility District, and the Oakland Knowland Park & Zoo.

⁽²⁾ Educational Revenue Augmentation Fund Shift Begins in 1994.

Sources: Alameda County Office of the Auditor-Controller and City of Oakland Financial Services Agency

Principal Property Taxpayers

A summary of the City's fiscal year 2001 –2002 largest secured taxpayers is presented below:

**CITY OF OAKLAND
TOP TEN TAXPAYERS, 2001 – 2002⁽¹⁾**

Property Owner	Type of Business	2000-02 Assessed Valuation	Percentage of Total Local Secured Valuation ²
1. Oakland City Center LLC	Property Management	\$199,804,285	0.98%
2. Prentiss Properties Acquisition Prtnr	Property Management	182,882,680	0.89
3. Kaiser Foundation Health Plan, Inc.	Health Services	138,756,622	0.68
4. Kaiser Center Inc.	Property Management	107,021,333	0.52
5. 1800 Harrison Foundation	Property Management	104,206,152	0.51
6. Clorox Company	Household Products	100,415,242	0.49
7. LMP / LLC	Property Management	95,900,011	0.47
8. KSL Claremont Resort, Inc.	Hotel	76,212,147	0.37
9. Owens Illinois Glass Container, Inc.	Industrial	71,710,775	0.35
10. Webster Street Partners, Ltd.	Property Management	67,050,200	0.33
Total - Top Ten		\$1,143,959,447	5.59%

⁽¹⁾ Net of Exemptions.

⁽²⁾ 2001-02 Local Secured Assessed Valuation: \$20,456,915,132 (net of exemptions other than homeowners exemptions).

Source: California Municipal Statistics

Financial and Accounting Information

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into eight generic fund types and three broad fund categories as follows:

Government Funds

General Fund. The General Fund is the general operating fund of the City. It accounts for normal recurring activities traditionally associated with governments which are not required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business and utility taxes, interest and rental income, charges for services and federal and State grants. Government Funds consist of the following:

Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt service funds are used to account for the accumulation of resources to be used for, and the payment of the principal of and interest on general long-term debt and related costs.

Capital Projects Funds. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

Special Assessment Funds. Special assessment funds are used to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Proprietary Funds

Enterprise Funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds. Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust, expendable trust and agency funds. Operation of the pension trust

funds are accounted for and reported in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental fund types. Agency funds are custodial in nature and do not involve measurement of results of operations.

All government funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and other taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are incurred.

General Fund Revenues and Expenditures

The following table describes revenues and expenditures for the General Fund Group for five fiscal years. Fiscal Year 2001 revenues and expenditures are audited and include intra- and inter-departmental amounts and therefore are not comparable with previous fiscal years. The City's fiscal year ends on June 30.

The City anticipated an estimated shortfall of \$15.36 million for the Fiscal Year 2001-02. To ensure a balance budget at the end of the fiscal year, the City has implemented several cost containment measures to offset the shortfall. In May 2002, the City will begin its mid-cycle budget reviews to further address the City's financial status with respect to the second year of the 2001-03 Adopted Budget.

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**CITY OF OAKLAND
REVENUES AND EXPENDITURES
GENERAL FUND GROUP
(IN \$000s)**

Fiscal Year Ending June 30:	1997	1998	1999	2000	2001
<i>Revenues</i>					
Taxes ¹	\$221,793	\$237,658	\$258,853	\$282,322	\$314,731
Licenses and Permits	7,097	7,690	8,043	9,088	11,418
Traffic Fines and Various Penalties	9,506	11,873	13,224	14,129	16,150
Interest Income	8,702	5,793	4,785	10,019	6,530
Revenue from Current Services	32,008	30,920	34,517	36,506	40,962
Grant Revenue	7,443	6,242	6,695	7,265	5,385
Other Revenue, incl. Transfers	8,955	14,730	27,732	8,813	11,056
Total Revenues	\$295,504	\$314,902	\$353,849	368,142	\$406,232
<i>Expenditures</i>					
General Government ²	\$ 33,078	\$ 33,970	\$ 38,685	\$ 41,245	\$44,110
Public Safety ³	145,839	158,948	166,389	190,782	207,392
Public Works ⁴	41,552	29,359	26,070	25,050	24,185
Life Enrichment ⁵	25,038	26,565	28,874	31,749	37,149
Economic and Community Development ⁶	1,629	14,775	18,403	18,954	20,288
Payment to Unfunded Pension	440,409				-
Other ⁷	16,764	18,180	16,478	23,462	33,112
Transfers/other sources and uses	(410,044)	35,847	2,543	581	364
Total Expenditures	\$ 294,265	\$317,644	\$297,442	\$331,823	\$366,600
Excess of Revenues and Other Sources over Expenditures and Other Uses	\$ 1,239	\$ 2,738	\$ 156,407	\$ 36,319	\$ 39,362

Source: City of Oakland Financial Services Agency

¹ Includes property, state and local taxes.

² Includes elected and appointed officials, general governmental agencies and administrative services.

³ Includes police and fire services.

⁴ Previously classified in Public Works, the Office of Planning and Building amount was reclassified to Community and Economic Development in FY 1997-1998.

⁵ Includes Parks and Recreation, Library, Museum, Aging and Health, and Human Services.

⁶ Includes Planning and Building (as of FY1997-98), Housing and Neighborhood Development, and Economic Development and Employment.

⁷ Includes capital outlays and certain debt service charges; does not include rent payable on lease obligations. In addition, approximately \$72.9 million in debt service charges were paid from sources outside the General Fund.

Labor Relations

City employees are represented by seven labor unions and associations, identified in the table below, the largest one being the Service Employees International Union (Local 790), which represents approximately 47% of all City employees. Approximately 90% of all City employees are covered by negotiated agreements, as detailed below. Memoranda of Understandings effective July 1, 2000 were entered into with all non-sworn employee organizations. The City has never experienced an employee work stoppage. Pursuant to the Meyers-Milas-Brown Act (California Government Code Section 3500 et seq.), the City continues to meet and confer with the exclusive bargaining representatives of the City employees.

CITY OF OAKLAND LABOR RELATIONS

Employee Organization/Bargaining Unit	Number of Employees	Contract Termination
International Association of Firefighters (Local 557)	481	6/30/07
International Brotherhood of Electrical Workers (Local 1245)	28	6/30/02
International Federation of Professional and Technical Engineers (Local 21)/Units A, W, and F	660	6/30/02
IFPTE, Local 21 Units H (Supervisors) & M (Managers)	375	6/30/02
IFPTE, Local 21 (Deputy City Attorney)	29	6/30/02
Oakland Police Officers Association	779	6/30/06
Service Employees International Union (Local 790)/full-time	1,479	6/30/02
Service Employees International Union (Local 790)/part-time	1,317	6/30/02
Ranger Association	21	6/30/06

Source: City of Oakland, Office of Personnel Resource Management

Retirement Programs

The Police and Fire Retirement System ("PFRS") is a defined benefit plan administered by a seven member Board of Trustees (the "Retirement Board"). The PFRS is a closed plan and covers uniformed employees hired prior to July 1, 1976. The Retirement Board is composed of: the Mayor of the City; one active member of the Police Department, or a retired member elected by the active and retired members of the Police Department if no active member of the Police Department is elected to serve on the Retirement Board; one active member of the Fire Department, or a retired member of the Fire Department elected by the active and retired members of the Fire Department if no active member of the Fire Department is elected to serve on the Retirement Board; a life insurance executive of a local office; a senior officer of a local bank; a community representative; and a Police-Fire retired member who shall be elected from the retired members of the Fire Department for a first three year term commencing the first day of the month next following his or her election, and from the retired members of the Police department for the next successive three year term, and, thereafter, alternately from the retirement rolls of each of said departments for successive three year terms.

As of June 30, 2001, PFRS covered 143 current employees and 1,486 retired employees. In November, 2000, the voters of the City amended the City Charter to give active members of the Retirement System the option to terminate their membership and transfer to the California Public Employees' Retirement System ("PERS") upon certain conditions, including the Retirement Board authorizing a transfer to PERS of funds held by the Retirement System representing City and employee contributions to the Retirement System for each member who exercises such option to transfer. Active

members of PFRS decided on October 13, 2001, whether to transfer. As a result, 101 of the eligible 104 members transferred to PERS.

Effective July 1, 1976, the City began providing for and funding an amount equal to the annual normal service cost of all PFRS participants and the amortization of unfunded actuarial accrued liability ("UAAL") as of that date over a forty-year period. On June 7, 1988, voters approved a City measure to extend the amortization period of the unfunded benefits to fifty years, ending in 2026. In accordance with these voter-approved measures, the City annually levies an ad valorem tax (the Tax Override) on all property within the City subject to taxation by the City to help fund the UAAL. For fiscal year 2002, the City has levied an ad valorem property tax at the rate of 0.1575% for this purpose.

The City's annual contribution to PFRS is determined by calculating the total pension liability for public safety employees under both PFRS and PERS. The amount to be contributed to both plans will be such that the unfunded liabilities for PFRS and PERS will be extinguished by 2026. Contributions to PERS are deducted and the difference is contributed to PFRS.

For the fiscal year ended June 30, 2001, contributions to PFRS totaling \$655,561 (no employer contributions; all \$655,561 contributed by employees) were made in accordance with actuarially determined contribution requirements. Through the Series 1997 Bond financing in fiscal year 1996-97, the City made a payment of \$417,072,300 to PFRS to offset a portion of its then UAAL for the 14-year period ending June 30, 2011. The City's actuaries do not make an allocation of the contribution amount between normal cost and the UAAL because the PFRS plan is closed. An actuarial valuation on the PFRS benefit plan is conducted every two years with the most recent complete valuation conducted for the period ended June 30, 2000.

The Oakland Municipal Employees Retirement System ("OMERS") is administered by the City and covers two active nonuniformed employees hired prior to September 1, 1970 who have not elected to transfer to the PERS as well as 151 retired employees. For the fiscal year ended June 30, 2001, the City, in accordance with actuarially determined contribution requirements, did not make contributions to OMERS as the plan is fully funded.

PERS is a defined benefit plan administered by the State and covers all nonuniformed employees except those who have not elected to transfer from OMERS and all uniformed employees hired after June 30, 1976.

For accounting purposes, employees covered under PERS are classified as either miscellaneous employees or safety employees. City miscellaneous employees and City safety employees are required to contribute 7% and 9%, respectively, of their annual salary to PERS. The City's contribution rates for the fiscal year ending June 30, 2001 are 0.0% and 8.488% for each group, respectively. The City pays the entire amount of its employees contribution rate for miscellaneous and safety employees, including the annual contribution of 7% and 9% to PERS. As of June 30, 2000, the pension benefit obligation for the City miscellaneous employees was overfunded by \$178.3 million.

PERS uses an actuarial method which takes into account those benefits that are expected to be earned in the future as well as those already accrued. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends June 30, 2026.

Economic Highlights

The City occupies approximately 53.8 square miles, with approximately 19 miles of coastline on the San Francisco Bay in northern California. The City's convenient access to mass transit, freeways, rail lines and airports; its favorable climate and environmental quality and multiple cultures; its proximity to well regarded universities and research institutions; and its diverse employee base all contribute to the cosmopolitan character of the City and have made it a center of commerce in the Bay Area.

The City's economic base historically has been predominantly industrial. Over the past several years, there have been significant gains in diversifying the City's economic base. Commercial and service-oriented sectors have come to play a larger role in the economy. The City has embraced an aggressive economic development strategy surrounding five primary business clusters: (1) biotechnology/healthcare; (2) telecommunications; (3) software/multimedia; (4) food processing; and (5) transportation.

The City of Oakland continues to enjoy growth in commercial, residential and mixed-use development. Selected highlights of this development are summarized below.

Housing Development. The "10K Initiative" is a multi-phase program to develop housing for 10,000 new residents or approximately 6,000 new units in downtown Oakland by 2004. This program includes offering City and Redevelopment Agency owned property to developers and aggressively marketing downtown sites. The City is also encouraging the development of 300 privately owned properties, which include vacant lots, parking lots and vacant or underutilized buildings. Private and Agency projects combined include: 721 units in 6 completed projects; 607 units in 5 projects under construction; 814 units in 5 projects with planning approvals (including 3 Agency projects); 795 units in 5 projects submitted for planning approval; and 1,797 units in 8 projects in discussion with the City's planning department. This equals 4,734 units, or 79% of the goal of the 10K Initiative.

Commercial Development. For the first time in more than 10 years, developers are building office towers in downtown Oakland: construction of over 1.5 million square feet of new office space and renovation of over 1.0 million square feet of existing office space is currently underway.

The downtown Oakland area will add a new 162-room hotel in Spring 2002, with another 215-room hotel slated for completion in 2003.

To enhance the downtown for retail, the City is building \$7.0 million worth of sidewalk improvements and pedestrian and transit amenities along Broadway between 9th and 17th Streets; another \$12.2 million has been budgeted for public improvements, façade improvement programs, site development, and merchant assistance for neighborhood shopping areas.

Downtown technology improvements include a new \$5 billion fiber optic network investment by Pacific Telesis.

Commerce/Transportation

Approximately \$1.4 billion will be spent over the next five years on the expansion and renovation of the Oakland International Airport, including the renovation of all terminals, a new parking garage and new roadways. The Oakland International Airport has shown steady growth in passenger traffic, and in 2001 volume exceeded 11 million passengers.

The Port of Oakland is constructing a Joint Intermodal Terminal, with four new marine terminals, which are expected to be completed by the end of the first quarter of 2002.

The City was awarded nearly \$4.3 million in state and local transportation grants for the acquisition, engineering, design and construction of a passenger rail platform along the Union Pacific rail line between the Coliseum Complex and the Coliseum BART station. The projected completion is tentatively scheduled for the 3rd quarter of 2003.

Sources: City of Oakland, Community and Economic Development Agency, Port of Oakland, and City of Oakland, Treasury Division

Population

The City's population on January 1, 2001, was estimated at 409,300 by the Demographic Research Unit of the California Department of Finance. This figure represents 27.6% of the corresponding County figure and 1.18% of the corresponding State figure. The City's population has grown over 18% in the twenty years since 1980. The following table illustrates the City's population relative to the population of Alameda County and the State of California.

POPULATION

Year	City of Oakland	County of Alameda	State of California
1960	367,548	908,209	15,717,204
1970	361,561	1,071,446	19,953,134
1980	339,337	1,105,379	23,667,902
1990	371,100	1,276,702	29,473,000
1991	378,200	1,294,700	30,321,000
1992	378,200	1,310,500	30,982,000
1993	379,700	1,326,300	31,552,000
1994	381,400	1,338,400	31,952,000
1995	381,400	1,344,200	31,910,000
1996	383,900	1,356,300	32,223,000
1997	389,700	1,375,900	32,609,000
1998	397,800	1,408,100	33,252,000
1999	399,900	1,433,800	33,773,000
2000	402,100	1,454,300	34,336,000
2001	409,300	1,479,100	34,818,000

Source: California State Department of Finance (estimates as of January 1)

Employment

Over the past several years, the City's labor force and employment levels have grown and unemployment rates have generally declined. The following table represents the labor patterns in the City, the State of California, and the United States as of June 1995 through 2001.

**CITY OF OAKLAND, STATE OF CALIFORNIA AND UNITED STATES
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT
As of June 1995 through 2001**

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
1995				
City	180,540	164,250	16,290	9.0%
State	15,350,800	14,145,700	1,205,100	7.9
United States	131,949,000	124,522,000	7,427,000	5.6
1996				
City	179,350	165,310	14,040	7.8
State	15,475,500	14,355,400	1,120,100	7.2
United States	133,697,000	126,602,000	7,095,000	5.3
1997				
City	183,480	170,710	12,770	7.0
State	15,939,900	14,939,900	999,300	6.3
United States	136,215,000	129,416,000	6,799,000	5.0
1998				
City	185,530	173,410	12,120	6.5
State	16,321,600	15,360,000	965,500	5.9
United States	137,436,000	131,227,000	6,209,000	4.5
1999				
City	188,100	176,800	11,300	6.0
State	16,566,700	15,706,700	860,000	5.2
United States	139,314,000	133,388,000	5,926,000	4.3
2000				
City	194,000	183,700	10,300	5.3
State	17,139,300	16,262,800	876,500	5.1
United States	140,757,000	135,183,000	5,574,000	4.0
2001				
City	200,800	186,300	14,500	7.2
State	17,382,600	16,488,200	894,400	5.1
United States	141,354,000	134,932,000	6,422,000	4.5

Sources: California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics

Major Employers. As an integral part of the Bay Area, the City of Oakland benefits from the wide variety of job opportunities available throughout the area. Summarized below are the City's largest private and public employers as of June 30, 2001.

TOP TEN PUBLIC EMPLOYERS*
(as of June 30, 2001)

Employer	Type of Organization	Number of Employees
U.S. Federal Government (Civilian)	Government Operations	10,500
County of Alameda	Government Operations	7,300
Oakland Unified School District	Education	7,228
State of California (not including University of California)	Government Operations	4,430
City of Oakland	Government Operations	4,218
Bay Area Rapid Transit District	Public Transportation	3,503
East Bay Municipal Utility District	Utility/Water/Wastewater	1,954
Alameda Contra Costa Transit	Public Transportation	1,168
University of California (Office of the President)	Education	1,000
East Bay Regional Park District	Parks and Recreation	758

TOP TEN PRIVATE EMPLOYERS*
(as of June 30, 2001)

Employer	Type of Organization	Number of Employees
Kaiser Permanente	Health Services	6,900
Alta-Bates Summit Medical Center	Health Services	3,000
Southwest Airlines	Air Transportation	2,979
Federal Express Corporation	Air Courier Services	2,000
Children's Hospital Medical Center	General Medical Surgical Hospital	1,900
Clorox Company	Household Products	775
Visiting Nurses Association	Home Health Care Services	700
Pacific Gas and Electric	Utility	670
Owens-Brockway Glass Container	Producer of Purchased Glass	619
Alaska Airlines	Air Transportation	600

* Approximate figures

Sources: Alameda County, Economic Development Alliance for Business, Dun & Bradstreet and City of Oakland Financial Services Agency

Commercial Activity

A five-year history of total taxable transactions for the City is shown in the following table.

CITY OF OAKLAND TAXABLE TRANSACTIONS 1996-2001

Year	Total Sales
1996	\$2,596,521,000
1997	2,767,367,000
1998	2,817,183,000
1999	3,085,079,000
2000	3,453,695,000
2001 ⁽¹⁾	800,899,000

⁽¹⁾ First quarter of 2001; most current information available.

Source: State Board of Equalization, Department of Research and Statistics

Construction Activity

A five-year history of building permits and valuation (including electrical, plumbing, and mechanical permits) appears in the following table.

CITY OF OAKLAND BUILDING PERMITS AND VALUATIONS 1996-2001

Year	Number of Permits Issued	Authorized New Dwelling Units	Residential Valuation (In Thousands)	Nonresidential Valuation (In Thousands)
1996	\$12,154	180	\$79,278	\$99,844
1997	12,459	176	39,425	202,995
1998	12,545	233	121,006	302,080
1999	14,860	181	175,115	117,140
2000	16,725	542	272,170	195,270
2001	16,879	954	138,570	481,635

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2001

Median Household Income

Effective Buying Income ("EBI") is defined as personal income less personal income tax and non-tax payments, such as fines, fees, or penalties. Median household EBI for the City is shown in the table below.

**CITY OF OAKLAND AND ALAMEDA COUNTY
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
1995-2000⁽¹⁾ Median EBI**

Year	City of Oakland	Alameda County	California	United States
1995	\$28,033	\$38,436	\$34,533	\$32,238
1996	28,788	39,658	35,216	33,482
1997	29,784	41,127	36,483	34,618
1998	30,388	41,715	37,091	35,377
1999	32,751	44,730	39,492	37,233
2000	38,602	50,631	44,464	39,129

⁽¹⁾ Most recent data available.

Source: "Survey of Buying Power," Sales and Marketing Management Magazine

Litigation

The City is involved in certain litigation and disputes relating to its operations. Upon the basis of information presently available, the City Attorney believes that there are substantial defenses to such litigation.

Oakland Raider Litigation. On September 29, 1997, the City, The County of Alameda and the Oakland Alameda County Coliseum Authority (the "Authority"), filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asked for compensatory and punitive damages with regard to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under a Master Agreement concerning the naming rights for the Oakland Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) Visiting Team Share Agreement concerning the reimbursement of legal fees and costs. Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders cannot rescind or terminate the Master Agreement; (2) the East Bay Entities do not have claims for damages, and (3) the Raiders do not have claims for tort damages against the City, the County or the Authority. Raider Management continues to have a claim for damages of \$1.1 billion related to claims of fraudulent inducement against the Oakland Alameda County Coliseum, Inc. and one of its former directors. The Authority, the City, and the County have indemnified this former director against the Raider Management claims. Raider Management also has several breach of contract claims against the City, County, the Authority and Oakland Alameda County Coliseum, Inc. These claims are currently pleaded to be worth less than \$5 million. The City is optimistic that all of the Raider Management claims will fail. However, the City cannot predict whether the Raider Management will be awarded damages at trial.

Golden State Warriors Arbitration. In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors (the "Warriors") to collect: (1) past due rents for use of the Oakland arena; (2) past due amounts of revenue sharing required by the License Agreement; and (3) facility use fees collected by the Warriors for the Authority. The arbitration demand also seeks damages

for the Warriors' breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitrator found on October 6, 1999, that the Warriors owed more than \$17 million to the Authority, net of some \$720,000 in offsets granted to the Warriors. A second phase of the arbitration was decided in July 2000, when the arbitrator decided that the Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be proven. The San Francisco Superior Court confirmed the arbitrator's award. The Warriors appealed the confirmation and that appeal is still pending in the California Court of Appeal. A ruling favorable to the Authority on this appeal would permit the Authority to execute on the \$17 million award. In January 2002, an arbitrator ruled that the Warriors are required by the License Agreement to pay a 5% facility fee on ticket revenue. In doing so, he rejected the Warriors claim that the facility fee is an illegal tax. The arbitrator will subsequently award damages to the Authority estimated to be \$1.5 million. It is expected that this award will also require Superior Court confirmation and could be appealed.

"Riders" Litigation. The City is involved in federal civil rights litigation, in which allegations have been made that individual Oakland Police Officers and the Oakland Police Department violated certain plaintiffs' civil rights. The litigation is colloquially known as the "Riders" litigation. Currently 14 individual cases have been filed in U.S. District Court, on behalf of 113 plaintiffs. Allegations include charges of false arrest, false imprisonment and/or use of excessive force. Over 40 defendants have been named, including four officers who have since been terminated from the Police Department.

The individual cases have been consolidated. Plaintiffs seek an unspecified amount of damages. The City is defending the allegations and is working to resolve the matters through negotiated settlement. Due to the unspecified nature of Plaintiffs' claims for damages, and the City's ongoing defense and settlement efforts, the City's potential total liability in these matters is difficult to estimate. No trial date has been set.

Business Tax Litigation. In Kaiser Aluminum & Chemical Corporation v. City of Oakland, Alameda County Superior Court Case No. 822752-0, Kaiser seeks a refund of business taxes based upon gross rental receipts that it paid on behalf of its lessor for the 1994 through 2000 tax years, in the amount of \$1.25 million. It alleges that the City's Business Tax Ordinance violates the commerce clause in that it is internally inconsistent, and does not fairly apportion the business activity of out-of-City landlords. Cross-motions for summary judgment and summary adjudication were heard February 15, 2002. A decision from the court on these motions is expected by April, 2002.

A group of Pacific Bell entities and other businesses have also challenged the City's Business Tax Ordinance in Pacific Bell, et. al. v. City of Oakland, Alameda County Superior Court Case No. 823263-0. The Plaintiffs allege that the Business Tax Ordinance is unconstitutional due to internal inconsistency and discriminatory provisions. Plaintiffs in this action are engaged in a variety of business activities. They seek refunds of all business taxes paid between 1996 and 2001 totaling about \$3.1 million.

These cases are being vigorously contested, and the City has sought outside counsel to aid in its defense. If plaintiffs were to prevail in either case, the City could become obligated for refunds of Business Tax already collected. The City collected \$15.2 million in the challenged categories in fiscal years 1998-2001. The City would also be prohibited from future collections unless and until any constitutional deficiencies are resolved. The City collected approximately \$38.6 million in Business Tax for fiscal year 2000-2001.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY OF OAKLAND, JUNE 30, 2001

Attached are the audited General Purpose Financial Statements of the City for its Fiscal Year ended June 30, 2001, which includes all Notes to the Financial Statements, but excludes the information entitled "Combining an Individual Fund and Account Group Financial Statements and Schedules." A complete copy of the City's General Purpose Financial Statements may be obtained upon request to the City Treasurer Manager at (510) 238-3201.

INDEPENDENT AUDITORS' REPORT

KPMG LLP 3

GENERAL PURPOSE FINANCIAL STATEMENTS

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds	12
Combined Statement of Revenues and Expenditures - Budget and Actual on a Budgetary Basis – General Fund and Annually Budgeted Special Revenue and Debt Service Funds	18
Combined Statement of Revenues, Expenses and Changes in Retained Earnings – All Proprietary Fund Types and Discretely Presented Component Unit	22
Combined Statement of Cash Flows - All Proprietary Fund Types and Discretely Presented Component Unit	24
Combined Statement of Changes in Plan Net Assets - Pension Trust Funds	28

Notes to Financial Statements

(1) Organization and Definition of Reporting Entity	29
(2) Summary of Significant Accounting Policies	30
(3) Cash and Investments and Restricted Cash and Investments	40
(4) Due From/Due To Other Funds	46
(5) Memorandums of Understanding	47
(6) Notes and Loans Receivable	48
(7) Fixed Assets	49
(8) Property Held for Resale	50
(9) Tax and Revenue Anticipation Notes Payable	51
(10) Long-Term Obligations	51
(11) Contributed Capital	71
(12) Self-Insurance	71
(13) Reservations and Designations of Fund Balances	74
(14) Segment Information for Enterprise Funds	76
(15) Joint Venture	77
(16) Pension Plans	80
(17) Reconciliation of Operations on Modified Accrual Basis to Budgetary Basis	85
(18) Postemployment Benefits Other Than Pension Benefits	87
(19) Excess of Expenditures Over Appropriations	87
(20) Commitments and Contingent Liabilities	87
(21) Individual Fund Deficits	90
(22) Subsequent Events	90

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Funding Progress - Oakland Municipal Employees' Retirement System	91
Schedule of Funding Progress - Police and Fire Retirement System	92

**COMBINING AND INDIVIDUAL FUND AND ACCOUNT GROUP
FINANCIAL STATEMENTS AND SCHEDULES**

[NOT INCLUDED IN APPENDIX B]

General Fund	
Comparative Balance Sheets	95
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances	96
Special Revenue Funds	
Description of Funds	101
Combining Balance Sheet	102
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	104
Combining Schedule of Revenues and Expenditures - Budget and Actual on a Budgetary Basis	110
Debt Service Funds	
Description of Funds	115
Combining Balance Sheet	116
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	118
Combining Schedule of Revenues and Expenditures - Budget and Actual on a Budgetary Basis	120
Capital Projects Funds	
Description of Funds	125
Combining Balance Sheet	126
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	128
Enterprise Funds	
Description of Funds	137
Combining Balance Sheet	138
Combining Statement of Revenues, Expenses and Changes in Retained Earnings	140
Combining Statement of Cash Flows	142
Internal Service Funds	
Description of Funds	149
Combining Balance Sheet	150
Combining Statement of Revenues, Expenses and Changes in Retained Earnings	152
Combining Statement of Cash Flows	154
Trust and Agency Funds	
Description of Funds	161
Combining Balance Sheet	162
Combining Statement of Plan Net Assets - Pension Trust Funds	164
Combining Statement of Changes in Plan Net Assets - Pension Trust Funds	165
Combining Balance Sheet - Expendable Trust Funds	166
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Expendable Trust Funds	168
Statement of Changes in Assets and Liabilities - Agency Funds	172
General Fixed Assets Account Group	
Schedule of General Fixed Assets by Function and Type	176
Schedule of Changes in General Fixed Assets by Function and Activity	176
Schedule of General Fixed Assets by Source	178



Three Embarcadero Center
San Francisco, CA 94111

Independent Auditors' Report

Honorable Mayor and Members of the City Council
City of Oakland:

We have audited the accompanying general purpose financial statements of the City of Oakland, California (the City) as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Oakland Municipal Employees' Retirement System, the Police and Fire Retirement System or the Oakland Redevelopment Agency, whose statements reflect total assets and total revenues which represent 2% and 1%, respectively, of the combined totals of the Special Revenue Funds; 31% and 14% of the combined totals of the Debt Service Funds; 65% and 82% of the combined totals of the Capital Projects Funds; 85% and 13% of the combined totals of the Fiduciary Fund Types and 17% of the combined total liabilities of the General Long-Term Obligations Account Group. We also did not audit the financial statements of the Port of Oakland, a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for such entities in the Special Revenue, Debt Service, Capital Projects, Fiduciary Fund Types, the General Long-Term Obligations Account Group, and the discretely presented component unit, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Oakland, California, as of June 30, 2001, and the results of its operations and the changes in plan assets of the pension trust funds and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.



KPMG LLP, a California limited liability partnership
and the U.S. member firm of the KPMG network

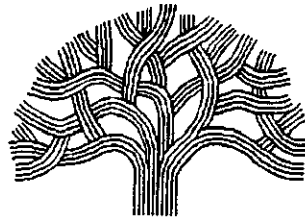
As described in note 2 to the general purpose financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The schedules of funding progress on pages 91 and 92 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied to the schedules of funding progress certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents, which are also the responsibility of the management of the City, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. Such additional information has been subjected to the auditing procedures applied in our audit and the other auditors' audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

KPMG LLP

December 28, 2001



CITY OF OAKLAND



**ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED BALANCE SHEET**

June 30, 2001

(In Thousands)

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
ASSETS AND OTHER DEBITS						
Assets						
Cash and investments	\$ 8,073	\$ 34,700	\$ 16,073	\$ 83,066	\$ 258	\$ 10,173
Receivables (net of allowance for uncollectibles):						
Accrued interest and dividends	108	342	108	1,838	—	—
Property taxes	17,411	4,353	3,907	1,689	—	—
Accounts receivable	58,739	2,287	—	283	1,849	353
Grants receivable	—	35,575	—	—	—	—
Receivable from Port of Oakland	12,172	837	—	—	—	—
Due from other funds	83,758	5,561	94	3,435	—	—
Due from other governments	—	—	—	6	—	—
Notes and loans receivable	28,295	81,927	—	33,570	—	—
Restricted cash and investments	9	—	78,590	150,071	—	16,811
Inventories	—	—	—	—	—	787
Fixed assets (net, where applicable, of accumulated depreciation)	—	—	—	—	86,019	24,603
Property held for resale	—	—	21,447	53,506	—	—
Other	1,498	25	460	2,410	—	—
Other Debits						
Amount available in debt service funds	—	—	—	—	—	—
Amount to be provided for long-term obligations	—	—	—	—	—	—
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 210,063</u>	<u>\$ 165,607</u>	<u>\$ 120,679</u>	<u>\$ 329,874</u>	<u>\$ 88,126</u>	<u>\$ 52,727</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	Primary Government	Port of Oakland	Reporting Entity
\$1,051,949	\$ —	\$ —	\$1,204,292	\$ 52,185	\$1,256,477
5,309	—	—	7,705	4,235	11,940
—	—	—	27,360	—	27,360
30,556	—	—	94,067	48,193	142,260
—	—	—	35,575	—	35,575
—	—	—	13,009	—	13,009
5,427	—	—	98,275	—	98,275
—	—	—	6	—	6
—	—	—	143,792	—	143,792
229,544	—	—	475,025	318,136	793,161
—	—	—	787	—	787
—	756,444	—	867,066	1,330,101	2,197,167
—	—	—	74,953	—	74,953
—	—	—	4,393	38,161	42,554
—	—	94,063	94,063	—	94,063
—	—	<u>1,396,198</u>	<u>1,396,198</u>	—	<u>1,396,198</u>
<u>\$1,322,785</u>	<u>\$ 756,444</u>	<u>\$1,490,261</u>	<u>\$4,536,566</u>	<u>\$1,791,011</u>	<u>\$6,327,577</u>

(continued)



**ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNIT**

COMBINED BALANCE SHEET, continued

June 30, 2001

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
LIABILITIES, EQUITY AND OTHER CREDITS						
Liabilities						
Accounts payable and accrued liabilities	\$ 101,479	\$ 10,529	\$ 732	\$ 8,486	\$ 1,728	\$ 2,564
Due to other funds	1,474	28,111	20,515	24,396	1,779	6,320
Payable to primary government	—	—	—	—	—	—
Deferred revenue	83,971	90,208	1,952	59,200	—	—
Interest payable	—	—	—	—	—	—
Long-term obligations	—	—	—	269	8,303	24,374
Due to bond holders	—	—	3,417	—	—	—
Securities lending liability	—	—	—	—	—	—
Other	343	6	—	1,282	—	—
Total liabilities	<u>187,267</u>	<u>128,854</u>	<u>26,616</u>	<u>93,633</u>	<u>11,810</u>	<u>33,258</u>
Equity and Other Credits						
Investment in general fixed assets	—	—	—	—	—	—
Contributed capital	—	—	—	—	—	17,382
Retained earnings	—	—	—	—	76,316	2,087
Fund balances:						
Reserved	1,664	36,753	94,063	236,241	—	—
Unreserved:						
Designated	7,808	—	—	—	—	—
Undesignated	<u>13,324</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total equity and other credits	<u>22,796</u>	<u>36,753</u>	<u>94,063</u>	<u>236,241</u>	<u>76,316</u>	<u>19,469</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$ 210,063</u>	<u>\$ 165,607</u>	<u>\$ 120,679</u>	<u>\$ 329,874</u>	<u>\$ 88,126</u>	<u>\$ 52,727</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	Primary Government	Port of Oakland	Reporting Entity
\$ 49,363	\$ —	\$ —	\$ 174,881	\$ 71,241	\$ 246,122
15,680	—	—	98,275	—	98,275
—	—	—	—	13,009	13,009
—	—	—	235,331	4,635	239,966
—	—	—	—	27,033	27,033
505	—	1,490,261	1,523,712	1,018,819	2,542,531
8,622	—	—	12,039	—	12,039
236,405	—	—	236,405	—	236,405
8	—	—	1,639	46,838	48,477
<u>310,583</u>	<u>—</u>	<u>1,490,261</u>	<u>2,282,282</u>	<u>1,181,575</u>	<u>3,463,857</u>
—	756,444	—	756,444	—	756,444
—	—	—	17,382	191,056	208,438
—	—	—	78,403	418,380	496,783
1,012,202	—	—	1,380,923	—	1,380,923
—	—	—	7,808	—	7,808
<u>—</u>	<u>—</u>	<u>—</u>	<u>13,324</u>	<u>—</u>	<u>13,324</u>
<u>1,012,202</u>	<u>756,444</u>	<u>—</u>	<u>2,254,284</u>	<u>609,436</u>	<u>2,863,720</u>
<u>\$1,322,785</u>	<u>\$ 756,444</u>	<u>\$1,490,261</u>	<u>\$4,536,566</u>	<u>\$1,791,011</u>	<u>\$6,327,577</u>

(concluded)



**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

Year ended June 30, 2001

(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES				
Taxes:				
Property	\$ 95,440	\$ 24,984	\$ 9,831	\$ 32,640
State:				
Sales and Use	42,256	10,621	—	—
Motor Vehicle In-lieu	21,361	—	—	—
Gas	—	10,419	—	—
Local:				
Business License	38,738	—	—	—
Utility Consumption	48,703	—	—	—
Real Estate Transfer	38,309	—	—	—
Transient Occupancy	12,766	—	—	—
Parking	6,762	—	—	—
Franchise	10,396	—	—	—
Licenses and permits	11,418	24	—	—
Fines and penalties	16,150	938	23	—
Interest and investment income	6,530	2,164	10,808	17,614
Charges for services	40,962	3,036	—	6,312
Federal and state grants and subventions	5,385	70,316	—	—
Pension annuity distribution	—	—	—	—
Other	11,056	9,030	1,040	875
TOTAL REVENUES	<u>\$406,232</u>	<u>\$131,532</u>	<u>\$21,702</u>	<u>\$ 57,441</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Type Expendable Trust</u>	<u>Total (Memorandum Only)</u>
\$ —	\$162,895
—	52,877
—	21,361
—	10,419
—	38,738
—	48,703
—	38,309
—	12,766
—	6,762
—	10,396
—	11,442
—	17,111
4,624	41,740
2	50,312
365	76,066
17,125	17,125
<u>1,475</u>	<u>23,476</u>
<u>\$23,591</u>	<u>\$640,498</u>

(continued)



**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES, continued**

Year ended June 30, 2001

(In Thousands)

EXPENDITURES	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Current:				
Elected and Appointed Officials:				
Mayor	\$ 970	\$ —	\$ —	\$ 16
Council	2,060	116	—	963
City Manager	5,259	1,772	—	1,873
City Attorney	6,321	481	—	18
City Auditor	1,025	—	—	—
City Clerk	2,089	2	—	17
Agencies/Departments:				
Personnel Resource Management	4,396	3	—	8
Retirement and Risk Administration	1,131	—	—	—
Information Technology	6,488	42	—	288
Financial Services	14,371	444	407	105
Police Services	133,729	11,687	—	105
Fire Services	73,663	3,342	—	124
Life Enrichment				
Administration	1,653	40	—	—
Parks and Recreation	15,247	14,869	—	8,064
Library	9,576	5,404	—	198
Museum	5,460	20	—	227
Aging	2,869	4,267	—	—
Health and Human Services	433	13,778	—	—
Cultural Arts	1,911	31	—	30
Community and Economic Development	20,288	24,637	—	28,820
Public Works	24,185	28,343	—	8,307
Other	32,038	14,100	493	142
Capital outlay	1,074	9,223	—	4,100
Debt service:				
Principal repayment	—	—	50,351	—
Interest charges	364	—	75,285	—
TOTAL EXPENDITURES	<u>366,600</u>	<u>132,601</u>	<u>126,536</u>	<u>53,405</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 39,632</u>	<u>\$ (1,069)</u>	<u>\$ (104,834)</u>	<u>\$ 4,036</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Type</u> Expendable Trust	Total (Memorandum Only)
\$ 88	\$ 1,074
395	3,534
200	9,104
1,039	7,859
—	1,025
45	2,153
—	4,407
5	1,136
—	6,818
171	15,498
—	145,521
1,281	78,410
—	1,693
24	38,204
81	15,259
83	5,790
—	7,136
—	14,211
—	1,972
7,487	81,232
92	60,927
1,144	47,917
—	14,397
—	50,351
—	<u>75,649</u>
<u>12,135</u>	<u>691,277</u>
<u>\$ 11,456</u>	<u>\$ (50,779)</u>

(continued)



ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES, continued

Year Ended June 30, 2001

(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BROUGHT FORWARD	<u>\$39,632</u>	<u>\$ (1,069)</u>	<u>\$(104,834)</u>	<u>\$ 4,036</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	1,573	158	151,644	10,537
Payment to refunded bond escrow agent	—	—	(149,310)	—
Property sale proceeds	104	6	—	—
Operating transfers in	8,514	6,998	109,476	525
Operating transfers out	<u>(59,261)</u>	<u>—</u>	<u>(4,741)</u>	<u>(46,613)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(49,070)</u>	<u>7,162</u>	<u>107,069</u>	<u>(35,551)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(9,438)	6,093	2,235	(31,515)
Fund balances at beginning of year	<u>32,234</u>	<u>30,660</u>	<u>91,828</u>	<u>267,756</u>
FUND BALANCES AT END OF YEAR	<u><u>\$22,796</u></u>	<u><u>\$36,753</u></u>	<u><u>\$ 94,063</u></u>	<u><u>\$236,241</u></u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Type Expendable Trust</u>	<u>Total (Memorandum Only)</u>
<u>\$ 11,456</u>	<u>\$ 50,779</u>
—	163,912
—	(149,310)
—	110
9,439	134,952
<u>(23,678)</u>	<u>(134,293)</u>
<u>(14,239)</u>	<u>15,371</u>
(2,783)	(35,408)
<u>177,517</u>	<u>599,995</u>
<u>\$174,734</u>	<u>\$ 564,587</u>
	(concluded)



**GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE
AND DEBT SERVICE FUNDS**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL ON A BUDGETARY BASIS**

Year ended June 30, 2001

(In Thousands)

		General Fund	
	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
REVENUES			
Taxes:			
Property	\$ 86,261	\$ 95,440	\$ 9,179
State:			
Sales and Use	39,600	42,256	2,656
Motor Vehicle In-lieu	19,647	21,361	1,714
Gas	8	—	(8)
Local:			
Business License	38,845	38,738	(107)
Utility Consumption	41,882	48,703	6,821
Real Estate Transfer	21,929	38,309	16,380
Transient Occupancy	11,799	12,766	967
Parking	5,766	6,762	996
Franchise	10,071	10,396	325
Licenses and permits	9,258	11,418	2,160
Fines and penalties	17,996	16,150	(1,846)
Interest and investment income	3,992	5,890	1,898
Charges for services	43,751	40,962	(2,789)
Federal and state grants and subventions	2,336	5,385	3,049
Other	<u>12,329</u>	<u>11,056</u>	<u>(1,273)</u>
TOTAL REVENUES	<u>\$365,470</u>	<u>\$405,592</u>	<u>\$40,122</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

Annually Budgeted Special Revenue Funds			Annually Budgeted Debt Service Funds		
Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
\$ 16,413	\$19,292	\$ 2,879	\$10,996	\$ 9,124	\$ (1,872)
5,663	10,621	4,958	—	—	—
—	—	—	—	—	—
9,926	10,419	493	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
8	24	16	—	—	—
270	439	169	—	23	23
388	1,441	1,053	—	1,726	1,726
688	219	(469)	—	—	—
4,504	5,224	720	—	—	—
55	25	(30)	3,414	1,040	(2,374)
<u>\$37,915</u>	<u>\$47,704</u>	<u>\$ 9,789</u>	<u>\$14,410</u>	<u>\$11,913</u>	<u>\$ (2,497)</u>

(continued)



**GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE
AND DEBT SERVICE FUNDS**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL ON A BUDGETARY BASIS, continued**

Year ended June 30, 2001

(In Thousands)

		General Fund	
	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
EXPENDITURES			
Current:			
Elected and Appointed Officials:			
Mayor	\$ 973	\$ 970	\$ 3
Council	2,296	2,060	236
City Manager	6,471	5,259	1,212
City Attorney	5,043	6,321	(1,278)
City Auditor	1,039	1,025	14
City Clerk	1,900	2,089	(189)
Agencies/Departments:			
Personnel Resource Management	3,824	4,396	(572)
Retirement and Risk Administration	1,229	1,131	98
Information Technology	7,400	6,488	912
Financial Services	16,228	14,371	1,857
Police Services	119,896	133,729	(13,833)
Fire Services	77,375	73,663	3,712
Life Enrichment			
Administration	1,800	1,653	147
Parks and Recreation	15,102	15,247	(145)
Library	9,599	9,576	23
Museum	4,987	5,460	(473)
Aging	4,241	2,869	1,372
Health and Human Services	484	433	51
Cultural Arts	1,911	1,911	0
Community and Economic Development	23,914	20,288	3,626
Public Works	29,192	24,185	5,007
Other	31,815	32,038	(223)
Capital outlay	4,804	1,074	3,730
Debt service:			
Principal repayment	---	---	---
Interest charges	318	364	(46)
TOTAL EXPENDITURES	<u>371,841</u>	<u>366,600</u>	<u>5,241</u>
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	<u>\$ (6,371)</u>	<u>\$ 38,992</u>	<u>\$ 45,363</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

Annually Budgeted Special Revenue Funds			Annually Budgeted Debt Service Funds		
Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
128	98	30	—	—	—
92	91	1	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
25	25	—	—	—	—
94	93	1	—	—	—
—	1	(1)	438	405	33
—	—	—	—	—	—
—	—	—	—	—	—
2	2	—	—	—	—
14,540	14,348	192	—	—	—
—	—	—	—	—	—
—	19	(19)	—	—	—
786	864	(78)	—	—	—
—	2	(2)	—	—	—
—	—	—	—	—	—
66	28	38	—	—	—
27,508	20,231	7,277	—	—	—
—	3	(3)	32	4	28
8,499	3,538	4,961	—	—	—
—	—	—	28,334	27,507	827
—	—	—	42,471	42,252	219
51,740	39,343	12,397	71,275	70,168	1,107
<u>\$ (13,825)</u>	<u>\$ 8,361</u>	<u>\$ 22,186</u>	<u>\$ (56,865)</u>	<u>\$ (58,255)</u>	<u>\$ (1,390)</u>

(concluded)



**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS**

Year Ended June 30, 2001

(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES		
Rental	\$ 103	\$ —
Charges for services	18,759	33,285
Interest	—	—
Other	4	480
TOTAL OPERATING REVENUES	<u>18,866</u>	<u>33,765</u>
OPERATING EXPENSES		
Personnel	5,605	12,308
Supplies	244	5,760
Depreciation and amortization	2,981	4,126
Contractual services and supplies	1,543	447
Repairs and maintenance	—	1,825
General and administrative	1,895	3,827
Rental	746	1,315
Other	—	5,185
TOTAL OPERATING EXPENSES	<u>13,014</u>	<u>34,793</u>
OPERATING INCOME (LOSS)	<u>5,852</u>	<u>(1,028)</u>
NON-OPERATING REVENUES (EXPENSES)		
Federal and state grants	36	—
Interest	(293)	—
Other, net	—	542
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(257)</u>	<u>542</u>
INCOME BEFORE OPERATING TRANSFERS	<u>5,595</u>	<u>(486)</u>
Operating transfers out	(659)	—
NET INCOME (LOSS)	<u>4,936</u>	<u>(486)</u>
Depreciation of fixed assets acquired with contributed capital	—	—
Retained earnings at beginning of year	71,380	2,573
RETAINED EARNINGS AT END OF YEAR	<u>\$ 76,316</u>	<u>\$ 2,087</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

Total (Memorandum Only) Primary Government	Component Unit Port of Oakland	Total (Memorandum Only) Reporting Entity
\$ 103	\$ 197,170	\$ 197,273
52,044	—	52,044
—	—	—
<u>484</u>	<u>—</u>	<u>484</u>
<u>52,631</u>	<u>197,170</u>	<u>249,801</u>
17,913	47,951	65,864
6,004	—	6,004
7,107	36,835	43,942
1,990	—	1,990
1,825	22,933	24,758
5,722	33,358	39,080
2,061	—	2,061
<u>5,185</u>	<u>—</u>	<u>5,185</u>
<u>47,807</u>	<u>141,077</u>	<u>188,884</u>
<u>4,324</u>	<u>56,093</u>	<u>60,917</u>
36	32,082	32,118
(293)	(26,323)	(26,616)
<u>542</u>	<u>22,799</u>	<u>23,341</u>
<u>285</u>	<u>28,558</u>	<u>28,843</u>
<u>5,109</u>	<u>84,651</u>	<u>89,760</u>
<u>(659)</u>	<u>—</u>	<u>(659)</u>
<u>4,450</u>	<u>84,651</u>	<u>89,101</u>
—	7,296	7,296
<u>73,953</u>	<u>326,433</u>	<u>400,386</u>
<u>\$ 78,403</u>	<u>\$ 418,380</u>	<u>\$ 496,783</u>



**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF CASH FLOWS**
Year ended June 30, 2001
(In Thousands)

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 5,852	\$(1,028)	\$ 4,824
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	2,981	4,126	7,107
Changes in assets and liabilities:			
Receivables	(276)	(159)	(435)
Inventories	—	98	98
Other assets	—	—	—
Accounts payable and accrued liabilities	—	(1,040)	(1,040)
Deferred revenue	—	—	—
Other liabilities	—	—	—
Other	—	—	—
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>8,557</u>	<u>1,997</u>	<u>10,554</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Inter-fund (repayments) borrowings	1,779	558	2,337
Operating transfers to other funds	<u>(659)</u>	<u>—</u>	<u>(659)</u>
NET CASH PROVIDED BY (USED IN) NON-CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,120</u>	<u>\$ 558</u>	<u>\$ 1,678</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Component Unit</u> Port of Oakland	<u>Total (Memorandum Only)</u> Reporting Entity
\$ 56,093	\$ 60,917
36,835	43,942
(15,951)	(16,386)
—	98
(13,912)	(13,912)
5,674	4,634
1,789	1,789
554	554
<u>7,698</u>	<u>7,698</u>
<u>78,780</u>	<u>89,334</u>
—	2,337
<u>—</u>	<u>(659)</u>
\$ <u>—</u>	\$ <u>1,678</u>

(continued)



**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF CASH FLOWS, continued**

Year ended June 30, 2001

(In Thousands)

	Proprietary Fund Types		Total (Memorandum Only) Primary Government
	Enterprise	Internal Service	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Long-term debt:			
New borrowings	\$ —	\$ —	\$ —
Repayment of principal	(620)	(4,386)	(5,006)
Payment of interest	(314)	(1,495)	(1,809)
Proceeds from sale of fixed assets	—	—	—
Acquisition and construction of capital assets	(9,002)	(12,451)	(21,453)
Grants from governmental agencies	36	—	36
Passenger facility charges	—	—	—
Other	21	2,266	2,287
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(9,879)</u>	<u>(16,066)</u>	<u>(25,945)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	—	—	—
Proceeds from sales of investments	—	—	—
Interest on investments	—	—	—
NET CASH USED IN INVESTING ACTIVITIES	<u>—</u>	<u>—</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(202)	(13,511)	(13,713)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>460</u>	<u>40,495</u>	<u>40,955</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 258</u>	<u>\$ 26,984</u>	<u>\$ 27,242</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

Component Unit <u>Port of Oakland</u>	Total (Memorandum Only) <u>Reporting Entity</u>
\$ 477,890	\$ 477,890
(473,592)	(478,598)
(30,784)	(32,593)
7,485	7,485
(275,851)	(297,304)
32,082	32,118
18,840	18,840
<u>—</u>	<u>2,287</u>
<u>(243,930)</u>	<u>(269,875)</u>
(51,430)	(51,430)
187,365	187,366
<u>10,555</u>	<u>10,555</u>
<u>146,491</u>	<u>146,491</u>
(18,659)	(32,372)
<u>70,844</u>	<u>111,799</u>
<u>\$ 52,185</u>	<u>\$ 79,427</u>
	(concluded)



PENSION TRUST FUNDS
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
Year ended June 30, 2001
(In Thousands)

ADDITIONS:

Members contributions	\$ 662
Investment income:	
Net depreciation in fair value of investments	(34,600)
Interest	30,009
Dividends	<u>7,307</u>
Total	2,716
Less investment expense	<u>(2,924)</u>
Net investment income	<u>(208)</u>
TOTAL ADDITIONS	<u><u>454</u></u>

DEDUCTIONS:

Disbursements to members and beneficiaries:	
Retirement	\$ 40,187
Disability	22,401
Death	<u>1,896</u>
Total	<u>64,484</u>
Administrative expenses	937
Interest expense - bonds	40
Changes in payable to City	1,998
Termination refunds of employees' contributions	<u>103</u>
TOTAL DEDUCTIONS	<u><u>67,562</u></u>
EXCESS OF ADDITIONS OVER DEDUCTIONS	(67,108)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year, restated (Note 16)	<u>904,576</u>
End of year	<u><u>\$837,468</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

The City of Oakland, California, (the City) was incorporated on May 25, 1854, by the State of California and is organized and exists under and pursuant to the provisions of State law. The Mayor/Council form of government was established in November 1998 through Charter amendment. The legislative authority is vested in the City Council and the executive authority is vested in the Mayor with administrative authority resting with the City Manager.

The City has defined its reporting entity in accordance with generally accepted accounting principles (GAAP) which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. The general purpose financial statements present information on the activities of the reporting entity, including all of the fund types and account groups of the City (the primary government) and its component units.

GAAP require that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the City's operations. Therefore, they are reported as part of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City.

Blended Component Units

The Redevelopment Agency of the City of Oakland (Agency) was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities are acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council serves as the Board of the Agency. The Agency's funds are reported as special revenue, capital projects and expendable trust funds.

Complete financial statements of the individual component units can be obtained from:

Financial Services Agency, Accounting Division
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612-2093



The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. It is reported as a debt service fund.

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. JPFA transactions are recorded in the capital projects and debt service funds, and the general long-term obligations account group.

Discretely Presented Component Units

The Port of Oakland (Port) is a public entity established in 1927 by the City. Operations include the Oakland International Airport; the Port of Oakland Marine Terminal Facilities; and commercial real estate which includes Oakland Portside Associates (OPA), a California limited partnership, and the Port of Oakland Public Benefit Corporation (Port-PBC), a nonprofit benefit corporation. The Port is governed by a seven-member Board of Port Commissioners (the Board) which is appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City treasury. The City is responsible for investing and managing such funds.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The various funds and account groups are summarized by type in the general purpose financial statements. Fund types and account groups used by the City are described below.

Governmental Fund Types

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types. The measurement focus is based upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the City's Governmental Fund Types:

The **General Fund** is the primary operating fund of the City. It accounts for normal recurring activities traditionally associated with governments which are not required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes,

business and utility taxes, interest and rental income, charges for services, and federal and state grants.

Special Revenue Funds account for certain revenue sources that are legally restricted to be spent for specified purposes. Other restricted resources are accounted for in trust, debt service, and capital projects funds.

Debt Service Funds account for the accumulation of resources to be used for the payment of general long-term debt principal and interest as well as related costs.

Capital Projects Funds account for financial resources to be used for the acquisition, construction or improvement of major capital facilities (other than those financed through the proprietary fund types).

Proprietary Fund Types

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector and are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City adopts all applicable FASB Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its proprietary operations unless those pronouncements conflict with or contradict Government Accounting Standards Board pronouncements. The measurement focus is based upon determination of net income, financial position and changes in cash flows. The following are the City's Proprietary Fund Types:

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds account for operations that provide goods and services to other City departments and agencies, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include the pension trust, expendable trust, and agency funds. Operations of the pension trust funds are accounted for in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental fund types. Agency funds are custodial in nature and do not involve measurement of results of operations.



Account Groups

The **General Fixed Assets Account Group** accounts for recorded fixed assets of the City, other than those accounted for in the proprietary fund types.

The **General Long-Term Obligations Account Group** accounts for all long-term obligations, including claim liabilities and vested compensation and sick leave of the City, except for those obligations accounted for in the proprietary fund types.

Basis of Accounting

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Operating statements for these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary fund types and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Modified Accrual Basis of Accounting

The modified accrual basis of accounting is followed in the governmental fund types and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on general long-term obligations, are recorded when the fund liability is incurred and is expected to be liquidated with expendable available resources. The exception to the general modified accrual expenditure recognition criteria is that principal and interest on general long-term obligations are recorded when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Intergovernmental revenues, which are primarily grants and subventions received as reimbursement for specific purposes or projects, are recognized when all applicable eligibility requirements are met. Intergovernmental revenues which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance

requirements are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

Property taxes receivable within the governmental fund types which have been collected within sixty days following fiscal year-end are considered measurable and available and are recognized as revenues in the funds.

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of March 1 on all taxable property located in the City, and result in a lien on real property. Property taxes are then due in two equal installments, the first on November 1 and the second on March 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the fiscal year ended June 30, 2001.

Special assessments are recorded as revenues and receivables to the extent installments are considered current. The estimated installments receivable not considered current are recorded as receivables and offset by deferred revenue.

Other major revenues are susceptible to accrual and are also recognized as revenue when they are collected within 60 days of fiscal year-end. These include interest, utility consumption taxes, franchise fees, transient occupancy taxes, and certain rentals. Real estate transfer taxes on assessed properties transferred prior to the fiscal year-end and held by Alameda County, and sales and use taxes and motor vehicle in-lieu taxes held by the State at year-end on behalf of the City are also recognized as revenue.

Major revenues that are determined not to be susceptible to accrual because either they are not available soon enough to pay liabilities of the current period or are not objectively measurable include delinquent property taxes, licenses (other than business licenses), permits, fines and forfeitures.

Accrual Basis of Accounting

The accrual basis of accounting is utilized in all proprietary fund types and pension trust funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Deferred Revenue

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records deferred revenue



related to: uncollected property taxes; estimated special assessments not yet payable; intergovernmental revenues (primarily grants and subventions) received but not earned (qualifying expenditures not yet incurred); long-term contracts; and notes or loans receivable arising from loan subsidy programs which are charged to operations upon funding and recognized as revenue upon receipt.

Governmental Accounting Standards Board statement No. 33

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial and capital resources such as taxes and grants. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. This statement affects the timing of recognition of nonexchange transactions—that is, when governments recognize them in the financial statements. Adoption of Statement No. 33 did not impact reported fund balances.

Governmental Accounting Standards Board statement No. 36

The City adopted the provisions of GASB Statement No. 36, *Receipt Reporting for Certain Shared Nonexchange Revenues*. This statement amends GASB Statement No. 33 with respect to the manner in which shared nonexchange revenues are accounted for by recipient governments. Accordingly, the City considered the effects of this statement when adopting the provisions of GASB Statement No. 33 as previously described.

Budgetary Data

In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. The City Charter prohibits expending funds for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds.

Prior to July 1, the original adopted budget is finalized through the passage of a resolution by the City Council. The level of legal budgetary control by the City Council is established at the fund level. For management purposes, the budget is controlled at the departmental level of expenditure within funds.

On June 29, 1999, the City Council voted unanimously to adopt the City's second two-year budget for fiscal years July 1, 1999 through June 30, 2001. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. Agencies/departments ending the first year with budgetary non-project surplus, according to Council policy, will be allowed to carry-forward 1/3 for their operating budget, 1/3 for their capital spending, and 1/3 for reverting to the General Fund balance.

The revised budgetary data presented in the accompanying "General Fund and Annually Budgeted Special Revenue and Debt Service Funds—Combined Schedule of Revenues and Expenditures—Budget and Actual on a Budgetary Basis," reflect approved changes to the original 1999-00 budget. Certain projects are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year with the approval of the City Manager.

Transfers of appropriations between funds and departments must be approved by the City Council. Supplemental appropriations financed by unanticipated revenues must be approved by the City Council.

Transfers of appropriations between projects within the same fund must be approved by the City Manager. Revised budget amounts reported in the accompanying general purpose financial statements reflect both the appropriation changes approved by the City Council and the transfers approved by the City Manager.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting which is substantially the same as GAAP. The area of difference is discussed in Note 17.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds that are excluded from budgetary reporting are:

Special Revenue Funds

- Federal and State Grants
- Other Assessment Districts
- Other Special Revenues
- Oakland Redevelopment Agency



Debt Service Funds

- Tax Allocation Bonds
- Lease Financings
- Civic Improvement
- JPFA Fund

Capital Projects Funds

- Parks and Recreation Fund
- Municipal Improvement
- Emergency Services Fund
- Oakland Redevelopment Agency

In addition, the Lease Financings Debt Service Fund is not budgeted by the City because the fund is reported for financial statement purposes only, and includes the results of certain lease financings between the City and the Agency and between the City and the California Statewide Communities Development Authority. Any financial activity related to these financings is budgeted on a basis consistent with the form of the transactions, whereas for reporting purposes the financial activity is recorded in a manner consistent with the substance of the transaction.

While the City adopts budgets for all funds, the budget to actual comparisons for the following funds have not been shown due to some projects and programs being adopted on a multi-year basis and the complexity of the presentation.

Enterprise Funds

- Park and Recreation Fund
- Sewer Service Fund

Internal Service

- Equipment Fund
- Radio Fund
- Facilities Fund
- Reproduction Fund
- Central Stores Fund

Pension Trust Funds

- OMERS
- PFRS

Expendable Trust Funds

- Oakland Redevelopment Agency Project Fund
- Parks, Recreation and Cultural Trust Fund
- Pension Annuity Fund
- Other Expendable Trust Funds

Agency Fund

- Housing Finance Revenue Bond Fund

Cash and Investments

The City follows the practice of pooling cash of all operating funds for investment, except for the Oakland Redevelopment Agency funds, agency fund types, and funds held by outside custodians. Investments are generally carried at fair value. Money market investments (such as short term, highly liquid debt instruments including commercial paper, banker's acceptances, U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less, are carried at amortized cost. Changes in fair value of investments are recognized as a component of interest income.

Income earned or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds and component units based on their proportionate share of the average daily cash balance.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary fund types' investments in the City's cash and investment pool are, in substance, demand deposits and are therefore considered to be cash equivalents.

Due From/Due To Other Funds

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds."

Restricted Cash and Investments

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

Other Assets

Other assets primarily include prepaid expenses for governmental funds and bond discounts and issuance costs for proprietary fund type debt which are deferred and amortized over the term of the bonds under the interest method. Bond discounts and issuance costs for governmental fund type debt are recognized as expenditures when incurred.

Inventories

Inventories, consisting of materials and supplies held for consumption, are stated at cost. Cost is generally calculated using the first-in, first-out method. Inventory items are considered expensed when used.



General Fixed Assets

General fixed assets are those acquired for general governmental purposes. Such assets currently purchased or constructed are recorded as expenditures in the governmental fund types and are capitalized at cost in the General Fixed Assets Account Group, with the exception of certain assets acquired prior to July 1, 1984, which have been recorded at estimated historical cost. Donated fixed assets are recorded at estimated fair market value at the time of receipt.

Public domain infrastructure (general fixed assets consisting of certain improvements other than buildings) is not capitalized and is not included in the General Fixed Assets Account Group. These assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets. Such assets normally are immovable and of value only to the City; therefore, stewardship for capital expenditures is satisfied without recording such assets.

No depreciation is provided on general fixed assets.

Fixed Assets - Proprietary Fund Types and Discretely Presented Component Unit

Fixed assets in the proprietary fund types and the Port are generally stated at cost, with the exception of certain assets acquired prior to July 1, 1984, which have been recorded at estimated historical cost. Depreciation is provided using the straight-line method based on the estimated useful life of the asset as follows:

Facilities, sewers and improvements	5-50 years
Container cranes	25 years
Furniture, machinery and other equipment	3-10 years

Land Held for Resale

The Agency charges capital outlay expenditures for the full cost of developing and administering its projects. Land held for resale is recorded as an asset at the lower of cost or estimated net realizable value, with an equal amount recorded as a reservation of fund balance.

Vacation and Sick Leave Pay

Vacation pay may be accumulated and is payable upon retirement or termination of an employee. Sick leave vests to an employee upon being employed for at least ten years with the City. Upon termination, a vested employee is entitled to one-third of the sick leave accumulated to the date of termination.

Vested vacation, sick leave and compensatory time are accrued, as appropriate, for all funds. With respect to obligations of the governmental fund types, amounts expected to be paid

monetarily or by way of compensatory time off are accrued in the appropriate fund if current resources are expected to be used. The remainder is recorded in the General Long-Term Obligations Account Group.

Retirement Plans

The City has three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS). Employer contributions and member contributions made by the employer to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the forms of the Plans. Refer to Note 16 for additional information.

Claims and Judgments

The costs of claims and judgments estimated to be paid with current expendable resources are accrued as current liabilities of the General Fund when the liability is incurred and the amount can be reasonably estimated. The remaining estimated costs are recorded in the General Long-Term Obligations Account Group (Note 12).

Contributed Capital

Primary Government

Contributed capital in the proprietary fund types represents the accumulation of contributions in the form of cash or other assets which generally do not have to be returned to the contributor. Such contributions through June 30, 2000, were recorded directly to contributed capital and, accordingly, are not recognized as revenue. The following transactions are recorded to contributed capital in the proprietary fund types:

Cash and other asset transfers of equity from the primary government or other funds.

Fixed assets contributed from the primary government or other funds.

Discretely Presented Component Unit

As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective July 1, 2000, the Port changed its method of accounting for Grants from Government Agencies (Grants) and Passenger Facility Charges (PFCs) from capital contributions to restricted non-operating revenues. In accordance with GASB No. 33, Grants and PFCs are required to be included in the determination of net income resulting in an increase in net revenue of \$32,082,000 and \$18,840,000, respectively, for the year ended June 30, 2001. For the year ended June 30, 2000, the change in accounting principle would have resulted in net revenue from Grants and PFCs of \$3,896,000 and \$14,180,000, respectively.



and an equity reclassification from Grants and PFCs to reserved retained earnings of the same amounts.

Fund Equity

Reservations of fund balances indicate those portions of fund equity which are not available for appropriation or expenditure or which have been legally restricted to a specific use (Note 13).

Portions of unreserved fund balances have been designated to indicate those portions of fund balances which the City has tentative plans to utilize in a future period. These amounts may or may not result in actual expenditures.

Total Columns on Combined Financial Statements

Total columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or cash flows of the City in conformity with GAAP. Such data is not comparable to a consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

Primary Government

The City maintains a cash and investment pool consisting of City funds and cash held for OMERS, PFRS and the Port. The City's funds are invested according to the investment policy adopted by the City Council. The objectives of the policy are legality, safety, liquidity, diversity, and yield. The policy addresses soundness of financial institutions in which the City can deposit funds, types of investment instruments permitted by the California Government Code, duration of the investments, and the percentage of the portfolio which may be invested in certain instruments. Investments permitted by the policy include:

- United States Treasury securities (subject to restrictions by the Nuclear Free Ordinance);
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- medium term corporate notes and deposit notes;

NOTES TO FINANCIAL STATEMENTS

- negotiable certificates of deposit;
- certificates of deposit;
- Local Agency Investment Fund;
- money market mutual funds;
- local city/agency bonds;
- State of California bonds;
- secured obligations and agreements;
- repurchase agreements; and
- reverse repurchase agreements.

The City's investment policy stipulates that the collateral to back up repurchase agreements be priced at market value and be held in safekeeping by the City's primary custodian. Additionally, the City Council has adopted certain requirements prohibiting investments in nuclear weapons makers, and restricting investments in U.S. Treasury bills and notes due to their use in funding nuclear weapons research and production. As of June 30, 2001, the City was in compliance with the above stated investment requirements.

Other deposits and investments are invested pursuant to the governing bond covenants, deferred compensation plans, or retirement systems' investment policies. Under the investment policies, the investment counsel is given the full authority to accomplish the objectives of the bond covenants or retirement systems subject to the discretionary limits set forth in the policies.

The retirement systems' investment policies allow the following:

Obligations of the United States Government, any agency of the United States Government, common stocks, mutual funds, preferred stocks and securities convertible into common stocks, Federal Housing Administration mortgages, certificates and shares of state or federal chartered savings and loan associations, equity or mortgage debt investments in existing real property or in property to be constructed, except that no mortgage investments may be funded until the improvements on the property are substantially complete.

Total deposits and investments (in thousands):

	City	Port	Total
Deposits	\$ 262,827	\$ 16,520	\$ 279,347
Investments	<u>1,416,490</u>	<u>353,801</u>	<u>1,770,291</u>
TOTAL	<u>\$1,679,317</u>	<u>\$370,321</u>	<u>\$2,049,638</u>



These are classified on the Combined Balance Sheet as (in thousands):

	City	Port	Total
Cash and investments	\$1,204,163	\$ 52,185	\$1,256,348
Restricted cash and investments	<u>475,154</u>	<u>318,136</u>	<u>793,290</u>
TOTAL	<u>\$1,679,317</u>	<u>\$370,321</u>	<u>\$2,049,638</u>

Deposits

At June 30, 2001, the carrying amount of the City's deposits was \$262,827,000 and the bank balance was \$259,389,000. The difference between the carrying amount and the bank balance was primarily due to deposits in transit and outstanding checks. Deposits include checking accounts, interest earning savings accounts, money market funds, and nonnegotiable certificates of deposit. Of the bank balance, \$1,500,000 was FDIC insured and \$257,889,000 was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

Investments

The City's investments are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, with the securities held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counterparty or by its trust department or agent but not in the City's name.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2001, investments included the following (in thousands):

Subject to Custodial Risk Categorization	Category 1	Carrying Value
U.S. Treasury securities	\$ 296,907	\$ 296,907
Federal agency issues	282,768	282,768
Municipal bonds	5,000	5,000
Commercial paper	17,583	17,583
Corporate stocks and bonds	404,652	404,652
Medium term corporate notes	246,868	246,868
Long-term repurchase and investment agreements	<u>232,684</u>	<u>232,684</u>
Total	<u>\$1,486,462</u>	<u>1,486,462</u>
 Investments Not Subject to Custodial Risk Categorization		
Real estate deeds		8,211
Real estate mortgage loans/investments		124
Local Agency Investment Fund		39,089
Investments held by broker-dealers under securities loans		<u>236,405</u>
Total		<u>283,829</u>
TOTAL INVESTMENTS		1,770,291
Less Port of Oakland Investments		<u>(353,801)</u>
TOTAL CITY INVESTMENTS		<u>\$1,416,490</u>

Securities Lending Transactions

PFRS is authorized to enter into securities lending transactions which are short term collateralized loans of PFRS securities to brokers with a simultaneous agreement allowing PFRS to invest and receive earnings on the loan collateral for a loan rebate fee. All securities loans can be terminated on demand by either PFRS or the borrower, although the average term of such loans is one week.

Metropolitan West Securities, Inc. (MetWest) administers the securities lending program. MetWest is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

At year-end, PFRS had no credit risk exposure to securities borrowers because the amounts PFRS owed to borrowers exceeded the amounts the borrowers owed to PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

As of June 30, 2001, PFRS had securities on loan with a market value of approximately \$228,749,000 for cash collateral of \$236,405,000.



PFRS' securities lending income for the year ending June 30, 2001, is as follows:

Gross Income	\$ 16,484,475
Expenses:	
Borrower rebates	15,451,959
Administration fees	413,007
Total Expenses	<u>15,864,966</u>
NET INCOME FROM SECURITIES LENDING	<u>\$ 619,509</u>

Derivatives

The City's investment policy permits investments in certain derivatives. There were no derivatives included in the investment pool during the year ended June 30, 2001.

Discretely Presented Component Unit

The Port's cash and investments are reported as follows at June 30, 2001 (in thousands):

Cash and investments:	
Cash and investments with the City	\$ 49,896
Cash on hand	3
Cash in bank accounts	<u>2,286</u>
TOTAL CASH AND INVESTMENTS	<u>52,185</u>
Restricted cash and investments:	
Sinking fund and reserve deposits with fiscal agents	77,813
Unexpended bond proceeds restricted for construction	172,070
Deposits in escrow	12,052
Cash and investments with City:	
Passenger facility charges	54,093
Other	1,826
Restricted deposits with fiscal agents for current debt service	<u>282</u>
TOTAL RESTRICTED CASH AND INVESTMENTS	<u>318,136</u>
TOTAL	<u>\$370,321</u>

The carrying amount of Port cash and investments is as follows at June 30, 2001 (in thousands):

Cash on hand and at bank	\$ 14,342
Government securities money market mutual funds	2,179
U.S. Treasury obligations	29,113
Guaranteed investment contracts	218,872
Cash and investments with the City of Oakland	<u>105,815</u>
TOTAL	<u>\$370,321</u>

Cash and Investments With the City of Oakland

Pursuant to the City Charter, Port operating revenues are deposited in the City treasury. These funds are commingled in the City cash and investment pool. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily balance on deposit and the earnings of the investments. All investments deposited in the City treasury are insured or registered, or held by the City or its agent in the City's name.

Restricted Cash and Investments

Port bond resolutions authorize the investment of restricted cash, including deposits, with fiscal agents for debt service. Authorized investment securities are specified in the various bond indentures. All indentures permit investments in U.S. Treasury obligations and bank certificates of deposit. Certain indentures also permit investments in federal agency obligations, certain state and secured municipal obligations, long-term and medium-term guaranteed corporate debt securities in the two highest rating categories, commercial paper rated prime, repurchase agreements, certain money market mutual funds, and certain guaranteed investment contracts.

Deposits and Investments

The carrying amount of Port deposits with banks and fiscal agents was \$2,289,000 at June 30, 2001. Bank balances of \$601,000 at June 30, 2001, is insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name.

The California Government Code requires governmental securities or first trust deed mortgage notes as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

All investments subject to custodial risk categorization are Category I investments.

**(4) DUE FROM/DUE TO OTHER FUNDS**

The following were the current interfund balances at June 30, 2001 (in thousands):

	Due from	Due to
General Fund	<u>\$ 83,758</u>	<u>\$ 1,474</u>
Special Revenue Funds		
Federal and State Grants	3,260	26,866
Other Special Revenue	1,926	1,105
Oakland Redevelopment Agency	<u>375</u>	<u>140</u>
	<u>5,561</u>	<u>28,111</u>
Debt Service Funds		
Tax Allocation Bonds	—	20,381
Lease Financings	—	106
Civic Improvement	94	5
JPFA Fund	—	19
Special Revenue Bonds	<u>—</u>	<u>4</u>
	<u>94</u>	<u>20,515</u>
Capital Projects Funds		
Municipal Improvement Capital	1,474	99
Emergency Services	—	114
Oakland Redevelopment Agency	<u>1,961</u>	<u>24,183</u>
	<u>3,435</u>	<u>24,396</u>
Enterprise Funds		
Sewer Service	<u>—</u>	<u>1,779</u>
	<u>—</u>	<u>1,779</u>
Internal Service Funds		
Facilities	—	2,912
Central Stores	<u>—</u>	<u>3,408</u>
	<u>—</u>	<u>6,320</u>
Trust and Agency Funds		
Pension Trust Funds - OMERS	—	5,782
Expendable Trust Funds		
Oakland Redevelopment Agency Projects	<u>5,427</u>	<u>9,898</u>
	<u>5,427</u>	<u>15,680</u>
TOTAL	<u>\$ 98,275</u>	<u>\$ 98,275</u>

(5) MEMORANDUMS OF UNDERSTANDING

The City and the Port have Memorandums of Understanding (MOUs) relating to: (a) general obligation bonds issued by the City for the benefit of the Port; (b) various administrative, personnel, data processing, and financial services (Special Services); and (c) police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port.

Payments for Special Services are treated as a cost of Port operations and have priority over certain other expenditures of Port revenues. At June 30, 2001, \$8,920,000 in Special Services expenditures have been accrued as a current liability by the Port and as a receivable by the City.

The Port's legal counsel advised the Port that payments to the City for General Services and Lake Merritt tideland trust purposes are payable only to the extent the Port determines annually that surplus monies are available. Subject to final approvals by the Port and the City, and subject to availability of surplus monies, the Port will reimburse the City annually for General Services and Lake Merritt tideland trust properties. At June 30, 2001, \$589,000 and \$1,000,000, have been accrued by the Port as a current liability and by Oakland as a receivable for General Services and Lake Merritt tideland trust properties, respectively.

The City and Port are in the process of negotiating an MOU for payments to be made by the Port to the City in consideration for services provided by the City on Tidelands Trust properties. Such payments are expected to amount to \$3,000,000 per year, and represent a portion of the total expenses incurred by the City in the provision of services within the Lake Merritt Tidelands boundaries. Included in the amount recorded as a receivable from the Port of Oakland is \$2,500,000 for fiscal year 1997, which the Port has also recorded as an obligation due to the City. Any additional amount due to the City will be recorded when an MOU has been executed.



(6) NOTES AND LOANS RECEIVABLE

Notes and loans receivable at June 30, 2001, consisted of the following (in thousands):

Grant-in-aid loans at various interest rates and due dates (0% to 10% at June 30, 2001)	\$ 41,715
Oakland Hotel Associates, Ltd., bearing interest at 7.67%, principal and interest due July 1, 2013, or earlier under certain provisions of the note	7,986
Mar Associates, bearing interest at 8%, principal and interest due March 9, 2002	3,473
Oakland Hotel Associates, Ltd., bearing interest at Bank of America reference rate (0% at June 30, 2001), no principal and interest payable until December 30, 2026	3,379
Foothill Plaza Partnership, bearing interest at 3%, principal and interest payable in equal monthly installments through July 20, 2017	1,117
Oakland Renaissance Ltd., bearing interest at 7.72%, principal and interest due August 12, 2031	1,770
Oakland Business Development Corporation Neighborhood Economic Development Fund revolving loan program, non-interest bearing, various borrowers	1,235
Harrison Hotel Associates, bearing interest at 6%, principal and interest due December 15, 2048	2,387
Woodrow Hotel, bearing interest at 6.50%, principal and interest due December 3, 2023	1,698
Other pass-thru loans at various interest rates and maturities (0% to 10% at June 30, 2001)	7,836
Other notes and loans receivable at various interest rates and maturities	36,098
E.M. Health Service, bearing interest at 8.75%, principal and interest payable in equal monthly installments through April 1, 2004	1,100
Cahon, Inc., bearing interest at 6%, through June 30, 1993, and zero interest thereafter, principal and interest due December 31, 2000, or earlier under certain provisions of the note. Note is currently under process of being extended.	1,100
Women's Economic Agenda, bearing interest at 6%, principal and interest due August 14, 2025	2,395
Eastmont Town Center, bearing interest at 9.51%, principal and interest payable in equal monthly installments through April 1, 2008	3,700
Alvingroom Court, bearing interest at 3.0%, principal and interest due December 24, 2026	2,560
Fruitvale Development Corporation bearing interest at 6.0%, interest only payments until June 1, 2002, principal and interest payable in equal monthly installments through June 1, 2016	1,160
Allen Temple Housing Corporation IV bearing interest at 6.0%, principal and interest due November 7, 2035	1,219
Negherbon Lincoln-Mercury, Inc., bearing interest at 7.50%, principal and interest due May 1, 2011	1,049
McArthur Park Development Association, bearing zero interest, principal and interest due November 8, 2003	2,957
Subordinated Housing Set Aside N/R	6,241
Just Real Estate, LLC, \$800,000 bearing interest at 8% and \$650,000 bearing interest at 3%, both principal and interest due August 1, 2012	1,450
Oakland Renaissance Associates, bearing interest at 10%, due and payable December 30, 2026	7,820
Cahon Associates, bearing interest at 3%, due and payable April 20, 2019	2,347
TOTAL	<u>\$ 143,792</u>

(7) FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 2001, follows (in thousands):

	Balance July 1, 2000	Transfers/ Additions	Deletions	Balance June 30, 2001
Land	\$ 71,148	\$ 3,270	\$ —	\$ 74,418
Facilities and improvements	604,611	13,960	—	618,571
Furniture, machinery and equipment	37,746	15,017	—	52,763
Investments in joint venture (Note 15)	31,183	—	(31,183)	—
Construction in progress	<u>14,892</u>	<u>6,618</u>	<u>(10,818)</u>	<u>10,692</u>
TOTAL	<u>\$759,580</u>	<u>\$38,865</u>	<u>\$ (42,001)</u>	<u>\$756,444</u>

A summary of property and equipment at June 30, 2001, for proprietary fund types and discretely presented component units follows (in thousands):

	Enterprise Funds	Internal Service Funds	Component Unit Port of Oakland
Land	\$ 220	\$ 310	\$ 206,718
Facilities and improvements	—	210	1,050,911
Container cranes	—	—	112,331
Furniture, machinery and equipment	109,157	72,531	32,729
Construction in progress	<u>—</u>	<u>—</u>	<u>329,373</u>
	109,377	73,051	1,732,062
Less accumulated depreciation and amortization	<u>(23,358)</u>	<u>(48,448)</u>	<u>(401,961)</u>
TOTAL	<u>\$86,019</u>	<u>\$24,603</u>	<u>\$1,330,101</u>

**(8) PROPERTY HELD FOR RESALE**

Property held for resale at June 30, 2001, consisted of the following (in thousands):

Chinatown	\$ 840
City Center	2,543
Coliseum Shoreline	2,749
Housewives Market	1,611
Multi-Service Center	5,100
Swans Market	4,425
Taldan Site	1,302
City Hall Annex	2,875
Preservation Park	6,448
City Center Garage West	21,447
Fox Theater	3,000
11th-12th Broadway & Franklin	2,694
U.S. Ice Skating Rink	10,588
819 Clay Street	141
Acorn Shopping Center	2,970
529—20th Street, 1901 Telegraph Avenue, 538-544 & 562-570 William Street	1,791
550 William Street	192
562-570 William Street	196
574 William Street	121
584 William Street	36
811 Clay Street	312
Evelyn Rose Family Housing (Conveyance)	1,049
1608-1616 San Pablo Avenue	256
1818-1824 San Pablo Avenue	301
1826-1840 San Pablo Avenue (Res. 99-49)	607
728—73rd Avenue	365
1975 Telegraph Avenue	21
1975 Telegraph Avenue	891
602, 604 & 608 William Street	82
Total	<u>\$74,953</u>

The Agency acquired the Preservation Park project, which was developed by a joint venture between the Agency and Bramalea Pacific, Inc., by credit bid at a foreclosure sale. On January 5, 1996, under an Assumption Agreement between the City and the Agency, the Agency assumed the \$6,448,000 obligation of the Preservation Park project.

NOTES TO FINANCIAL STATEMENTS

On May 8, 1991, the Agency entered into a joint venture agreement with Bramalea Pacific, Inc. under the name of City Center Garage West Associates (Associates). The purpose of the joint venture was to construct and operate a multi-level parking structure and other related stores and offices. Associates entered into a loan agreement with the City for \$22,000,000 to construct the garage. On May 23, 1995, due to the Canadian bankruptcy of Bramalea's parent company, the City took title to the garage in settlement of the loan obligation of Associates. On October 12, 1995, the City transferred the title of the garage to the Agency to hold as property held for resale and will operate for the purpose of facilitating the future development of the City Center Project. In acceptance of the title to the garage, the Agency acquired the City's loan to Associates. The Agency agreed to repay the City's loan balance of \$21,447,000.

(9) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

During the fiscal year ended June 30, 2001, the City issued tax and revenue anticipation notes payable of \$65,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 4.00%. Principal and interest were due and repaid on June 30, 2001.

(10) LONG-TERM OBLIGATIONS

General Long-Term Obligations

The following is a summary of changes in general long-term obligations for the year ended June 30, 2001 (in thousands):

	Balance at July 1, 2000	Additional Obligations and Net Increases	Maturities and Retirements	Balance at June 30, 2001
General obligation bonds	\$ 129,665	\$ 19,750	\$ 12,335	\$ 137,080
Tax allocation bonds	216,279	10,729	8,360	218,648
Lease financings	502,613	136,168	151,055	487,726
Special assessment debt with governmental commitment	9,725	—	440	9,285
Special revenue bonds	407,280	—	16,745	390,535
Notes payable	25,940	672	4,262	22,350
Accrued vacation and sick leave	29,314	—	271	29,043
Self-insurance liability for workers' compensation	44,380	—	—	44,380
Estimated claims payable	22,506	27,333	—	49,839
Contingent liability for Authority debt (Note 15)	103,023	—	1,648	101,375
TOTAL	<u>\$1,490,725</u>	<u>\$194,652</u>	<u>\$195,116</u>	<u>\$1,490,261</u>



General long-term obligations at June 30, 2001, consisted of the following (in thousands):

	Maturities (Calendar Year)	Interest Rates	Balance at June 30, 2001
General Obligation Bonds			
General Obligation Bonds Series 1991A (a)	2002-2015	5.50%-8.50%	\$ 800
General Obligation Bonds Series 1995B (a)			
Serial bonds	2002-2013	5.30%-8.25%	7,285
Term bonds	2015	5.875%	1,760
Term bonds	2019	5.875%	4,190
General Obligation Bonds Series 1997C (a)			
Serial bonds	2002-2019	5.50%-6.00%	16,215
Term bonds	2022	5.90%	4,660
General Obligation Bonds Series 2000D (a)	2002-2025	4.75%-5.50%	10,750
General Obligation Bonds Series 2000E (a)	2002-2015	4.75%-5.20%	9,000
General Obligation Bonds Series 1992 (b)			
Serial bonds	2002-2012	4.25%-6.00%	15,065
Term bonds	2017	6.00%	10,435
Term bonds	2022	6.00%	14,460
General Obligation Bonds Series 1997 (c)			
Serial bonds	2002-2016	5.25%-5.75%	25,300
Term bonds	2019	5.75%	5,075
Term bonds	2022	5.85%	<u>12,085</u>
			<u>137,080</u>
Tax Allocation Bonds			
Acorn Refunding Series 1988 (d)			
Term bonds	2007	7.40%	1,845
Central District Tax Allocation Refunding Series 1989A (e)			
Capital appreciation bonds	2002-2009	6.60%-6.65%	22,658
Central District Senior Tax Allocation Refunding Series 1992 (f)			
Serial bonds	2002-2008	5.10%-6.00%	34,305
Term bonds	2009-2014	5.50%-6.15%	35,910
Central District Subordinated Tax Allocation Refunding Series 1992A (g)	2002-2019	5.95%	52,600
Central District Subordinated Tax Allocation Series 1993A (h)			
Serial bonds	2002-2004	4.00%-4.90%	2,620
Term bonds	2005-2009	5.30%	4,075
Term bonds	2010-2013	5.00%	4,080
Term bonds	2014-2021	5.00%	11,025
Central District Subordinated Tax Allocation Bonds, Series 1995A (i)			
Serial bonds	2001	5.50%	225
Term bonds	2008	7.20%	1,010
Term bonds	2015	7.50%	1,340
Term bonds	2021	7.60%	7,060
General Obligations - Tribune Tower	2011	5.643%	500
Subordinated Housing Set Aside Revenue (j) Bond Series 2000T			
Serial bonds	2003	7.39%	1,325
Serial bonds	2004	7.39%	1,425
Serial bonds	2010	7.82%	11,160
Serial Bonds	2015	7.93%	14,065
Serial Bonds	2018	8.03%	<u>11,420</u>
			<u>218,648</u>

NOTES TO FINANCIAL STATEMENTS

	Maturities (Calendar Year)	Interest Rates	Balance at June 30, 2001
Lease Financings			
Oakland JPFA Lease Revenue Bonds, Series 1996 (k)			
Serial bonds	2002-2011	4.60%-5.50%	\$ 26,370
Term bonds	2016	5.90%	18,395
Term bonds	2021	5.75%	24,610
Term bonds	2026	5.75%	32,815
Oakland JPFA - Oakland Convention Center (l)			
Serial bonds	2002-2015	4.50%-5.050%	114,615
Bifurcated serial bonds	2002-2014	3.00%-4.50%	20,275
Oakland Museum 1992 Series A (m)			
Serial bonds	2002-2003	5.60%-6.00%	4,465
Term bonds	2005	6.25%	5,020
Term bonds	2012	6.00%	15,900
Capital appreciation bonds	2006-2007	6.45%-6.55%	3,461
Civic Improvement Corporation (n)	2000-2015	Variable	41,100
Oakland JPFA Lease Revenue Bonds, Series 1998 (o)			
Swapped	2002-2021	5.6775%	163,200
Variable Rate	2002-2021	Variable	<u>17,500</u>
			<u>487,726</u>
Special Assessment Debt with Governmental Commitment			
Medical Hill Parking District Refunding Improvement Bonds 1994 (p)			
Term bonds	2004	6.00%	940
Oakland JPFA Reassessment Revenue Bonds (q)			
Serial bonds	2002-2010	3.70-5.15%	1,880
Term bonds	2018	5.40%	2,465
Term bonds	2024	5.50%	2,620
Oakland JPFA Special Assessment Pooled Revenue Bonds 1996 Series A (r)	2002-2020	4.20-6.70%	355
Oakland Special Assessment Pooled Revenue Bonds 1997 (s)			
Serial Bonds	2002-2007	4.20-5.20%	515
Term bonds	2012	5.65%	<u>510</u>
			<u>9,285</u>
Special Revenue Bonds			
Taxable Pension Obligation Bonds Series 1997 (t)	2002-2010	5.63%-7.31%	<u>390,535</u>
Notes Payable			
Koch Financial Corporation (u)	2002-2003	4.11%	5,973
Department of Housing Urban Development (v)	N/A	N/A	15,095
Light-Emitting Diode Traffic Signal Conversion Project (x)			714
Bank One Lease	2002-2004	N/A	<u>568</u>
			<u>22,350</u>
Other Long-Term Liabilities			
Accrued vacation and sick leave			29,043
Self-insurance liability for workers' compensation (Note 12)			44,380
Estimated claims payable (Note 12)			49,839
Contingent liability for Authority debt (Note 15)			<u>101,375</u>
			<u>224,637</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS			<u>\$1,490,261</u>



General Obligation Bonds

(a) **General Obligation Bonds Series 1991A, Series 1995B and Series 1997C, 2000D and 2000E**

The City received authorization to issue \$60 million of General Obligation Bonds by a two-thirds vote of the electorate at the November 6, 1990, general election. The bonds were authorized for the purpose of financing the acquisition of land and to expand and develop park and recreation facilities. On February 19, 1991, the City issued \$12,000,000 of General Obligation Bonds Series 1991A. On March 1, 1995, the City issued a second series, \$15,000,000 General Obligation Bonds Series 1995B. On April 1, 1997, the City issued a third series, \$22,250,000 General Obligation Bonds Series 1997C, leaving the authorized but unissued amount of \$10,750,000.

On July 11, 2000, the final \$10,750,000 was issued by General Obligation Bonds Series 2000D. In conjunction with Series 2000D, General Obligation Bonds Series 2000E was issued to refund a portion of the Series 1991A Bonds in an amount of \$9,000,000. The City is obligated to levy ad valorem taxes upon all property subject to taxation within the City, without limitation of rate or amount, for the payment of the principal and interest of the bonds.

(b) **General Obligation Bonds Series 1992**

On July 15, 1992, the City issued \$50 million of General Obligation Bonds Series 1992. The City received authorization to issue these bonds by two-thirds vote of the electorate at the June 2, 1992, primary election. Bond proceeds were used for enhancement of the City's emergency response capabilities and for seismic reinforcement of essential public facilities and infrastructure.

(c) **General Obligation Bonds Series 1997**

On March 15, 1997, the City issued \$45,420,000 of General Obligation Bonds Series 1997 to repair, construct, acquire and improve libraries, museums and other cultural and recreational facilities throughout the City. The bonds represent the first and only series of bonds within the authorization approved by the voters of the City on November 5, 1996. The City is obligated to levy ad valorem taxes upon all property subject to taxation within the City, without limitation of rate or amount, for the payment of the principal and interest on the bonds.

Tax Allocation Bonds**(d) Acorn Tax Allocation Refunding Bonds Series 1988**

On November 1, 1988, the Agency issued the \$3,375,000 of Acorn Tax Allocation Refunding Bonds Series 1988 to advance refund \$2,895,000 of Acorn Tax Allocation Refunding Bonds. The bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area allocable to the Agency pursuant to Redevelopment Law. Bonds maturing in 2007 are subject to mandatory sinking fund requirements commencing May 1, 2001, and are subject to prior redemption.

(e) Central District Tax Allocation Refunding Bonds Series 1989A

On August 1, 1989, the Agency issued \$92,399,000 of Central District Tax Allocation Refunding Bonds Series 1989A were issued by the Agency. Proceeds of the bonds are being used by the Agency to finance projects and improvements in the Central District Redevelopment Project Area. The bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

As discussed under Central District Subordinated Tax Allocation Refunding Series 1992A, the Agency refunded all of the \$51,600,000 term portion and \$2,000,000 of the serial portion of the Series 1989A bonds. The increase of \$10,729,000 represents the annual interest on the series 1989A capital appreciation bonds.

(f) Central District Senior Tax Allocation Refunding Bonds Series 1992

On November 15, 1992, the Agency issued \$97,655,000 of Central District Senior Tax Allocation Refunding Bonds Series 1992 at an effective interest cost of 6.25%. The bonds were issued to defease in substance all of the Agency's Central District Tax Allocation Refunding Bonds Series 1986 in the amount of \$84,325,000. The bonds are secured on a senior basis by tax increment revenue of the Agency. The Series 1992 Senior Tax Allocation Refunding Bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

(g) Central District Subordinated Tax Allocation Refunding Bonds Series 1992A

On July 9, 1992, the Agency issued \$53,600,000 of Central District Subordinated Tax Allocation Refunding Bonds Series 1992A, at an interest rate of 5.95% to provide a bond equivalent yield of 6.02%. These bonds were used to refund the \$51,600,000 term bond portion and \$2,000,000 of the serial bond portion of the Agency's Central District Tax



Allocation Refunding Bonds Series 1989A. These bonds are on parity with the Central District Subordinated Tax Allocation Bonds Series 1993A and Central District Tax Allocation Refunding Bonds Series 1989A. These bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area allocable to the Agency pursuant to Redevelopment Law.

(h) Central District Subordinated Tax Allocation Bonds Series 1993A

On March 1, 1993, the Agency issued \$25,000,000 of Central District Subordinated Tax Allocation Bonds Series 1993A. A portion of the proceeds of the bonds is intended to be used to finance the renovation and reconstruction of the Oakland City Hall and other redevelopment projects in the Central District Redevelopment Project Area. The remaining proceeds were used to establish a capitalized interest account to pay interest charges through March 1, 1995, and to establish a reserve account. The bonds are on parity with the Central District Tax Allocation Refunding Bonds Series 1989A and Central District Subordinated Tax Allocation Refunding Series 1992A bonds, and are a limited obligation of the Agency payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area allocable to the Agency pursuant to Redevelopment Law.

(i) Central District Subordinated Tax Allocation Series 1995A

On August 1, 1995, the Agency issued \$10,000,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds Series 1995A, at an interest cost of 7.80%. The bonds mature on September 1, 2021. Proceeds of the bonds provide the Agency's portion of the construction costs of the City Administration facilities. Remaining proceeds may be used for other capital expenditures within the Central District Project. These bonds are issued on parity with the Redevelopment Agency's Central District Redevelopment Project Subordinated Tax Allocation Bonds Series 1993A, the Agency's Subordinated Tax Allocation Refunding Bonds, Series 1992A and the Agency's Central District Subordinated Tax Allocation Refunding Bonds Series 1989A.

(j) Subordinated Housing Set-Aside Revenue Bonds Series 2000T

On May 1, 2000, the Agency issued Subordinated Housing Set Aside Revenue Bonds, Series 2000T in aggregate principal amount of \$39,395,000 at interest rates ranging from 7.39% to 8.03%, which will mature on September 1, 2018. Proceeds of the bonds will be used by the Agency to increase, improve, and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low or very low income. The bonds are secured by portion of the 20% housing set-aside tax increment revenues from the City's six redevelopment project areas. These bonds were issued on a federally taxable basis to provide the greatest flexibility on the use of proceeds. A portion of the proceeds (\$1,028,641) was used to pay for closing costs such as: cost of issuance, underwriter's discount, insurance premium, and surety bond.

Lease Financings**(k) Oakland JPFA Lease Revenue Bonds Series 1996**

On March 15, 1996, the Oakland Joint Power Financing Authority (JPFA) issued Lease Revenue Bonds Series 1996 in the amount of \$103,947,000. Bond proceeds were used for the design, construction, rehabilitation and equipping of two buildings which will be part of the administrative center of the City of Oakland. The bonds are payable from revenue consisting primarily of lease payments to be made by the City to the JPFA for certain real property and improvements thereon under a lease agreement.

(l) Oakland Joint Powers Financing Authority Bonds (Convention Centers) Series 2001

On May 23, 2001, the Oakland Joint Powers Financing Authority issued \$134,890,000 of 2001 Lease Revenue Bonds to refund the 1992 Lease Revenue Bonds (City of Oakland Convention Centers Project) issued by the California Statewide Communities Development Authority.

The City is making lease payments to the Authority pursuant to the Second Amended and Restated Lease and Sublease Agreement Relating to the Convention Centers dated as of May 1, 2001, between the City and Authority for the use and possession of the Henry J. Kaiser Convention Center and the George P. Scotlan Memorial Convention Center.

(m) Oakland Museum 1992 Series A

On May 15, 1992, the Agency issued \$39,408,000 of Refunding Certificates of Participation (Certificates) with an effective interest cost of 6.442% to legally defease the Oakland Museum Certificates of Participation 1987 Series A.

The Agency has leased the Museum's facilities and site to the City under a lease agreement. The Agency is not obligated to make any payments in respect to the Certificates except from the payments by or on behalf of the City pursuant to the lease agreement.

Due to the substance of the financing transaction, the effect of the issuance of the Certificates was recorded directly as an issuance of debt by the City to finance the reacquisition of the Museum. Accordingly, the Certificates are recorded by the City in the General Long-Term Obligations Account Group. The Agency's direct financing lease receivable and City's capital lease obligation are not reflected in the City's general purpose financial statements.



(n) **Civic Improvement Corporation**

On December 1, 1985, the City entered into various simultaneous agreements to finance the acquisition and construction of capital improvements on City property, such as traffic control devices, street resurfacing, parking lots, garages and the rehabilitation of various City buildings. The following is a summary of the agreements that have been entered into.

Certificates of Participation—The Civic Improvement Corporation (Corporation), a not-for-profit corporation, issued \$52,300,000 variable rate demand certificates of participation evidencing the proportionate interests of the owners thereof in lease payments to be made by the City for certain property pursuant to a master lease agreement with the Corporation.

Master Lease Agreement—The City entered into a lease agreement with the Corporation whereby the Corporation agreed to provide financing for certain proposed capital improvements. Under the terms of the agreement, the City agreed to supervise and provide for the construction and improvement of certain City properties. The improvements were paid by the Corporation from the proceeds of the certificates that were held by the Trustee. Once the improvements are completed, the Corporation has agreed to lease the projects to the City. The lease payments to be received by the Corporation are equal to the related principal and interest payments on the certificates.

Letter of Credit—The Letter of Credit (LC) is an irrevocable direct-pay obligation of Landesbank Hessen-Thüringen Girozentrale. The LC expires August 2, 2002. In aggregate, the City has available under the LC \$41,964,876 as of June 30, 2001, of which \$41,100,000 may be drawn for the payment of the unpaid principal amount of the certificates and \$864,876 may be drawn for payment of interest accrued on the certificates. In order to obtain the LC, the City became obligated to pay commission fees of one-quarter of one percent per annum on the available amount outstanding on the LC. For the year ended June 30, 2001, the City paid a total letter of credit fee of approximately \$117,000.

(o) **Oakland Joint Powers Financing Authority, Series 1998**

The 1998 bonds were issued by the Joint Powers Authority on August 3, 1998, to refund the City of Oakland's Special Refunding Revenue Bonds (Pension Financing), Series 1988A. The bonds were sold in a variable-rate mode, in two series: \$131,500,000 Series A-1 and \$56,000,000 Series A-2, with a final maturity of August 1, 2021. The bonds are limited obligations of the Authority, payable by base rental payments from the City's General Fund, in exchange for the right to use and possession of a portion of the City's sewer system. The City entered into a \$170,000,000 forwarding-starting, floating-to-fixed "synthetic-fixed-rate" swap, at a 5.6775% interest rate, with Goldman Sachs, which commenced on July 31, 1998, and

terminates on July 31, 2021. The swap entitles the City to receive variable rate payments equal to the Bond Market Association Municipal Swap Index in exchange for a fixed rate payment to Goldman Sachs. The notional value of the swap declines in accord with the outstanding principal on the bonds.

Special Assessment Debt with Governmental Commitment

(p) Medical Hill Parking District Refunding Improvement Bonds 1994

In April 1994, the City issued \$2,020,000 of 1994 Refunding Improvement Bonds Medical Hill Parking Assessment District, Series 3 (Refunding Bonds) at an interest rate of 6.237%. The Refunding Bonds are payable from assessments levied against property owners in the Medical Hill District. In the event of continuing delinquencies in the payment of the property owners' installments, the City, in the absence of any other bidder, is obligated to purchase the delinquent property owner's property at a delinquent assessment sale and pay delinquent and future installments of assessments and interest thereon until the land is resold or bonds are redeemed.

(q) Oakland JPFA Reassessment Revenue Bonds

On July 5, 1999, the Oakland Joint Powers Financing Authority issued bonds in order to refinance the local obligation bonds for two special assessment districts: (1) for a portion of the costs of construction of new underground support services and for repaving the street surfaces in conjunction with the undergrounding of utility lines in the area affected by the October 1991 firestorm (Fire Area Utility Underground Assessment District No. 1994-1), and (2) for a portion of the costs of providing new, enlarged water delivery lines and higher-flow fire hydrants in the upper Rockridge area (Rockridge Water Area Improvements District No. 1994-2). The bonds are rated A- by Standards & Poors Corporation. The bonds are payable from revenues derived from the reassessments levied on the properties in the original two assessment districts.

(r) Oakland JPFA Special Assessment Pooled Revenue Bonds 1996 Series A

In August 1996, the Oakland Joint Powers Financing Authority ("JPFA") issued \$465,000 of Special Assessment Pooled Revenue Bonds 1996 Series A. The Bonds were issued pursuant to Resolution No. 96-02 of the JPFA to provide funds for a loan to the City (pursuant to City Resolution No. 72830) for the purpose of funding (1) the installation of certain underground utilities and street light fixtures within four districts in the City of Oakland, and (2) the construction of a sewer line in the Skyline Sewer District. Loan repayment will be secured exclusively by the unpaid portion of special assessments levied upon the properties benefited by the improvements acquired and constructed with the loan proceeds.



(s) Oakland Special Assessment Pooled Revenue Bonds 1997

In December 1997, the Oakland Joint Powers Authority ("JPFA") issued \$1,250,000 of Special Assessment Pooled Revenue Bonds, Series 1997. The bonds were issued pursuant to Resolution No. 97-01 of the JPFA to finance the purchase by the JPFA from the City of Oakland Assessment Bonds issued by the City of Oakland. Each issue of Assessment Bonds were issued for the purpose of funding the installation of undergrounding certain utilities and the construction of street lighting within five districts of the City of Oakland. The Assessment Bonds are payable from the unpaid assessments levied upon real property within the five districts.

Special Revenue Bonds

(t) Taxable Pension Obligation Bonds Series 1997

On February 1, 1997, the City issued Taxable Pension Obligation Bonds Series 1997, Sub-series A, comprised of \$393,790,000 of Current Interest Bonds and \$26,705,000 of Capital Appreciation Bonds and Sub-series B in the amount of \$15,795,000 Current Interest Bonds. The proceeds of the bonds were used to fund (1) a portion of the current balance of the City's unfunded actuarial accrued liability (UAAL) for retirement benefits to members of the Oakland Police and Fire Retirement System (PFRS), (2) a portion of the City's current normal contribution to PFRS for the fiscal year ended June 30, 1997, and (3) pay costs of issuance of the Bonds. The payment to PFRS in the amount of \$417,173,000 equals the present value of the payments the City would otherwise be required to make to amortize the current balance of the City's UAAL through June 30, 2011, and a portion of the City's normal contribution as stated in (2) above.

In March 1997, the City entered into a debt service deposit agreement with a third party whereby the City received \$8,147,000 in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the Pension Obligation Bonds debt service payment is due to the bondholders. The compensation the City received has been recorded in the General Fund as deferred revenue and is being amortized over the 14 year life of the agreement using the effective interest method.

Notes Payable

(u) Koch Financial Corporation

The City entered into a financing agreement with Oracle Credit Corporation in March 1998 for financing costs associated with implementing a new financial and human resources/payroll system. That agreement was subsequently assigned to Koch Financial Corporation. This project will be financed over a five-year period with quarterly payments of \$894,950 beginning August 1, 1998, at an interest rate of 4.11%. The total amount to be financed is \$15.8 million. The City made an initial down payment of \$2.0 million in March 1998. As of June 30, 2001, \$15.7 million in costs had been incurred

related to implementing these new systems. The balance of the loan as of June 30, 2001, was \$5,973,000.

(v) Department of Housing and Urban Development

On July 14, 1995, the City of Oakland and IDG/Banner Urban Ventures, a California Corporation, entered into a Disposition and Development Agreement pursuant to which the City agreed to sell City-owned real property located on Martin Luther King, Jr. Way. The agreement provided that the developer would acquire and renovate the core and shell of buildings on the property. The City borrowed Housing and Urban Development (HUD), Section 108 loan funds in its own name to finance the project. On February 9, 1996, the City terminated the Disposition and Development Agreement with IDG/Banner Urban Ventures and assumed full responsibility in the development of the property to commercial and high technology oriented companies. The total amount of the note was \$10,945,000. On July 28, 1998, the City Council passed Resolution No. 12074 C.M.S. authorizing the sale of the property to Children's Hospital Oakland. The balance of the note as of June 30, 2001 was \$5,620,000.

In addition to the above note to the City, an additional \$9,475,000 remain outstanding in Section 108 loans provided to private sector recipients for housing, business enterprises, and other eligible purposes. These loans are secured by Community Development Block Grant (CDBG) funds with the City.

As of June 30, 2001, the total balance outstanding under the HUD Section loan program was \$15,095,000.

(w) Light-Emitting Diode Traffic Signal Conversion Project

The City entered into a financing agreement with Banc One Leasing Corporation in November 1998 for financing costs associated with replacement of incandescent traffic light bulbs. The notes carry an interest rate of 4.3% and a final maturity of July 15, 2003. The total balance outstanding as of June 30, 2001, is \$714,000.

(x) Banc One Master Lease

On October 4, 2000, the City of Oakland entered into a Master Lease with Banc One Leasing for \$673,000 for fire breathing apparatus. A total of six semiannual lease payments with a stated interest rate of 5.651% of \$123,000 which started on April 30, 2001, and will end on October 30, 2003, with final payment of \$123,000 and a termination payment of \$1.00. As of June 30, 2001, \$568,000 remains outstanding.



Current Year Defeasance

In July 2000, the City of Oakland issued \$9,000,000 of General Obligation Refunding Bonds, Series 2000E that was used to refund a portion of the General Obligation Bonds Series 1991A, specifically, the maturities from 2003 to 2015. The refunding produced an economic gain (net present value of savings) of \$452,000.

In May 2001, the Oakland Joint Powers Financing Authority sold \$134,890,000 of lease revenue bonds to refund the outstanding California Statewide Communities Development Authority's Lease Revenue Bonds issued on November 1, 1992. The refunding produced an economic gain (net present value of savings) of \$6,906,000.

Prior Year Defeasance

In prior years, the City defeased the Fire Area Utility Underground 1994-1 Series B. The amount outstanding as of June 30, 2001, was \$2,490,000.

In prior years, the City defeased its 1976 Pension Revenue Bonds. A portion of the proceeds of the refunding issue was placed in an irrevocable trust to provide for debt service on the defeased bonds. At June 30, 2001, \$500,000 of the 1976 Pension Revenue Bonds remained outstanding.

Proprietary and Fiduciary Fund Long-Term Debt

Proprietary and fiduciary fund long-term debt at June 30, 2001, was as follows (in thousands):

	Maturity	Interest Rates	Balance at June 30, 2001
Sewer Service Enterprise Fund			
Construction Loans	1992-2011	3.50%	\$ 4,471
	1992-2011	3.50%	646
	1993-2015	3.00%	<u>3,186</u>
			\$ 8,303
Internal Service Fund - Master Equipment Lease			
Schedule No. 1	2001-2003	5.46%	\$ 3,490
Schedule No. 2	2001-2005	5.40%	3,605
Schedule No. 3	2001-2007	5.39%	9,950
Schedule No. 4	2001-2010	5.43%	<u>7,329</u>
			\$24,374
Pension Trust Fund			
Oakland Municipal Employees' Retirement System Revenue Bonds 1976	2002	6.50%	\$ 505

In March 1990, the City and East Bay Municipal Utility District (EBMUD) entered into an agreement to secure financing for the rehabilitation of the City's sewer system through the California State Revolving Fund Loan Program.

During the fiscal year ended June 30, 1992, construction was completed on the sewer projects. Upon completion of these projects, the City became liable for its share of the completed project costs. The liability will be repaid, together with interest thereon, to EBMUD in equal annual installments through 2015. The main source of repayment comes from monthly sewer service charges collected from property owners within the EBMUD service area.

In April 2000, the City entered into a Master Lease Purchase Agreement for \$28,760,000 in equipment leases. The lease provide funding for the replacement of City vehicles and equipment. The four lease schedules bear interest rates of 5.39% to 5.46% and a final maturity of April 26, 2010.

**Discretely Presented Component Unit - Port of Oakland**

The Port of Oakland debt at June 30, 2001, was as follows (in thousands):

	Maturity	Interest Rates	Balance at June 30, 2001
Parity Bonds (a)			
1990 Revenue Bonds Series D	2003	6.125-8.00%	\$ 19,575
1992 Revenue Bonds Series E	2022	5.00-6.50%	138,315
1993 Revenue Bonds Series F	2009	2.75-5.75%	31,472
1997 Revenue Bonds Series G	2025	3.60-6.00%	82,760
1997 Revenue Bonds Series H	2015	3.60-5.50%	75,595
1997 Revenue Bonds Series I	2019	5.40-5.60%	84,820
1997 Revenue Bonds Series J	2026	5.50%	14,845
2000 Revenue Bonds Series K	2030	5.00-5.88%	<u>400,000</u>
Total Parity Bonds			<u>847,382</u>
Department of Boating and Waterways (DBW) Loans (b)			
Small Craft Harbor Revenue Bonds Series A-D	2009	4.50%	1,492
Small Craft Harbor Revenue Bonds Series 1981	2010	4.50%	1,052
Small Craft Harbor Revenue Bonds Series 1982	2019	4.50%	903
Small Craft Harbor Revenue Bonds Series 1983	2020	4.50%	362
Small Craft Harbor Revenue Bond Series 1993	2029	4.50%	7,378
1991 Marina Planning Loan	2002	4.70%	<u>23</u>
Total DBW Loans			<u>11,210</u>
GE Capital Tax Exempt Loan (c)	2005	4.89%	3,350
Taxable Commercial Paper 1998 Series A (d)	2003	2.40%-4.10%	85,340
Taxable Commercial Paper 1998 Series B (d)	2003	2.355-5.15%	33,780
Special Facilities Revenue Bonds 1992 Series A (e)	2019	5.00%-6.80%	47,500
Unamortized Bond Discount/Premium			<u>(9,743)</u>
TOTAL PORT OF OAKLAND LONG-TERM DEBT			<u>\$1,018,819</u>

(a) Parity Bonds

The 1990 Series D Bonds, the 1992 Series E Bonds, the 1993 Series F Bonds, and the 1997 Series G, Series H, Series I, Series J and 2000 Series K Bonds (collectively the Parity Bonds) are payable solely from and secured by a pledge of "Pledged Revenues." The 1989 Indenture and the Supplemental Trust Ninth Indenture, dated February 1, 1997 (the Ninth Supplemental Trust Indenture) define Pledged Revenues as substantially all revenues and other cash receipts of the Port, including amounts held in the Port Revenue Fund and the lesser of Oakland Portside Associate's (OPA) net revenues or \$3,300,000, but excluding amounts received from certain taxes, certain insurance proceeds and special facilities revenues. Pledged revenues do not include cash received from Passenger Facility Charges (PFC) unless projects included in a financing are determined to be PFC eligible, in which case PFCs can be pledged for debt service on the bonds. Currently the Port has not included any of these type of projects in a bond issuance. In addition, payment of bond principal and interest on the Parity Bonds when due is guaranteed by municipal bond insurance policies.

The Port has covenanted to achieve Pledged Revenues sufficient to pay: the sum of principal and interest on the outstanding Parity Bonds as they become due and payable in each year; all payments for compliance with terms of the Indenture and Supplemental Indentures, including but not limited to required deposits to any Reserve Fund; all other payments necessary to meet ongoing legal obligations of the Port payable from Pledged Revenues; and all current Operation and Maintenance Expenses (as defined).

The Port has covenanted in the 1989 Indenture to achieve in each fiscal year Net Revenues (as defined) of at least 125% of the actual debt service (as defined) becoming due on the outstanding Parity Bonds less debt service paid in such year from the proceeds of other borrowings. For the year ended June 30, 2001, Net Revenues exceeded this requirement.

The Port has also covenanted in the 1989 Indenture not to issue any additional obligations payable from or secured by Pledged Revenues, which would rank superior to the 1989 Bonds and any outstanding bonds (as defined) under the Ninth Supplemental Trust Indenture. The 1990 Bonds, 1992 Bonds, 1993 Bonds, 1997 Bonds, and 2000 Bonds have been issued at parity. Additional bonds may be issued on a parity or subordinate basis with the outstanding bonds subject to certain debt service coverage ratios and other requirements.

(b) Department of Boating and Waterways Loans

The California Department of Boating and Waterways (DBW) and the Port entered into a loan and operation contract on February 21, 1994, amended on February 20, 1995, September 11, 1995, and September 16, 1996, whereby DBW agreed to make a construction loan to the Port in the amount of \$7,176,000. The purpose of the loan is to develop the boating facilities of the Jack London Square marinas. The loan will bear compound interest at the rate of 4.5% per annum and will be paid over twenty-eight years. As of June 30, 2001, \$192,000 of accrued interest has been added to the loan due to construction period drawdowns. The current balance of the loan is \$7,378,000. Repayment of the loan will begin on August 1, 2001.

Department of Boating and Waterway Loans were issued pursuant to various resolutions of the Board of Port Commissioners and are subordinate to the Parity Bonds.

(c) GE Capital Loan

The Port of Oakland entered into a tax-exempt financing agreement with GE Capital for the purchase of five 40-foot Gillig AirBART shuttle buses and fifteen 35-foot Gillig parking lot shuttle buses. The loan is for \$5,000,000 effective November 9, 1998, at the rate of 4.89% for a seven-year term. GE Capital is the lien holder on the buses' title. BART has agreed to share the costs and revenues of the AirBART shuttle service, including the debt service payments.



(d) Commercial Paper

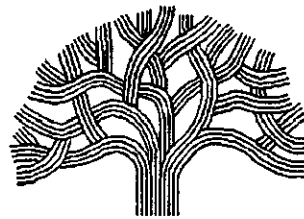
The Port Board authorized a \$300,000,000 Commercial Paper program in September 1998. The maximum maturity of the notes is 270 days and the maximum interest rate is 12%. The notes will be issued in three series: tax exempt AMT, tax exempt non-AMT and taxable. \$150,000,000 of the notes is backed as to credit and liquidity by an irrevocable letter of credit issued jointly by Commerzbank AG and The Bank of Nova Scotia for a five-year period beginning October 14, 1998. This will allow the Port to refinance the borrowings on a long-term basis. The Port also signed a second letter of credit for an additional \$150,000,000 with Bank of America on September 1, 1999, for a three-year period ending September 16, 2002. As of June 30, 2001, the Port had \$119,120,000 outstanding under the commercial paper program.

(e) Special Facilities Revenue Bonds 1992 Series A

The Port issued the Special Facilities Bonds 1992 Series A pursuant to a trust indenture dated June 1, 1992. The Special Facilities Bonds were issued to finance the design and construction of certain facilities and improvements on premises situated in the Seventh Street Marine Terminal area.

The Special Facilities Bonds are limited obligations of the Port payable from and secured by the Bond Payment Obligation (as defined) derived by the Port under the Non-exclusive Preferential Assignment Agreement (the Agreement) between the Port and Mitsui O.S.K. Lines, Ltd. (MOL). MOL's rights and obligations under the Agreement have been assigned to and assumed by Trans Pacific Container Service Corp. (TraPac), an affiliate of MOL. TraPac's obligations under the Agreement, including its obligation to make payments sufficient to pay the principal and interest on the Special Facilities Bonds, have also been guaranteed by MOL.

Principal and interest on the bonds when due is also collateralized by an irrevocable direct-pay letter of credit expiring July 1, 2002, issued by The Industrial Bank of Japan, Ltd., Los Angeles Agency. If the letter of credit expires or terminates without being replaced or renewed, the bonds will be subject to mandatory redemption.



CITY OF OAKLAND



Repayment Schedule

The annual requirements to amortize all long-term debt as of June 30, 2001, are as follows (in thousands):

Years Ending June 30,	General Long-Term Debt			
	General Obligation Bonds	Tax Allocation Bonds	Lease Financings	Special Assessment Debt with Governmental Commitment
2002	\$ 11,536	\$ 22,628	\$ 46,151	\$ 971
2003	11,416	22,498	45,033	952
2004	11,398	23,709	44,605	951
2005	11,350	23,691	45,921	944
2006	11,281	23,540	45,219	678
Thereafter	<u>180,532</u>	<u>262,048</u>	<u>556,090</u>	<u>11,105</u>
	237,513	378,114	783,019	15,601
Less amounts representing interest and discounts	<u>(100,433)</u>	<u>(159,466)</u>	<u>(295,293)</u>	<u>(6,316)</u>
Principal due at June 30, 2001	<u>\$ 137,080</u>	<u>\$ 218,648</u>	<u>\$ 487,726</u>	<u>\$ 9,285</u>

Interest rates related to the Civic Improvement Corporation Certificates of Participation included in the Lease Financings are adjustable. Estimates of future debt service payments included in the schedule above were determined by utilizing the maximum rate allowed under the terms of the Certificates of twelve percent.

NOTES TO FINANCIAL STATEMENTS

Special Revenue Bonds	Notes Payable	Enterprise Fund Debt	Internal Service Fund Debt	Pension Trust Fund Debt	Total Primary Government	Component Unit Port of Oakland
\$ 44,437	\$ 6,050	\$ 915	\$ 5,881	\$ 230	\$ 138,799	\$ 185,644
46,884	4,274	915	5,881	318	138,171	67,008
49,461	2,275	915	4,016	—	137,330	66,990
52,181	2,627	915	4,016	—	141,645	66,995
55,051	1,470	915	3,001	—	141,155	73,301
<u>324,159</u>	<u>13,125</u>	<u>5,473</u>	<u>6,126</u>	<u>—</u>	<u>1,358,658</u>	<u>1,458,572</u>
572,173	29,821	10,048	28,921	548	2,055,758	1,918,510
<u>(181,638)</u>	<u>(7,471)</u>	<u>(1,745)</u>	<u>(4,547)</u>	<u>(43)</u>	<u>(756,957)</u>	<u>(899,691)</u>
<u>\$ 390,535</u>	<u>\$ 22,350</u>	<u>\$ 8,303</u>	<u>\$ 24,374</u>	<u>\$ 505</u>	<u>\$ 1,298,801</u>	<u>\$ 1,018,819</u>



Conduit Debt

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit nor the taxing authority of the City, State or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded in the General Long-Term Obligations Account Group. The debt issued and outstanding at June 30, 2001, follows (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2001
Housing Mortgage Programs			
Housing Revenue Bonds Series D, 1991	\$ 112,890	2010-2024	\$ 7,425
City of Oakland Insured Refunding Revenue Bonds (Children's Hospital Medical Center of Northern California), 1994 Series A	19,490	05/01/09	13,345
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999A	64,425	01/01/39	63,425
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999B	15,720	01/01/39	15,720
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	1,705
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1988	23,000	07/01/08	14,275
City of Oakland Insured Health Facility Revenue Bonds (East Oakland Health Center Project), Series 1990	2,500	10/01/20	2,225
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1996	8,650	06/01/10	6,685
City of Oakland Variable Economic Development Revenue Bond 1997 Series A (Allen Temple Family Life Center Project)	5,000	08/01/04	4,700
TOTAL			<u><u>\$ 129,505</u></u>

(11) CONTRIBUTED CAPITAL

A summary of changes in contributed capital for the year ended June 30, 2001, follows (in thousands):

	<u>Primary Government</u> Internal Service Funds	<u>Component Unit</u> Port of Oakland
BALANCE AT JUNE 30, 2000	\$ 17,382	\$202,903
Depreciation of property and equipment acquired with contributed capital	<u>—</u>	<u>(11,847)</u>
BALANCE AT JUNE 30, 2001	<u>\$ 17,382</u>	<u>\$191,056</u>

(12) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2001 and 2000, are as follows (in thousands):

	2001	2000
Unpaid claims, beginning of fiscal year	\$ 86,550	\$79,854
Current year claims and changes in estimates	44,674	20,799
Claim payments	<u>(13,583)</u>	<u>(14,103)</u>
Unpaid claims, end of fiscal year (see Note 10)	<u>\$117,641</u>	<u>\$86,550</u>

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment coverage; and providing health benefits to employees, retirees and their dependents.

The City is self-insured for its general liability, workers' compensation, malpractice liability, general and auto liability.

Property Damage

Property damage risks are covered on an occurrence basis by commercial insurance purchased from independent third parties. All properties are insured at full replacement values after a \$25,000 deductible to be paid by the City. For the past 10 years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial insurance coverage.



General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2001, the amount of liability determined to be probable of occurrence is approximately \$62,144,000. Of this amount, claims and litigation approximating \$12,305,000 are estimated to be payable with current expendable resources and are included as accrued liabilities of the General Fund (\$11,530,000), the Capital Fund (\$200,000), and the Sewer Fund (\$575,000). The remainder of \$49,839,000 is included in the General Long-Term Obligations Account Group. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated. The Agency is involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City of Oakland, none of these claims are expected to have a significant impact on the financial condition of the Agency or its operations.

The City is self-insured for general liability. The City has not accumulated or segregated assets or reserved fund balance for the payment of estimated claims and judgments.

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations which are based on claim payment experience and supplemental appropriations. The City had an actuarial review of its self-insured workers' compensation program in the Fall of 1999. The following information is from the resulting report by the independent actuaries, dated October 5, 1999, and reflects the program as of June 30, 2001. The amount of workers' compensation liability determined to be probable is approximately \$55,497,000. Of this amount, approximately \$11,117,000 workers' compensation is estimated to be payable with expendable resources and is included as accrued liabilities of the General Fund. The remaining amount of \$44,380,000 is included in the General Long-Term Obligations Account Group.

Discretely Presented Component Unit

Workers' Compensation

The Port is exposed to risk of loss related to injuries to employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of \$350,000 per accident. Effective February 7, 1997, the Port carries commercial insurance for claims in excess of \$350,000.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on actuarial estimates and include an estimate of claims that have been incurred but not reported. Changes in the reported liability resulted from the following (in thousands):

	2001	2000
Workers' compensation liability at beginning of fiscal year	\$ 3,000	\$3,000
Current year claims and changes in estimates	854	830
Claim payments	<u>(854)</u>	<u>(830)</u>
Workers' compensation liability at end of fiscal year	<u>\$ 3,000</u>	<u>\$3,000</u>

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the airport, coverage is provided in excess of \$100,000 in the aggregate up to a maximum of \$200,000,000. For the harbor area, coverage is provided in excess of \$100,000 per occurrence up to \$150,000,000. Liabilities are recorded as accrued expense when it is determined that a loss to the Port is probable and the amount is estimable.

**(13) RESERVATIONS AND DESIGNATIONS OF FUND BALANCES**

The components of the City's reserved and unreserved-designated fund balances at June 30, 2001, follow (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds
RESERVED			
Trust obligations	\$ —	\$ —	\$ —
Capital projects	—	26,040	—
Property held for resale	—	—	21,447
Employees' retirement systems	—	—	—
Debt service	—	—	72,616
Encumbrances	<u>1,664</u>	<u>10,713</u>	<u>—</u>
TOTAL RESERVED FUND BALANCES	<u><u>\$ 1,664</u></u>	<u><u>\$ 36,753</u></u>	<u><u>\$ 94,063</u></u>
UNRESERVED-DESIGNATED			
Capital improvement projects	\$ 7,808	\$ —	\$ —

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds	Pension Trust Funds	Total
\$ —	\$ 174,734	\$ 174,734
182,735	—	208,775
53,506	—	74,953
—	837,468	837,468
—	—	72,616
—	—	<u>12,377</u>
<u>\$236,241</u>	<u>\$1,012,202</u>	<u>\$1,380,923</u>
\$ —	\$ —	\$ 7,808

**(14) SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City accounts for operations which provide parks and recreation programs and sewage treatment as enterprise funds. These operations are financed by user charges or interest income. Segment information as of and for the year ended June 30, 2001, follows (in thousands):

	Parks and Recreation	Sewer Service	Total Enterprise Funds
For Year Ended June 30, 2001			
Operating revenues	\$ 128	\$ 18,738	\$ 18,866
Operating income (loss)	(189)	6,041	5,852
Depreciation and amortization	—	2,981	2,981
Operating transfers out	—	(659)	(659)
Interest and other non-operating revenues (expenses), net	21	(278)	(257)
Net income (loss)	(168)	5,104	4,936
Property and equipment - additions (deletions)	(3)	(8,999)	9,002
As of June 30, 2001			
Net working capital	\$ 240	\$ (1,640)	\$ (1,400)
Total assets	491	87,635	88,126
Total equity	469	75,847	76,316
Long-term obligations and advances - Payable from operating revenues	—	8,303	8,303

Parks and Recreation

The City owns and operates two golf courses. The City's policy is to fund these operations through golf course fees and other golf revenues without reliance on the General Fund.

Sewer Service

The City maintains sewer service facilities between the private property hookups and the main collection system operated by the East Bay Municipal Utility District. The City's policy is to fund operations through user charges and/or operating transfers from the General Fund.

(15) JOINT VENTURE**Oakland-Alameda County Coliseum**

The City is a participant with the County of Alameda (the County) in a joint exercise of powers agreement known as the Oakland-Alameda County Coliseum Authority (the Authority), which was formed on July 1, 1995, to assist the City and County in the financing of public capital improvements in the Oakland-Alameda County Coliseum Complex (Coliseum Complex) pursuant to the Mark-Roos Local Bond Pooling Act of 1985. The Oakland-Alameda County Coliseum Financing Corporation (the Corporation) is reported as a blended component unit of the Authority. The Board of Directors of the Authority and the Corporation consists of two council members from the City and two members of the Board of Supervisors from the County. The Board of Directors of the Corporation consists of the City Manager and the County Administrator.

In August 1995, the Authority issued \$9,200,000 in Fixed Rate Refunding Lease Revenue Bonds and \$188,500,000 in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Authority, the City, the County, the Corporation and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which manages the operations of the Coliseum Complex, to finance the costs of remodeling the stadium portion of the Coliseum complex as well as relocating the Raiders to the City.

The Stadium Bonds are limited obligations of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and the County. Certain revenues collected from Raiders football operations consisting of revenues from the sale of seat rights, as well as annual seat maintenance fees, a portion of net parking and concession revenues and concessionaires' initial fees may be used toward meeting this liability. In the event that such football revenues are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payments from their respective General Funds. The City and the County each have covenanted to appropriate \$11 million annually to cover such shortfalls in revenue; however, the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to \$22 million annually in the event of default by the County.

On May 25, 2000, the Authority issued \$201,300,000 in series 2000 C and D Refunding Bonds to retire \$181,900,000 of the 1995 Variable Rate Lease Revenue Stadium Bonds (\$188,500,000 less \$6,600,000 principal payment).

On August 2, 1996, the Authority issued \$70,000,000 Series A-1 and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Arena Bonds) to finance the costs of remodeling the Coliseum Arena (Arena) and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Golden State Warriors to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. These obligations are evidenced in a series of agreements (the Warriors Agreement) among the Warriors, the City, the County, Coliseum Inc. and the Authority.



Under the original Warriors Agreements, the Arena Bonds are limited obligations of the Authority payable solely from base rental revenues of the Authority received by the Authority on behalf of the City and the County. These revenues consist of payments from the Warriors of up to \$7,428,000 annually from premium seating revenues, the sale of personal seat licenses by the Authority, concessionaire payments and the Arena naming rights. If necessary to prevent a default, additional premium seating revenues up to \$10,000,000 may be pledged to service Arena debt. If the above revenues are not sufficient to cover the debt service requirements in any fiscal year, the City and County are obligated to make up the shortfall in the base rental payment from their respective General Funds. The City and the County each have covenanted to appropriate up to \$9,500,000 annually to cover such revenue shortfalls; however, the City and the County are jointly and severally liable to cover such shortfalls, which means that the City would have to pay up to \$19,000,000 annually in the event of default by the County.

The Coliseum Authority entered into an agreement with the Oakland Coliseum Joint Venture to manage the entire Coliseum complex beginning July 1, 1998. On January 1, 2001, the Coliseum Authority terminated its agreement with Oakland Coliseum Joint Venture and reinstated its Operating Agreement with Oakland-Alameda County Coliseum, Inc. Oakland-Alameda County Coliseum, Inc. subcontracted all of the operations of the Coliseum Complex to Oakland Coliseum Joint Venture.

On September 27, 1997, the City of Oakland, the County of Alameda, and the Oakland-Alameda County Coliseum Authority, collectively known as the "East Bay Entities", filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively, "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asks for compensatory and punitive damages with regards to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under the Master Agreement concerning the naming rights for the Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) under the Visiting Team Share Agreement concerning the reimbursement of legal fees and costs. Raider management has filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders Management cannot rescind or terminate its lease; and (2) the East Bay Entities do not have claims for damages. Raider Management increased their claim against the East Bay Entities for damages to \$1.1 billion related to claims of fraudulent inducement. The City is optimistic that it will prevail against Raider Management claims.

In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors to collect: (1) past due rents for use of the arena; (2) past due amounts of revenue sharing required by the License Agreement; and (3) facility use fees collected by the Warriors for the Authority. The arbitration demand also seeks damages for the Warriors breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitration was divided into two phases. In the first phase on the collection

NOTES TO FINANCIAL STATEMENTS

issues, on October 6, 1999, the arbitrator found that the Golden State Warriors owed in excess of \$17 million to the Authority, net of some \$720,000 in offsets granted to the Warriors. The second phase of the arbitration was decided in July 2000, when the arbitrator decided that the Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be quantified. On March 22, 2001, the Superior Court confirmed the arbitrator's awards and entered a judgment against the Warriors for the full amount of the award. The Warriors are currently appealing the judgment.

In fiscal year 1997, the Authority entered an interest rate swap agreement for portions of the bonds issued to finance the Arena improvements. The interest rate swap is for \$84,000,000 of the variable rate Arena bonds at a fixed rate of 6.85%. The agreement expires on September 1, 2001, and will not be renewed. The market value loss of the swap at June 30, 2001, is \$638,734.

Based on the swap agreements, the Authority owes interest calculated at the fixed rates stated above to the counterparty of the swap. In return, the counterparties owe the Authority interest based on a variable rate that matches the rate required by the variable rate bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The Authority continues to pay interest to the bond holders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt. The Authority will be exposed to variable rates if the counterparties to the swaps default or if the swaps are terminated. A termination of any swap agreement may also result in the Authority's making or receiving a termination payment. The Authority is exposed to credit losses in the event of non-performance by any counterparty to these interest rate swaps, but has no off-balance sheet credit risk of accounting loss. The Authority anticipates, however, that each counterparty will be able to fully satisfy its obligations under the respective agreement.

Debt service requirements for the Coliseum debt are as follows (in thousands):

Years Ending June 30,	Stadium Debt	Arena Debt
2002	\$ 12,816	\$ 10,517
2003	12,810	10,589
2004	12,903	10,649
2005	12,876	10,597
2006-2010	61,631	53,522
2011-2015	62,838	54,237
2016-2020	65,274	54,862
2021-2025	68,931	56,258
2026 on	—	11,497
Less interest	(107,329)	(140,028)
Total	<u>\$202,750</u>	<u>\$132,700</u>



Complete financial statements for the Authority can be obtained from the County Auditor-Controller's office at 1221 Oak Street, Oakland, CA 94612.

The City has a 50% equity interest in the Joint Venture, which has been written off during the current year. Under the joint exercise of power agreement which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs, to the extent such funding is necessary. During the year ended June 30, 2001, the City made contributions of approximately \$13,000,000 to fund its share of operating deficits, as well as its share of the final construction costs of the Arena.

The Authority has anticipated a deficit for repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the \$20.5 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute \$11,500,000 for the 2001-02 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future, therefore the City has established a contingent liability to fund the Authority deficit in the General Long-Term Obligations Account Group at an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of \$101,375,000. The City has not established a contingent liability for the Arena debt because management is of the opinion that revenues from the Arena, including payments from the Warriors, will be sufficient to cover the debt payments.

(16) PENSION PLANS

The City has three defined benefit retirement plans: Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS) and California Public Employees' Retirement System (PERS). PFRS and OMERS are closed plans which cover employees hired prior to July 1976 and September 1970, respectively. These two plans are considered part of the City's reporting entity and are included in the City's General Purpose Financial Statements as pension trust funds. City employees hired subsequent to the plans' closure dates are covered by PERS, which is administered by the State of California.

Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable.

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances which approximate the value of future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by a specialist.

NOTES TO FINANCIAL STATEMENTS

Investments representing 5% or more of the fair value of the OMERS net assets for pension benefits as of June 30, 2001, are as follows:

Stocks	Shares	Market Value
J B Morgan Chase & Company	12,750	\$ 568,650
Phillips Petroleum Company	10,000	570,000
SBC Communications	13,000	520,780
Varian Medical Systems	8,000	<u>572,000</u>
		<u>\$2,231,430</u>

No investments in any one non-federal organization represented 5% or more of PFRS net assets for pension benefits as of June 30, 2001.

Complete financial statements of the Plans can be obtained from:

William E. Noland, Controller
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 1, 2000	June 30, 2000	June 30, 2000

Significant actuarial assumptions

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the City's actuarial accrued liability.

	PFRS	OMERS	PERS
General wage increase:			
Inflation	4.0%	3.0%	3.5%
Post-retirement benefit increase	4.0%	4.5%	3.8%
Investment return	8.0%	8.0%	8.3%



	PFRS	OMERS	PERS	Total
Employees covered as of June 30, 2001				
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not currently receiving them	1,486	134	1,962	3,582
Current employees—vested	143	2	2,598	2,743

Police and Fire Retirement System

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will receive reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter).

In accordance with the Charter, active members of PFRS contribute a percentage of earned salaries based upon entry age as determined by the City's consulting actuary. By statute, employee contributions are limited to 13% of earned salaries. Employee contributions are refundable with interest at 4% per annum if an employee elects to withdraw from the PFRS upon termination of employment with the City.

The City contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to PFRS members. The City is required to fund all liabilities for future benefits for all members by June 30, 2026. In order to do so, the City makes contributions at rates established by consulting actuaries based upon plan valuations using various assumptions as to salary progression, inflation, and rate of return on investments. The City's contributions are based on a level percentage of all uniformed employees' compensation. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation. The City contributed \$22,868,000 to the PFRS during the fiscal year ended June 30, 1997, at an actuarially determined contribution rate of 60.49%. The City issued pension obligation bonds in February 1997 to fund the PFRS through 2011. Bond proceeds in the amount of \$417,173,300 were contributed in fiscal 1997 and, as a result, no employer contributions are required through fiscal year 2011.

For the year ended June 30, 2001, employee contributions to PFRS totaling \$655,561 were made in accordance with actuarially determined contribution requirements.

The City's actuaries do not make an allocation of the contribution amount between normal cost and the unfunded actuarial liability because the plan is closed. The actuarial calculations are based on the aggregate cost method and the asset valuation method is on the market value basis. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contributions (\$ in millions)	Percentage (%) Contributed
1999	—*	—
2000	—*	—
2001	—*	—

*Annual contribution requirement, subsequent to receipt of pension obligation bond proceeds, is zero through the year 2011.

Oakland Municipal Employees Retirement System

OMERS provides death, disability and service retirement benefits to participants of the plan. Members who complete at least 20 years of service and have reached the age of 52, or who complete at least 5 years of service and reach the age of 60, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter.

Employee contributions to OMERS totaling \$6,258,000 were made during 2001 in accordance with actuarially determined contribution requirements. Employee contributions are refundable with interest at 4.5% per annum if an employee elects to withdraw from the plan upon termination of employment with the City. For the years ended June 30, 2001, 2000 and 1999, the City, in accordance with actuarially determined contribution requirements, was not required to make contributions to OMERS. The actuarial calculations are computed using the projected unit credit cost method and the asset valuation is on a market value basis. Under this method, the normal cost is the actuarial present value of a member's benefit divided by the member's expected future working lifetime. The funding of the unfunded actuarial accrued liability is based on a level percentage of payroll over a period ending July 1, 2020, as required by the City Charter. The most recent actuarial valuation determined the funding status to be 190%.



Prior Period Adjustment

The net assets held in trust for pension benefits as of July 1, 2000, have been restated to correct an error that occurred in prior years. The correction of this error eliminated the previously-recorded payable to PERS and recorded a liability to the City for its payments to PERS on behalf of former Retirement System participants that transferred to PERS.

Retirement System participants had the option of transferring to PERS at various times prior to 1971. When these participants elected to transfer to PERS, the Retirement System elected not to liquidate assets to transfer to PERS, but instead established a liability to PERS in lieu of an immediate transfer of assets. This liability to PERS was paid by the City in the form of increased pension contribution rates since 1971.

Accordingly, the payable to PERS as of July 1, 2000, has been eliminated, and a payable to the City has been recorded as of this date. This payable is equal to the net assets held in trust for pension benefits in excess of 125% of the sum of: 1) actuarially-determined benefits payable as of July 1, 1999, and 2) all other liabilities as of June 30, 2000.

Had the error not been made, deductions during the year ended June 30, 2000, would have been reduced by \$1,786,895, and the excess of additions over deductions would have been \$426,193.

California Public Employees Retirement System

Plan Description

The City of Oakland contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office—400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 3.57% for non-safety employees and 6.2564% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2000-01, the City's annual pension cost of \$24,024,670 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends June 30, 2011.

**Three-Year Trend Information Information for PERS
(in millions)**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1999	\$19.4	100%	\$ 0
2000	23.6	100	0
2001	24.0	100	0

(17) RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The "All Governmental Fund Types and Expendable Trust Funds Combined Statement of Revenues, Expenditures and Changes in Fund Balances" has been prepared on the modified accrual basis of accounting in accordance with GAAP. The General Fund Combined Schedule of Revenues and Expenditures - Budget and Actual on a Budgetary Basis" has been prepared on the budgetary basis, which is different from GAAP.

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP). The results of operations are presented in the budget to actual comparison statement in accordance with the budgetary process (Budgetary Basis) to provide a meaningful comparison with the budget.

The main difference between Budgetary Basis "actual" and GAAP basis is a timing difference:

In March 1997, the City entered into a debt service deposit agreement with a third party whereby the City received approximately \$8.1 million in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the related debt was due to the bondholders. The compensation to the City was recorded as revenue in fiscal 1997 when received on a budgetary basis. On a GAAP



basis, the revenue was deferred and is being recognized over the 14-year life of the agreement. Amortization for the year ended June 30, 2001, was \$640,000.

The following schedule is a reconciliation of the GAAP and budgetary results of operations (in thousands):

	General Fund
Excess of revenues over expenditures - GAAP basis	\$ 39,632
Amortization of debt service deposit agreement	<u>(640)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	<u>\$ 38,992</u>

The General Fund Balance on a Budgetary Basis reconciled to that on a GAAP basis as of June 30, 2001, is as follows (in thousands):

	General Fund
Fund Balance, June 30, 2001 - GAAP Basis	\$ 22,796
Prior year debt service deposit agreement recorded on Budgetary Basis in the year of receipt	<u>5,602</u>
Fund Balance, June 30, 2001 - Budgetary Basis	<u>\$ 28,398</u>

General Fund Budgetary Basis Fund Balance at June 30, 2001, is composed of the following (in thousands):

	General Fund
Reserved	\$ 1,664
Unreserved, designated	7,808
Unreserved, undesignated	<u>18,926</u>
Fund Balance, June 30, 2001 - Budgetary Basis	<u>\$ 28,398</u>

(18) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The City has three programs in place to partially pay health insurance premiums for certain classes of retirees from City employment.

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan. Approximately \$1,030,749 was paid on behalf of 488 retirees under this program for the year ended June 30, 2001.

(19) EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2001, no funds reported excess expenditures over appropriations.

(20) COMMITMENTS AND CONTINGENT LIABILITIES

Grants and Subventions

Receipts from federal and state financial assistance programs are subject to review and audit by representatives of the federal and state governments to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result from such review and audits.

Due to the nature of the various grant agreements and of the City's grants billing process, certain amounts included in grants receivables have not yet been billed to the granting agencies. Management believes that any amounts ultimately uncollectible on such unbilled grants receivable will not be material to the financial statements.

Construction Commitments

Primary Government

The City has committed funding in the amount of \$115,317,930 to a number of capital improvement projects for fiscal years 2001-02 to 2002-03.

Discretely Presented Component Unit

The Port anticipates spending a \$1.6 billion (in actual dollars) over the next five years in its capital improvement program. The most significant projects include the development and construction of new container terminals, 50-foot deepening of the channel, roadway improvements, a new airport terminal, and a new airport parking garage and surface parking lots.

As of June 30, 2001, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	\$178,702
Aviation	165,094
Commercial real estate	<u>3,653</u>
	<u>\$347,449</u>



Other Contingencies

Primary Government

As of June 30, 2001, the Agency has entered into contractual commitments of approximately \$6,117,510 for materials and services relating to various projects. These commitments and future costs will be funded by currently available funds, tax increment revenue and other sources.

At June 30, 2001, the Agency was committed to fund \$4,964,630 in loans and had issued \$1,648,600 in letters of credit in connection with several low and moderate income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

Discretely Presented Component Unit

The Port is required to comply with a number of federal, state and local laws and regulations designed to protect human health, safety and the environment. In conforming to these laws and the implementing regulations, the Port has instituted a number of compliance programs and procedures.

It is the Port's intent that its environmental compliance programs be compliant with regulatory and legal requirements while effectively managing financial resources. The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination.

As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues for a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods, current estimates of environmental liabilities could materially change, causing expense to the Port.

The Port's management believes the total environmental accrual provides for all significant sites containing hazardous substances and petroleum products that are currently considered probable to require investigation and remediation and for which the potential liability can be estimated.

NOTES TO FINANCIAL STATEMENTS

A summary of the environmental liability accounts, included within the Combined Balance Sheet at June 30, is as follows:

	2001
Environmental remediation	\$10,162
Miscellaneous compliance	<u>1,606</u>
Total environmental liabilities	<u>\$11,768</u>

The Port is presently responsible for remediation and clean-up of three major sites; namely, Keep On Trucking, Seabreeze and Ringsby. The accrued liability associated with these three sites at June 30, 2001, amount to \$4,580,000, \$1,148,000, and \$1,456,000 respectively. These amounts are included in the environmental remediation liability amount of \$10,162,000 above. The three sites were all the subject of litigation with parties responsible for the contamination, which resulted in the establishment of a fund from which the Port could meet its regulatory obligations. The remediation of all three sites is currently in the planning phase.

(21) INDIVIDUAL FUND DEFICITS

As of June 30, 2001, the following funds reported deficits in fund balances and/or retained earnings (in thousands):

Internal Service	
Facilities	\$ 4,910
Central Stores	3,282

The City's Facilities and Central Stores deficit are expected to be funded through increased user charges for the costs incurred in each fund.

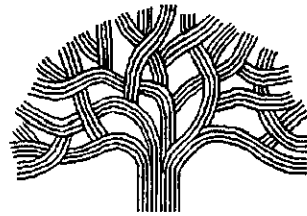
Expendable Trust	
Oakland Redevelopment Agency Projects	\$ 4,798

The City's Expendable Trust Oakland Redevelopment Agency deficit is expected to be funded by reimbursements from the Agency.

(22) SUBSEQUENT EVENT

Tax and Revenue Anticipation Notes

On July 26, 2001, the City issued tax and revenue anticipation notes payable of \$65,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 2.6%. Principal and interest are due and payable on July 25, 2002.



CITY OF OAKLAND

REQUIRED SUPPLEMENTAL SCHEDULES

OAKLAND MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS (unaudited) (In Millions)

Actuarial Valuation Date July 1,	Actuarial Value (\$) of Plan Assets ⁽¹⁾ (a)	Accrued Actuarial Liability (\$) (AAL) (b)	Funded Ratio (%) (a/b)	Actuarial Surplus (AS) (\$) (b-a)	Covered Payroll (\$) (c)	AS as a Percentage (%) of Covered Payroll [(b-a)/c]
1994	16.2	12.0	135	(4.2)	.119	(3529)
1995 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1996	16.9	11.8	143	(5.1)	.124	(4113)
1997 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1998	18.8	10.8	174	(8.0)	.137	(5839)
1999	18.2	9.6	190	(8.6)	.150	(5734)
2000 ^(a)	N/A	N/A	N/A	N/A	N/A	N/A

Note: (a) Based on GASB 25, paragraph 35, footnote 17.

⁽¹⁾At market.

⁽²⁾Actuarial valuation conducted biennially.



POLICE AND FIRE RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(unaudited)
(In Millions)

Actuarial Valuation Date July 1,	Actuarial Value (\$) of Plan Assets ⁽¹⁾ (a)	Accrued Actuarial Liability (\$) (AAL) (b)	Funded Ratio (%) (a/b)	Unfunded/ (Overfunded) AAL (\$) (UAAL) (b-a)	Covered Payroll (\$) (c)	UAAL as a Percentage (%) of Covered [(b-a)/c]
1994	304.3	947.4	32.1	643.1	20.1	3200
1995 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1996	359.2	983.2	36.5	624.0	19.6	3184
1997 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1998	861.4	805.5	106.9	(55.9)	19.0	(294.2)
1999 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
2000 ^(a)	N/A	N/A	N/A	N/A	N/A	N/A
2001 ^(a)	N/A	N/A	N/A	N/A	N/A	N/A

Note: (a) Based on GASB 25, paragraph 35, footnote 17.

⁽¹⁾At market.

⁽²⁾Actuarial valuation conducted biennially.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following are brief summaries of certain provisions of the Trust Agreement and the Lease Agreement. These summaries do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the full terms of the respective documents. Capitalized terms not otherwise defined herein shall have the meanings set forth in the respective document.

The summaries of the Trust Agreement and the Lease Agreement set forth below reflect the amendments to such documents described under the caption "PLAN OF FINANCE."

SELECTED DEFINITIONS

Set forth below are selected definitions from the Trust Agreement.

Additional Certificates. The term "Additional Certificates" means Certificates executed and delivered pursuant to the Trust Agreement, in addition to the 1992 Series A Certificates and the 2002 Series A Certificates.

Additional Certificates for Refunding. The term "Additional Certificates for Refunding" means any Certificates executed and delivered pursuant to the Trust Agreement which refund any series of Certificates.

Agency. The term "Agency" means the Redevelopment Agency of the City of Oakland, as lessor under the Lease Agreement.

Assignment Agreement. The term "Assignment Agreement" means the Assignment Agreement Relating to Museum Facilities, dated as of May 15, 1992, by and between the Agency and the Trustee, as now or hereafter amended.

Certificates. The term "Certificates" means the certificates of participation prepared and delivered by the Trustee pursuant to the Trust Agreement, including any Additional Certificates and any Additional Certificates for Refunding.

City. The term "City" means the City of Oakland, California, as lessee under the Lease Agreement.

Event of Default. The term "Event of Default" means an event of default under the Lease Agreement as set forth the Lease Agreement.

Facilities. The term "Facilities" means the museum and related facilities and improvements located on the Site.

Federal Securities. The term "Federal Securities" shall mean, to the extent permitted by law for investment as herein contemplated, (i) any direct and general obligations of, or any obligations the timely payment of principal of and interest on which are fully guaranteed by, the United States of America, (ii) any Tax-Exempt Obligations which are rated in the highest rating category by Fitch, Moody's or S&P, (iii) certificates of ownership of the principal of or interest on direct and general obligations of, or

obligations guaranteed by, the United States of America, which obligations are held in trust, including CATS, TIGRS, STRPS and such other similar obligations and (iv) investment agreements at least 100% collateralized by obligations described in clauses (i), (ii) and (iii) above, with a bank or insurance company which has an unsecured, uninsured and unguaranteed obligation (or claimspaying ability) rated "A3" or better by Moody's or "A-" or better by S&P or "A-" or better by Fitch, or is the lead bank of a parent bank holding company with an uninsured, unsecured and unguaranteed obligation meeting such rating requirements, provided:

(a) moneys invested thereunder may be withdrawn without any penalty, premium or charge upon not more than one day's notice (provided such notice may be amended or canceled at any time prior to the withdrawal date),

(b) the agreement is not subordinated to any other obligations of such insurance company or bank, and

(c) the Trustee receives from the Agency an opinion of counsel that such agreement is an enforceable obligation of such insurance company or bank.

For the purpose of this subsection defining Federal Securities, "Tax-Exempt Obligations" means an obligation, the interest on which is excluded from the gross income of the holders thereof for federal income tax purposes, and is secured by a refunding escrow comprised solely of obligations described in clauses (i), (iii) and (iv) hereof.

Gross Proceeds. The term "Gross Proceeds" means gross proceeds as defined under Section 148 (f) (6) (B) of the Internal Revenue Code and Regulations promulgated thereunder.

Ground Lease. The term "Ground Lease" means the Ground Lease between the City, as lessor, and Oakart, as lessee, dated as of January 15, 1982, as amended, providing for the lease of the Site.

Insurer. The term "Insurer" means Ambac Assurance Corporation as issuer of the Municipal Bond Insurance Policy.

Investment Earnings Account. The term "Investment Earnings Account" means the account by that name, established under and held by the Trustee pursuant to the Trust Agreement.

Lease Agreement. The term "Lease Agreement" means the Amended and Restated Lease Agreement Relating to Museum Facilities, dated as of May 15, 1992, by and between the Agency, as lessor, and the City, as lessee, as amended and supplemented by the First Supplement to Amended and Restated Lease Agreement Relating to Museum Facilities, dated March 21, 2002, and as it may be further amended.

Lease Payment Account. The term "Lease Payment Account" means the account by that name established under, and held by the Trustee pursuant to, the Trust Agreement.

Lease Payments. The term "Lease Payments" means lease payments payable by the City for the use of the Site and the Facilities pursuant to the Lease Agreement.

Maximum Annual Debt Service. The term "Maximum Annual Debt Service" means the maximum of the sum of principal and interest coming due with respect to the Certificates on any October 1 and April 1 in the same fiscal year of the City (being the one-year period commencing on July 1 of any year and ending on June 30 of the following year).

Municipal Obligations. The term “Municipal Obligations” means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call on the date specified in the notice, and (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of direct obligations of the United States of America, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this paragraph, as appropriate, (iv) which are rated, based on the escrow, in the highest rating category of Standard & Poor’s Corporation and Moody’s Investors Service, Inc. or any successors thereto, and (v) the interest which is excluded from gross income under Section 103 of the Code.

Nonpurpose Obligations. The term “Nonpurpose Obligation” means any “nonpurpose investment” as defined under Section 148(f)(6)(A) of the Code and Regulations promulgated thereunder.

Outstanding. The term “Outstanding” when used with reference to the Certificates and as of any particular date means all Certificates theretofore delivered except: (a) any Certificate canceled by the Trustee at or before said date, (b) any Certificate in lieu of or in substitution for which another certificate shall have been delivered pursuant to this Trust Agreement, and (c) any Certificate which has been defeased as provided in the Trust Agreement.

Owner. The term “Owner” or “Certificate Owner” or “Owner of Certificates” or any similar term when used with respect to the Certificates, means any person who shall be the registered owner, of any Outstanding Certificate; provided, however, that the Insurer shall be deemed to be the owner of Certificates insured by the Insurer (i) at all times for the purpose of giving consent pursuant to Section 801 or initiating any action which may be taken by the trustee hereunder at the request or with the consent of the Owners of a majority in aggregate principal amount of Certificates Outstanding and (ii) following an Event of Default for all other purposes.

Permitted Encumbrances. The term “Permitted Encumbrances” means if and to the extent permitted by law and by the Agency:

- (i) Ad valorem taxes and assessments, if any, for the current fiscal year of the Agency.
- (ii) Easements, rights-of-way, mineral rights and other rights, covenants, conditions of restrictions which in the judgment of the city do not impair or impede or otherwise adversely affect construction or operation of the Facilities or access to the Facilities by the City.
- (iii) The Ground Lease.
- (iv) The Lease Agreement, as amended.
- (v) The Assignment Agreement.

Permitted Investments. The term “Permitted Investments” means:

(i) Federal Securities;

(ii) Obligations of the Government National Mortgage Association, the Farmers Home Administration, the General Services Administration, the U.S. Maritime Administration, the Small Business Administration, the U.S. Department of Housing & Urban Development or the Federal Housing Administration, or a combination thereof, payable in cash, for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(iii) Certificates of deposit or time deposits (including, without limitation, certificates of deposit) issued by any commercial bank organized under the laws of any State of the United States of America or any national banking association, including the Trustee or affiliate, provided that such deposits shall be continuously and fully insured by the Federal Deposit Insurance Corporation;

(iv) Certificates of deposit or time deposits, federal funds and banker's acceptances issued by any commercial bank organized under the laws of any State of the United States of America or any national banking association, including the Trustee or affiliate, which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's Corporation and "P-1" by Moody's Investors Service, Inc. and maturing no more than 360 days after the date of purchase;

(v) Money market funds, including the JPMorgan Money Market Mutual Funds, rated "AAA" by Standard & Poor's Corporation and/or "Aaa" by Moody's Investors Service, Inc., which are monitored quarterly;

(vi) Investment agreements approved by the Insurer;

(vii) Municipal Obligations; and

(viii) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

Private Business Use. The term "Private Business Use" means use directly or indirectly in a trade or business carried on by a natural person or in any activity carried on by a person other than a natural person, excluding, however, use by a governmental unit and use as a member of the general public.

Rebate Fund. The term "Rebate Fund" means the fund by that name established under, and held by the Trustee pursuant to, the Trust Agreement.

Redemption Fund. The term "Redemption Fund" means the fund by that name established under, and held by the Trustee pursuant to, the Trust Agreement.

Reserve Account. The term "Reserve Account" means the account by that name established under, and held by the Trustee pursuant to, the Trust Agreement.

Reserve Requirement. The term "Reserve Requirement" means an amount equal to Maximum Annual Debt Service on all Certificates Outstanding.

Site. The term "Site" means the real property more particularly described in Exhibit A attached to the Lease Agreement.

Trust Agreement. The term "Trust Agreement" means this Amended and Restated Trust Agreement Relating to Museum Facilities, dated as of March 1, 2002, by and among the Trustee, the Agency and the City, as now or hereafter amended.

Trustee. The term "Trustee" means JPMorgan Chase Bank, a New York State banking corporation, or its successors in interest acting as Trustee under the Trust Agreement.

Usable. The term "Usable," when used with respect to the Facilities, means tenantable and available for use in the normal operation of such Facilities.

TRUST AGREEMENT

Certain Funds and Accounts

Establishment and Application of Reserve Account.

(a) Within the Museum Facilities Trust Fund established under the Trust Agreement, there is established a separate account to be designated the "Reserve Account." Such account shall be maintained by the Trustee until the Lease Payments are paid in full pursuant to the terms of the Lease Agreement.

(b) If on any Payment Date the amounts in the Lease Payment Account are less than the Lease Payments then due, the Trustee shall transfer from the Reserve Account to the Lease Payment Account an amount sufficient to make up such deficiency. In the event of any such transfer, the Trustee shall, within five (5) days after making such transfer, provide written notice to the City of the amount and date of such transfer and the City shall thereupon pay delinquent Lease Payments.

(c) Moneys in the Reserve Account shall be (i) applied as a credit against the last remaining installments of the Lease Payments and for that purpose shall be transferred to the Lease Payment Account by the Trustee not later than the first day of the month prior to the Payment Dates pertaining to such installments, or (ii) used for the purpose of making up deficiencies in the Lease Payment Account in the event that moneys in the Lease Payment Account are less than the Lease Payments then due on any Payment Date, and for the latter purpose moneys may be withdrawn from the Reserve Account and transferred to the Lease Payment Account, provided in subsection (b).

(d) Upon receipt of any delinquent Lease Payment with respect to which moneys have been advanced from the Reserve Account or any additional Lease Payment payable following restoration of any damage to or destruction of the Facilities, such Lease Payment shall be deposited in the Reserve Account.

(e) A letter of credit, line of credit or surety bond (a "Reserve Credit Facility") in the amount of the Reserve Requirement may be substituted for the funds held by the Trustee in the Reserve Account by the City at any time, provided that with respect to any such substitution (i) such substitution shall not result in the reduction or withdrawal of any ratings by any rating agency with respect to the Certificates (and the City shall notify each rating agency rating the Certificates prior to making any such substitution), and (ii) the Trustee shall receive prior to any such substitution the exclusion becoming effective an Opinion of Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Lease Payments payable with respect to the Certificates and any Certificates previously executed and delivered as tax-exempt certificates of participation. Amounts on deposit in the Reserve Account for which a Reserve Credit Facility has been substituted shall be released to or at the direction of the City.

Establishment and Application of Rebate Fund.

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain an Excess Investment Earnings Account and an Investment Earnings Account. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Letter of Instructions), for payment to the federal government of the United States of America.

(b) Upon the City's written direction, an amount shall be deposited to the Excess Investment Earnings Account in the Rebate Fund by the Trustee if and to the extent required by the Letter of Instructions.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated.

Deposit and Investment of Moneys in Accounts. All moneys held by the Trustee in any of the funds or accounts established pursuant to the Trust Agreement shall be deposited or invested in Permitted Investments maturing not later than the date on which it is anticipated that such moneys shall be required for the purposes of the Trust Agreement. Such investments shall be made at the direction of the City or, in the absence of timely direction as provided below, in Permitted Investments specified in clauses (iii) or (v) of the definition thereof, and shall be held by the Trustee. The Trustee shall make investments in Permitted Investments in accordance with written or telephonic instructions (confirmed the next day in writing) provided by an Authorized Officer of the City not less than two (2) business days prior to the date on which each investment is made, provided that such instructions are not inconsistent with the Trustee's fiduciary obligations hereunder. Each written investment instruction shall certify the investment to be a Permitted Investment.

The Trustee may act as principal or agent in making or disposing of any investment. The Trustee shall not be liable for any loss resulting from the making or disposition of any investment made in compliance with this Section, and any such losses shall be charged to the account with respect to which such investment was made.

Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Trustee hereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Indenture. Investments shall be valued as follows:

(i) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination or the closing price published by a nationally recognized pricing service;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times): the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its sole discretion) at the time making a market in such investments or the closing price published by a nationally recognized pricing service;

(iii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(iv) as to any investment not specified above: the value thereof established by prior agreement between the City and the Insurer and specified to the Trustee in writing;

provided that if more than one of the above methods of valuation shall apply at any time to any particular investment, the value thereof at such time shall be determined in accordance with the method establishing the lowest value of such investment.

Additional Certificates for Refunding

Upon written request of an Authorized Officer of the City, the Trustee may, from time to time, execute and deliver one or more series of Additional Certificates for Refunding, secured by Lease Payments under the Lease Agreement, on a parity with the Outstanding Certificates solely for the purpose of refunding Outstanding Certificates. The Trustee shall execute and deliver the Additional Certificates for Refunding of any series only upon the receipt by the Trustee of the following.

(a) A copy of a supplement or amendment to the Trust Agreement authorizing such series of Additional Certificates for Refunding which shall, among other provisions, specify: (i) the authorized principal amount (including the initial amounts for any Additional Certificates for Refunding issued as capital appreciation bonds), designation and series of such Additional Certificates for Refunding, (ii) the purpose for which such Additional Certificates for Refunding are to be issued, (iii) the maturity date or dates for such Additional Certificates for Refunding, which shall not be a later date than the maturity date of the Certificates being refunded, (iv) the interest payment dates for and the interest rate or rates or the maximum rate of interest payable with respect to the Additional Certificates for Refunding or such series, (v) the denominations of and the manner of dating such Additional Certificates for Refunding, (vi) the prepayment provisions and prepayment dates and prices and any defeasance provisions for such Additional Certificates for Refunding, (vii) the form of such Additional Certificates for Refunding, if substantially different from Exhibit A to the Trust Agreement, (viii) the establishment of and provisions concerning additional accounts and subaccounts in the Lease Payment Account held by the Trustee under the Trust Agreement to provide for the payment of principal, premium, if any, and interest with respect to such Additional Certificates for Refunding, (ix) the establishment of and provisions concerning additional accounts and subaccounts in the Reserve Account held by the Trustee hereunder so that Additional Certificates for Refunding are secured by a reserve requirement calculated on the same basis as the Reserve Requirement, and (x) the establishment of and provisions concerning such other funds, accounts and subaccounts as the City or the Agency shall deem necessary or desirable for such Additional Certificates for Refunding, including, without limitation, construction, acquisition and escrow funds.

(b) A duly executed copy of any amendment to the Lease Agreement such that (i) the Lease Payments payable under the Lease Agreement, as amended, are sufficient to pay all principal and interest with respect to the Outstanding Certificates and Additional Certificates for Refunding; (ii) that the Lease Payments payable thereunder are not in excess of the fair rental value of the Site and the Facilities; and (iii) the Lease Payments relating to the Additional Certificates for Refunding are less in each year than the Lease Payments relating to the Certificates being refunded.

(c) Evidence that any amendments to the Lease Agreement executed in connection with such Additional Certificates for Refunding (or a memorandum thereof) have been duly recorded in the official records of the County Recorder of the County of Alameda.

(d) A certificate of an Authorized Officer of the City, accompanied by a written certificate

(d) A certificate of an Authorized Officer of the City, accompanied by a written certificate from a qualified appraiser, who may but need not be an employee of the City, evidencing that (i) the fair rental value of the Site and the Facilities, is at least equal to the Lease Payments payable under the Lease Agreement, as amended, and that such Lease Payments are sufficient to pay all principal and interest with respect to the Outstanding Certificates and Additional Certificates for Refunding, (ii) the fair market value of the Site and the Facilities is at least equal to the principal amount of the Certificates which would be outstanding upon execution and delivery of the Additional Certificates for Refunding; and the Site and the Facilities are available for immediate use and occupancy by the City.

(e) An opinion or opinions of recognized counsel whose opinion is acceptable by underwriters in the marketing of tax-exempt obligations of political subdivisions substantially to the effect that (i) the supplement or amendment to the Trust Agreement and any amendment to the Lease Agreement executed in connection therewith are authorized or permitted by the Constitution and laws of the State and the Trust Agreement and any such amendment to the Lease Agreement have been duly and validly authorized, executed and delivered by each of the Agency and the City, as appropriate, and constitute the legally valid and binding obligations of the Agency and the City, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and subject to such other exceptions as are not inconsistent with the final opinion of such counsel given upon the execution and delivery of such Additional Certificates for Refunding, and (ii) the execution and delivery of such Additional Certificates for Refunding will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Lease Payments payable with respect to the Certificates and any Additional Certificates for Refunding previously executed and delivered as tax-exempt certificates of participation.

Additional Certificates

Upon written request of an Authorized Officer of the City, the Trustee may, from time to time, execute and deliver one or more series of Additional Certificates, secured by Lease Payments under the Lease Agreement, on a parity with the Outstanding Certificates. The Trustee shall execute and deliver the Additional Certificates of any series only upon the receipt by the Trustee.

(a) A copy of a supplement or amendment to the Trust Agreement authorizing such series of Additional Certificates which shall, among other provisions, specify: (i) the authorized principal amount (including the initial amounts for any Additional Certificates issued as capital appreciation bonds), designation and series of such Additional Certificates, (ii) the purpose for which such Additional Certificates are to be issued, (iii) the maturity date or dates for such Additional Certificates, which shall not be a later date than the maturity date of the Certificates being refunded, (iv) the interest payment dates for and the interest rate or rates or the maximum rate of interest payable with respect to the Additional Certificates or such series, (v) the denominations of and the manner of dating such Additional Certificates, (vi) the prepayment provisions and prepayment dates and prices and any defeasance provisions for such Additional Certificates, (vii) the form of such Additional Certificates, if substantially different from Exhibit A hereto, (viii) the establishment of and provisions concerning additional accounts and subaccounts in the Lease Payment Account held by the Trustee under the Trust Agreement to provide for the payment of principal, premium, if any, and interest with respect to such Additional Certificates, (ix) the establishment of and provisions concerning additional accounts and subaccounts in the Reserve Account held by the Trustee hereunder so that Additional Certificates are secured by a reserve requirement calculated on the same basis as the Reserve Requirement, and (x) the establishment of and provisions concerning such other funds, accounts and subaccounts as the City or the Agency shall deem necessary or desirable for such Additional Certificates, including, without limitation, construction, acquisition and escrow funds.

(b) A duly executed copy of any amendment to the Lease Agreement such that (i) the Lease Payments payable under the Lease Agreement, as amended, are sufficient to pay all principal and interest with respect to the Outstanding Certificates and Additional Certificates; and (ii) that the Lease Payments payable thereunder are not in excess of the fair rental value of the Site and the Facilities.

(c) Evidence that any amendments to the Lease Agreement executed in connection with such Additional Certificates (or a memorandum thereof) have been duly recorded in the official records of the County Recorder of the County of Alameda.

(d) A certificates of an Authorized Officer of the City, accompanied by a written certificate from a qualified appraiser, who may but need not be an employee of the City, evidencing that (i) the fair rental value of the Site and the Facilities, is at least equal to the Lease Payments payable under the Lease Agreement, as amended, and that such Lease Payments are sufficient to pay all principal and interest with respect to the Outstanding Certificates and Additional Certificates; the fair market value of the Site and the Facilities is at lease equal to the principal amount of the Certificates which would be Outstanding upon execution and delivery of the Additional Certificates; and (iii) the Site and the Facilities are available for immediate use and occupancy by the City.

(e) An opinion or opinions of recognized counsel whose opinion is acceptable by underwriters in the marketing of tax-exempt obligations of political subdivisions substantially to the effect that (i) the supplement or amendment to the Trust Agreement and any amendment to the Lease Agreement executed in connection therewith are authorized or permitted by the Constitution and laws of the State and the Trust Agreement and any such amendment to the Lease Agreement have been duly and validly authorized, executed and delivered by each of the Agency and the City, as appropriate, and constitute the legally valid and binding obligations of the Agency and the City, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and subject to such other exceptions as are not inconsistent with the final opinion of such counsel given upon the execution and delivery of such Additional Certificates, and (ii) the execution and delivery of such Additional Certificates will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Lease Payments payable with respect to the Certificates and any Additional Certificates previously executed and delivered as tax-exempt certificates of participation.

(f) The written consent of the 2002 Series A Certificate Insurer."

Selected Covenants

Action on Default. If an Event of Default occurs of which the Trustee has, or is deemed to have, notice as provided in the Trust Agreement, the Trustee shall promptly give notice to the Insurer and to the Owner of each Certificate. Upon the occurrence of an Event of Default by the City under Section 701 of the Lease Agreement, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written direction of the Owners of a majority in aggregate principal amount of Certificates then Outstanding and upon receipt of indemnity to its reasonable satisfaction, the Trustee shall, upon notice in writing to the City and the Insurer, exercise the remedies provided, in the Lease Agreement (which remedies have been assigned to the Trustee pursuant to the Assignment Agreement) to the extent permitted by law. Anything in this Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Certificate Owners and the Trustee for the benefit of the Owners under this Trust Agreement and the Insurer shall also be entitled to approve all waivers of Events of Default.

Private Business Use Limitation. The Agency and the City covenant (i) that not in excess of ten percent (10%) of the Net Proceeds of the Certificates will be used for Private Business Use if, in addition, the payment of more than ten percent (10%) of the principal or ten percent (10%) of the interest due on the Certificates during the term thereof is, under the terms of the Certificates or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for a Private Business Use or in payments in respect of property used or to be used for a Private Business Use or is to be derived from payments, whether or not to the Agency or the City, in respect of property or borrowed money a Private Business Use, and (ii) that if both (A) in excess of five percent (5%) of the Net Proceeds of the Certificates are used for a Private Business Use, and (B) an amount in excess of five percent (5 %) of the principal or five percent (5 %) of the interest due on the Certificates during the term thereof is, under the terms of the Certificates or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for said Private Business Use or in payments in respect of property used or to be used for said Private Business Use or is to be derived from payments, whether or not to the Agency or the City, in respect of property or borrowed money used or to be used for said Private Business Use, then said excess over said five percent (5%) of Net Proceeds of the Certificates used for a Private Business Use will be used for a Private Business Use related to the governmental use of said property.

Private Loan Limitation. The Agency and the City covenant that not in excess of the lesser of five percent (5%) of the Net Proceeds of the Certificates or \$5,000,000 will be used, directly or indirectly, to make or finance a loan (other than loans constituting Nonpurpose Obligations) to persons other than state or local government units.

Federal Guarantee Prohibition. The Agency and the City covenant that they will not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Certificates to be "federally guaranteed" within the meaning of section 149(b) of the Code and Regulations promulgated thereunder.

No Arbitrage. The Agency and the City covenant that they will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the Gross Proceeds of the Certificates which if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Certificates to be arbitrage bonds within the meaning of section 148(a) of the Code and Regulations promulgated thereunder.

Amendment; Defeasance

Amendment. The Trust Agreement may be amended in writing by agreement among all of the parties, but no such amendment shall become effective as to the Owners of Certificates then outstanding unless and until approved by a majority in aggregate principal amount with respect to Certificates Outstanding ("aggregate principal amount" includes the Accreted Value of Capital Appreciation Certificates); provided that no such amendment shall impair the right of any owner to receive his proportionate share of any Lease Payment in accordance with his Certificate. Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners of the Certificates, but only (1) for the purpose of curing any ambiguity, or of curing correcting or supplementing any defective provision contained in the Trust Agreement, or (2) in regard to questions arising under the Trust Agreement which the City may deem necessary or desirable and not inconsistent with the Trust Agreement, or (3) as permitted in Section 410 of the Trust Agreement (relating to certain investments), provided that no such amendment shall adversely affect the interests of the Owners of the Certificates or the exclusion from income for Federal income tax purposes of the interest component of Lease Payments pursuant to Section 103 of the Code; provided that the Agency, the City and the Trustee may rely in entering into any such amendment of the Trust Agreement upon the opinion of recognized counsel whose opinion is acceptable by underwriters in

the marketing of tax-exempt obligations of political subdivisions stating that the requirements of this sentence shall have been met with respect to such amendment. Any provision of this Trust Agreement expressly, recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer hereunder without the prior written consent of the Insurer.

Defeasance. If any or all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal with respect to and interest with respect to such Certificates Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, moneys in an amount which, together with the amounts then on deposit in the Lease Payment Account and the Reserve Account, are fully sufficient to pay such Certificates outstanding, including all principal, premium, if any, and interest with respect thereto;

(c) by depositing with the Trustee, in trust, cash and/or direct obligations of the United States of America in such amount as will, together with the interest to be received thereon and moneys then on deposit in the Lease Payment Account and the Reserve Account, together with the interest to be received thereon, be fully sufficient to pay and discharge such Certificates (including all principal, interest and redemption premiums) at or before their respective maturities; or

(d) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of all Lease Payments relating to such Certificates as more particularly described in the Lease Agreement, said security to be held by the Trustee, in trust for the City, and to be applied by the Trustee to Lease Payments representing the obligation of the City under the Lease Agreement as described in the Lease Agreement;

Notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Agency, the Trustee and the City under the Trust Agreement with respect to such Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the City from deposits pursuant to paragraphs (b) through (d) above, to the Owners of such Certificates not so surrendered and paid all sums due with respect thereto, and that in the event of deposits pursuant to paragraphs (b) through (d) of this Section, such Certificates shall continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease Agreement payable solely from such deposits; provided, however, that in the event that the principal, interest or redemption price with respect to any Certificates shall have been paid by the Insurer pursuant to the Municipal Bond Insurance Policy, the obligations of the Agency, the Trustee and the City under the Trust Agreement shall continue to exist and the Insurer shall be subrogated to the rights of the owners of such Certificates.

Any funds held by the Trustee, at the time of one of the events described in subsections (a) through (d) above, which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the City, shall be paid over to the City.

LEASE AGREEMENT

Selected Covenants

Improvements. The City shall have the right during the term of the Lease Agreement to make or

permit to be made improvements to the Site and the Facilities is such are necessary or beneficial to the Site and the Facilities.

Maintenance and Utilities. All maintenance and repair of the Facilities shall be the responsibility of the City, and the City shall pay for, or otherwise arrange for the payment of any necessary utility services supplied to the Facilities, all costs of operation of the Facilities and all costs of repair and replacement of the Facilities, and for ordinary wear and tear.

Payment of Lease Payments. The City shall duly and punctually pay or cause to be paid the Lease Payments, at the dates and places and in the manner provided in this Lease Agreement according to the true intent and meaning of the Lease Agreement and shall not directly or indirectly extend or assent to the extension of the payment dates of any Lease Payments.

Payment of Taxes. The City will pay or cause to be paid all taxes, assessments and other governmental charges, is any, that may be levied, assessed or charged upon the Site or the Facilities or any part thereof, promptly as and when the same are due and payable; provided, however, that the City shall not be required to any such tax, assessment or charge if the validity thereof shall concurrently be contests in good faith by appropriate proceedings, and if the City shall set aside, or cause to be set aside, reserves deemed by it to be adequate with respect thereto.

Maintenance and Preservation of the Facilities. The City will operate, maintain and preserve, or cause to be operated, maintained and preserved, the Facilities in good repair and working order and will operate, or cause to be operated, the Facilities in an efficient and economical manner.

Against Encumbrances or Sales. Except as permitted in the Lease Agreement and except as to Permitted Encumbrances, the City will not create or suffer to be created, any mortgage, pledge, lien charge or encumbrance upon the Site or Facilities, or any part thereof, or upon any real or personal property essential to the operation of the Facilities. The City will not sell or otherwise dispose of the Site or the Facilities or any property essential to the proper operation of the Facilities, except as otherwise provided in the Lease Agreement.

Release and Substitution. If no Event of Default has occurred and is continuing under the Lease Agreement, the Lease Agreement and the Site Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, but with the consent of the Certificate Insurer, if such amendment is to modify or amend the description of the Site and the Facilities or to release from the Lease Agreement any portion of the Site and the Facilities, or to substitute other property and improvements for the Site and the Facilities, provided that the City shall have delivered to the Trustee all of the following:

- (i) Executed copies of the Lease Agreement and the Site Lease or amendments thereto containing the amended legal description of the affected portions of the Site and the Facilities;
- (ii) Evidence that copies of the Lease Agreement and the Site Lease or amendments thereto containing the amended legal description of the Site have been duly recorded in the official records of the County Recorder of the County of Alameda;
- (iii) A certificate of an Authorized Officer of the City stating that (a) the annual fair rental value of the property which will constitute the Site and the Facilities after such substitution or release will be at least equal to 100% of the maximum amount of Lease Payments becoming due in the then semiannual period commencing on the first day of each April or October and ending on the last day of the following September or March, as applicable, or in any subsequent such period, (b) such release or

substitution does not materially adversely affect the ability of the City to perform its obligations under the Lease Agreement, (c) the useful life of all of the property which will constitute the Site and the Facilities after such release or substitution meets or exceeds the remaining term of the Outstanding Certificates, (d) the substituted property which will constitute part of the Site and the Facilities after such release or substitution is not (1) encumbered by any prior liens (other than Permitted Encumbrances and liens and which do not, in the aggregate, prohibit the use of the Site and the Facilities in the manner intended by the City) or (2) subject to any other lease financing arrangement and (e) the essentiality of the substituted Site and Facilities is comparable to that of the existing Site and Facilities;

(iv) A certificate of an Authorized Officer of the City, which shall be based upon and accompanied by a written certificate from a qualified appraiser, who may but need not be an employee of the City, stating that the fair market value of all of the property which will constitute the Site and the Facilities after such release or substitution will be at least equal to 100% of the principal amount of the Certificates which would be Outstanding after such release or substitution;

(v) In the case of substitution of property for the then existing Site and Facilities, a CLTA policy meeting the requirements of Section 510 of the Lease Agreement (notwithstanding the references in such Section to an American Land Title Association policy), or a commitment for such policy or amendments or endorsements to existing policies resulting in title insurance with respect to the Site and the Facilities after such substitution in an amount at least equal to the amount of such insurance required pursuant to the Lease Agreement. Each such insurance instrument, when issued, shall insure such substituted property subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such substituted property and as will not result in an abatement of Lease Payments payable by the City under the Lease Agreement; and

(vi) An opinion of recognized counsel whose opinion is acceptable by underwriters in the marketing of tax-exempt obligations of political subdivisions stating that such amendment or modification (1) is authorized or permitted by the laws of the State and by this Lease Agreement; (2) complies with the terms of the laws of the State and of this Lease Agreement; (3) will, upon the execution and delivery thereof, be valid and binding upon the Agency and the City in accordance with its terms; and (4) will not cause the interest portion of the Lease Payments payable with respect to any Certificates executed and delivered as tax-exempt certificates of participation under the Trust Agreement to be included in gross income for federal income tax purposes.

Amendment of Lease Agreement for Additional Certificates. If no Event of Default has occurred and is continuing hereunder, the Lease Agreement and the Site Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, but with the consent of the Certificate Insurer, if such amendment is to permit the execution and delivery of Additional Certificates pursuant to the Trust Agreement, provided that the City shall have complied with all of the provisions set forth therein.

Events of Default

The following shall be events of default under the Lease Agreement:

(a) Failure by the City to pay any Lease Payments required to be paid under the Lease Agreement at the time specified therein and the continuation of said failure to the business day prior to the Payment Date to which such Lease Payment pertains;

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (a) above, for a period

of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Agency or the Trustee, unless the Agency or the Trustee shall agree in writing to an extension of such time prior to its expiration; provide that if the failure stated in the notice cannot be corrected within the applicable period, the Agency or the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and is diligently pursued until the default is corrected; or

(c) The City shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of a receiver, liquidator, assignee, trustee, custodian sequestrator (or similar official) of the City or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

Remedies in Default

(a) Upon the happening of any Event of Default under the Lease Agreement, the Agency and the Trustee may exercise any and all remedies available pursuant to the Lease Agreement, and the Agency covenants to take such action as may be necessary to exercise any such remedies and enforce the provision of the Lease Agreement on behalf of the Trustee for the benefit of the Owners of the Certificates.

(b) In the event the Agency or the Trustee does not elect to terminate this Lease Agreement pursuant to clause (a) above, the City agrees to and shall remain liable for the payment of Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Agency or the Trustee for any deficiency arising out of the reletting of the Site and the Facilities, or, in the event that the Agency or the Trustee is unable to relet the Site and the Facilities, then for the full amount of the Lease Payments to the end of the term of the Lease Agreement, but said Lease Payments shall be payable only at the same time and in the same manner as provided in the Lease Agreement, notwithstanding any suit in unlawful detainer, or otherwise, brought by the Agency or the Trustee for the purpose of obtaining possession of the Site and the Facilities.

(c) Upon an Event of Default, the Agency or the Trustee may, at its option, with the consent of the Insurer, terminate the Lease Agreement following ten (10) days' written notice thereof to the City. In the event of termination of the Lease Agreement by the Agency or the Trustee on account of an Event of Default (and notwithstanding any reletting of the Site and the Facilities), the City nevertheless agrees to pay to the Agency or the Trustee all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as in the case of Lease Payment thereunder. The Agency of the Trustee may relet the Site and the Facilities, provided that following such reletting the Site and the Facilities will continue to be used as a museum and for related purposes. Moneys received by the Agency or the Trustee from such reletting and any surplus received by the Agency of the Trustee from such reletting shall be the absolute property of the Agency or the Trustee and the City shall have no right thereto.

APPENDIX D

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

March 21, 2002

City of Oakland
Oakland, California

Redevelopment Agency of the
City of Oakland
Oakland, California

Re: City of Oakland Refunding Certificates of Participation (Oakland Museum)
2002 Series A

Ladies and Gentlemen:

We have acted as special counsel in connection with the execution and delivery of \$16,295,000 aggregate principal amount of City of Oakland Refunding Certificates of Participation (Oakland Museum), 2002 Series A (the "Certificates"), evidencing proportionate and undivided interests of the Owners thereof in an Amended and Restated Lease Agreement Relating to Museum Facilities dated as of May 15, 1992, by and between the City of Oakland (the "City") and the Redevelopment Agency of the City of Oakland (the "Agency"), as amended and supplemented by a First Supplement to Amended and Restated Lease Agreement Relating to Museum Facilities dated March 21, 2002 (collectively, the "Lease Agreement") including the right to receive Lease Payments to be made by the City to the Agency. The Certificates are being executed and delivered pursuant to an Amended and Restated Trust Agreement Relating to Museum dated as of March 1, 2002, by and among JPMorgan Chase Bank, a New York State banking corporation, as successor trustee (the "Trustee"), the City and the Agency, as amended and supplemented by a First Supplement to Amended and Restated Trust Agreement Relating to the Museum Facilities dated March 21, 2002 (collectively, the "Trust Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Trust Agreement.

The City and the Agency have entered into the Lease Agreement for the purpose of leasing certain real property and the improvements thereon from the Agency to the City. The City is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds, subject to the provisions in the Lease Agreement providing for the abatement of Lease Payments in certain circumstances. The Agency has assigned its rights to receive Lease Payments and certain other rights in the Lease Agreement to the Trustee pursuant to the Trust Agreement and an Assignment Agreement dated as of May 15, 1992, by and between the Agency and the Trustee, as successor trustee. The Certificates are being executed and delivered for the purpose of providing funds for the defeasance and redemption, on April 1, 2002, of the City's Refunding Certificates of Participation (Oakland Museum), 1992 Series A maturing on April 1, 2012.

In such connection, we have reviewed the Trust Agreement and the Lease Agreement, opinions of counsel to the City, the Agency and the Trustee, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the City and the Trustee, certain resolutions of the City and the Agency and an ordinance of the City, certificates of the City, the Agency, the Trustee and others, and such other

documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently, and we have assumed, the accuracy of the factual matters represented, warranted or certified in such documents, and of the legal conclusions contained in the opinions referred to above, and we have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City and the Agency.

Certain other requirements, agreements and procedures contained or referred to in the Trust Agreement, the Lease Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest portion of the Lease Payments payable with respect thereto on or after any such change that occurs or action that is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based upon 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 omitted or events do occur, and we have no obligations to update this opinion. Further, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease Agreement and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of the Lease Payments payable with respect to the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Lease Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, arrangement and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California (the "State"). We also express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we have undertaken no responsibility for the accuracy, completeness or fairness of any official statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Trust Agreement has been duly authorized, executed and delivered by the City and the Agency and, assuming the due execution and delivery thereof by the Trustee, constitutes the valid and binding obligation of the City and the Agency. The Trust Agreement creates a valid pledge of the Lease Payments, as and to the extent provided in the Trust Agreement and subject to the provisions of the Trust Agreement, permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement. The Certificates are entitled to the benefits of the Trust Agreement. The Trust Agreement constitutes a valid assignment by the Agency to the Trustee of such rights in the Lease Agreement as it purports to assign.

2. The Lease Agreement has been duly authorized, executed and delivered by the City and the Agency and constitutes the valid and binding obligation of the City and the Agency. The obligation of the City to make Lease Payments under the Lease Agreement does not constitute a debt of the City, the State or any political subdivision thereof within the meaning of the Constitution of the State or otherwise and neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to the payment of the Lease Payments.

3. The interest portion of the Lease Payments payable with respect to the Certificates is not includible in the gross income of the Owners thereof for federal income tax purposes and is exempt from present State of California personal income taxes. The interest portion of the Lease Payments payable with respect to the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Certificates.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Oakland (the "City") and accepted by JPMorgan Chase Bank, a New York State banking corporation, as Trustee and Dissemination Agent (the "Dissemination Agent"), in connection with the issuance of \$16,295,000 City of Oakland Refunding Certificates of Participation (Oakland Museum) 2002 Series A Certificates (the "2002 Series A Certificates"). The 2002 Series A Certificates are being executed and delivered pursuant to Resolution No. 76948 adopted by the City on January 29, 2002, Ordinance No. 12398 enacted by the City on February 5, 2002 and Resolution No. 02-04 adopted by the Agency on January 29, 2002, and pursuant to the Amended and Restated Trust Agreement Relating to Museum Facilities dated as of March 1, 2002, among the City, the Agency and JPMorgan Chase Bank, a New York State banking corporation, as trustee (the "Trustee"), as amended and supplemented by the First Supplement to Amended and Restated Trust Agreement Relating to Museum Facilities dated March 21, 2002 (collectively, the "Trust Agreement"). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

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

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"Disclosure Representative" shall mean the City Manager of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean JPMorgan Chase Bank, a New York State banking corporation, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved

by the Securities and Exchange Commission are set forth on the SEC website located at <http://www.sec.gov/consumer/nrmsir.htm>.

“Official Statement” shall mean the Official Statement relating to the 2002 Series A Certificates, dated March 12, 2002.

“Participating Underwriters” shall mean any or all of the original underwriters of the 2002 Series A Certificates required to comply with the Rule in connection with offering of the 2002 Series A Certificates.

“Repository” shall mean each National Repository and each State 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” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State 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 Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which is currently June 30) commencing with the 2001-2002 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Dissemination Agent and the Repositories an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

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

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

(a) The audited comprehensive financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3 (a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Principal amount of the 2002 Series A Certificates Outstanding.

(c) Balance in the Reserve Account and a statement of the reserve requirement with respect thereto.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2002 Series A Certificates, if material:

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Certificate Owners.
4. optional, contingent or unscheduled 2002 Series A Certificate calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt status of the 2002 Series A Certificates.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Certificates.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge which means, where the Trustee is the Dissemination Agent, the actual knowledge of a responsible officer of the corporate trust department of the Trustee, of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2002 Series A Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2002 Series A Certificates. If such termination occurs prior to the final maturity of the 2002 Series A Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City hereby appoints JPMorgan Chase Bank, a New York State banking corporation, as the initial Dissemination Agent and may, from time to time, discharge, appoint or engage any other Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such

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

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Certificates, and upon receipt of indemnification satisfactory to it, shall), or any Holder or Beneficial Owner of the 2002 Series A Certificates may take such actions, including seeking mandate or specific performance by court order, to cause the City or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement by the City or the Dissemination Agent shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance. No Certificate Owner or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and when also the Trustee, then Article V of the Trust Agreement is hereby made applicable hereto as if this Disclosure Agreement were solely for the purpose set forth in the Trust Agreement 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 2002 Series A Certificates.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and

Beneficial Owners from time to time of the 2002 Series A Certificates, and shall create no rights in any other person or entity.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:

City of Oakland
150 Frank H. Ogawa Plaza, Suite 5330
Oakland, California 94612
Attn: Robert C. Bobb
City Manager

To the Trustee and
Dissemination Agent:

JPMorgan Chase Bank, a New York State banking corporation
600 Travis 600, Suite 1150
Houston, Texas 77002

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be duly executed and delivered by their respective officers as of the date first above written.

CITY OF OAKLAND

By: _____
Deborah Edgerly
Director, Financial Services Agency

Accepted By:

JPMORGAN CHASE BANK,
a New York State banking corporation,
as Trustee and Dissemination Agent

By: _____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: City of Oakland
Name of Issue: Refunding Certificates of Participation
(Oakland Museum) 2002 Series A
Date of Issuance: March 21, 2002

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement executed by the City on the date of issuance of the Certificates. The City anticipates that the Annual Report will be filed by _____.

Dated: JPMorgan Chase Bank,
a New York State banking corporation,
as Dissemination Agent

By: _____

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2002 Series A Certificates (the "2002 Series A Certificates"). The 2002 Series A Certificates 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 2002 Series A Certificate will be issued for each maturity of the 2002 Series A Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 2002 Series A Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series A Certificates on DTC's records. The ownership interest of each actual purchaser of each 2002 Series A Certificate ("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, but Beneficial Owners are 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 2002 Series A Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Series A Certificates, except in the event that use of the book-entry system for the 2002 Series A Certificates is discontinued.

To facilitate subsequent transfers, all 2002 Series A Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of 2002 Series A Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series A Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series A Certificates are credited, which may or may not be the Beneficial Owners. The 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 2002 Series A Certificate 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 2002 Series A Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to 2002 Series A Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2002 Series A Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, Redemption Price and interest payments on the 2002 Series A Certificates will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Redemption Price and interest to Cede & Co. (or other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series A Certificates at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2002 Series A Certificates will be printed and delivered.

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

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Fl.
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment, thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

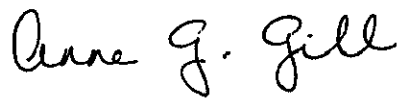
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.


President



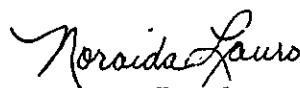

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

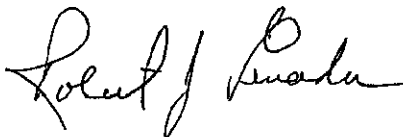
Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative