

(See "BOND INSURANCE" and "RATINGS" herein.)

*In the opinion of Nixon Peabody LLP, San Francisco, California, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the City described herein, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein regarding certain other tax considerations.*

**\$71,450,000  
City of Oakland  
General Obligation Bonds  
(Series 2003A, Measure DD)**

**Dated: Date of Delivery**

**Due: January 15, as shown below**

The \$71,450,000 aggregate principal amount of City of Oakland General Obligation Bonds (Series 2003A, Measure DD) (the "Bonds"), are being issued under the Government Code of the State of California and the Charter of the City of Oakland (the "City"). The specific terms and conditions for issuance of the Bonds are contained in a Resolution adopted by the City Council of the City on July 15, 2003. See "THE BONDS--Authority for Issuance." The proceeds of the Bonds will be used for the construction and reconstruction of various improvements as described herein and to pay for certain costs related to the issuance of the Bonds.

The Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be made by BNY Western Trust Company, as paying agent, to DTC which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. See APPENDIX E - "BOOK-ENTRY ONLY SYSTEM." The Bonds will be dated and bear interest from date of delivery. Interest on the Bonds will be payable semiannually on July 15 and January 15 of each year, commencing January 15, 2004. The Bonds will be subject to optional redemption prior to their respective stated maturities as described herein. See "THE BONDS--Redemption."

The Bonds represent the general obligation of the City. The City Council of the City has the power and is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City without limitation as to rate or amount (except certain property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by MBIA Insurance Corporation.



**MATURITY SCHEDULE**

**\$45,895,000 Serial Bonds**

<b>Maturity Date (January 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP** (672240)</b>	<b>Maturity Date (January 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP** (672240)</b>
2004	\$2,585,000	2.500%	100.734%	NB0	2016	\$1,900,000	4.125%	99.276%	NP9
2005	1,340,000	2.500	101.881	NC8	2017	1,980,000	4.125	98.225	NQ7
2006	1,375,000	2.500	101.904	ND6	2018	2,060,000	4.300	98.937	NR5
2007	1,405,000	2.500	100.955	NE4	2019	2,150,000	4.375	98.616	NS3
2008	1,445,000	2.600	100.000	NF1	2020	2,240,000	4.500	98.852	NT1
2009	1,480,000	3.000	100.000	NG9	2021	2,345,000	5.000	103.110*	NU8
2010	1,525,000	3.250	100.000	NH7	2022	2,460,000	5.000	102.570*	NV6
2011	1,575,000	3.500	100.000	NJ3	2023	2,585,000	5.000	102.186*	NW4
2012	1,630,000	3.625	99.458	NK0	2024	2,710,000	5.000	101.805*	NX2
2013	1,690,000	4.000	101.018	NL8	2025	2,845,000	5.000	101.653*	NY0
2014	1,755,000	4.000	100.310*	NM6	2026	2,990,000	5.000	101.577*	NZ7
2015	1,825,000	4.000	99.091	NN4					

**\$6,435,000 5.00% Term Bonds due January 15, 2028, Price 101.273%\* CUSIP\*\* No. 672240 PA0  
\$19,120,000 5.00% Term Bonds due January 15, 2033, Price 101.122%\* CUSIP\*\* No. 672240 PB8**

*The Bonds will be offered to the public when, as and if issued by the City and received, subject to the approval of legality by Nixon Peabody LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about August 6, 2003.*

*This cover page contains certain information for general reference only. It is not a summary of this issue. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision.*

Dated: July 23, 2003

\* Priced to par call on January 15, 2013

\*\* Copyright 2003, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc.

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

This Official Statement is not to be construed as a contract with the purchaser or purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. No representation is made that any past experience, as shown by any financial or other information herein, will necessarily continue or be repeated in the future. The information set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, the City. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the initial sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. All summaries of the documents and laws herein are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements in this Official Statement, which may generally be identified by the use of such terms as "plan," "expect," "estimate," "budget" or other similar words, constitute "forward-looking statements." The achievement of certain results or other expectations or performance contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements described or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to such forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE THEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

This Official Statement and the information contained herein is in a form deemed final by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

**CITY OF OAKLAND**

**MAYOR**

EDMUND G. BROWN, JR.

**CITY COUNCIL**

IGNACIO DE LA FUENTE, *President*  
*DISTRICT 5*

NANCY NADEL, *Vice Mayor*  
*District 3*

DESLEY BROOKS  
*DISTRICT 6*

JANE BRUNNER  
*DISTRICT 1*

HENRY CHANG, JR.  
*AT-LARGE*

JEAN QUAN  
*DISTRICT 4*

LARRY REID  
*DISTRICT 7*

DANNY WAN  
*DISTRICT 2*

**CITY OFFICIALS**

DEBORAH A. EDGERLY, *Interim City Manager*  
DR. GEORGE G. MUSGROVE, *Assistant City Manager*  
ROLAND E. SMITH, *City Auditor*  
JOHN RUSSO, *City Attorney*  
CEDA FLOYD, *City Clerk*  
WILLIAM E. NOLAND, *Interim Director, Finance and Management Agency*  
JOSEPH T. YEW, JR., *Treasury Manager*

**SPECIAL SERVICES**

Nixon Peabody LLP  
San Francisco, California  
*Bond Counsel*

Public Financial Management, Inc.  
San Francisco, California  
*Financial Advisor*

BNY Western Trust Company  
San Francisco, California  
*Fiscal Agent*

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**\$71,450,000**  
**City of Oakland**  
**General Obligation Bonds**  
**(Series 2003A, Measure DD)**

**INTRODUCTION**

The purpose of this Official Statement (including the cover page and appendices attached hereto) is to provide certain information concerning the initial issuance, sale and delivery by the City of Oakland, California (the "City" ) of the City of Oakland General Obligation Bonds (Series 2003A, Measure DD) (the "Bonds"). The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Resolution and Fiscal Agent Agreement (each defined below).

The Bonds are general obligations of the City. The City Council of the City (the "Council") has the power and is obligated to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation as to the rate or the amount (except certain property taxable at limited rates) for the payment of said Bonds and the interest thereon. See "SECURITY FOR THE BONDS" and "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS." For information on the City's tax base, tax collection system and property tax revenues, see "SECURITY FOR THE BONDS" and APPENDIX A – "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND."

**THE BONDS**

**Authority for Issuance**

The Bonds are issued under provisions of the Government Code of the State of California and the Charter of the City. The specific terms and conditions for issuance of the Bonds are contained in a Resolution adopted by the Council on July 15, 2003 (the "Resolution"). Bonds are being issued by the City pursuant to a Fiscal Agent Agreement, dated as of August 1, 2003, between the City and BNY Western Trust Company, as fiscal agent (together with any successors, the "Fiscal Agent").

The Bonds constitute a portion of the total authorized amount of \$198,250,000 of bonds ("Authorized Bonds") duly approved by at least two-thirds of the voters voting on Measure DD at the City election held on November 5, 2002 (the "Authorization") to provide funds to acquire and construct water quality improvements for and related to Lake Merritt, Lake Merritt Channel, the Estuary and creeks in Oakland; improve, renovate and construct youth and public recreational facilities; rehabilitate and acquire parks, open space and other recreational, safety and maintenance facilities; and provide safe public access to Lake Merritt, Lake Merritt Channel and the Estuary.

**Purpose**

The Bonds are issued by the City to provide funds to preserve and acquire open space, renovate parks, provide recreation facilities for children, make improvements related to Lake Merritt and restore Oakland's creeks, including, but not limited to, the following projects:

- Design and /or construct improvements to water quality and other facilities in and related to Lake Merritt and Lake Merritt Park;

- Acquire certain properties for open space purposes and construct trail and other improvements and upgrades to existing facilities related to the Estuary;
- Design pumping and other improvements related to Lake Merritt Channel;
- Renovate and upgrade Studio One arts and culture center; and
- Acquire creek area watershed easements and implement creek restoration improvements.

### **Description of the Bonds**

The Bonds are being offered in the denominations of \$5,000 or any integral multiples thereof (an “Authorized Denomination”) at the purchase price or yields set forth on the cover page hereof. Interest on the Bonds will accrue from the date of delivery thereof and will be payable on January 15, 2004 and on each July 15 and January 15 thereafter (each, an “Interest Payment Date”) through January 15, 2033. The Bonds will mature as shown on the cover page hereof.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds will be initially issued in book-entry only form through DTC’s book-entry only system (the “Book-Entry Only System”) and the ownership of one fully registered Bond for each maturity of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Owners or Registered Owners of the Bonds will mean Cede & Co. and will not mean the beneficial owners of the Bonds through DTC’s Book-Entry Only System. For a description of the method of payment of principal of, premium, if any, and interest on the Bonds and matters pertaining to transfers and exchanges while the Book-Entry Only System is in place, see APPENDIX E – “BOOK-ENTRY ONLY SYSTEM.” The City and the Fiscal Agent shall treat the Registered Owner of the Bonds (which will be DTC so long as the Book-Entry Only System is in effect) as the absolute owner of the Bonds for the purpose of payment of debt service, giving all notices of redemption and all other matters with respect to the Bonds.



## Debt Service

Debt service on the Bonds is as follows:

**CITY OF OAKLAND  
General Obligation Bonds  
(Series 2003A, Measure DD)  
Debt Service**

<u>Maturity (January 15)</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Debt Service</u>
2004	\$2,585,000	\$1,387,788.44	\$3,972,788.44
2005	1,340,000	3,077,537.50	4,417,537.50
2006	1,375,000	3,044,037.50	4,419,037.50
2007	1,405,000	3,009,662.50	4,414,662.50
2008	1,445,000	2,974,537.50	4,419,537.50
2009	1,480,000	2,936,967.50	4,416,967.50
2010	1,525,000	2,892,567.50	4,417,567.50
2011	1,575,000	2,843,005.00	4,418,005.00
2012	1,630,000	2,787,880.00	4,417,880.00
2013	1,690,000	2,728,792.50	4,418,792.50
2014	1,755,000	2,661,192.50	4,416,192.50
2015	1,825,000	2,590,992.50	4,415,992.50
2016	1,900,000	2,517,992.50	4,417,992.50
2017	1,980,000	2,439,617.50	4,419,617.50
2018	2,060,000	2,357,942.50	4,417,942.50
2019	2,150,000	2,269,362.50	4,419,362.50
2020	2,240,000	2,175,300.00	4,415,300.00
2021	2,345,000	2,074,500.00	4,419,500.00
2022	2,460,000	1,957,250.00	4,417,250.00
2023	2,585,000	1,834,250.00	4,419,250.00
2024	2,710,000	1,705,000.00	4,415,000.00
2025	2,845,000	1,569,500.00	4,414,500.00
2026	2,990,000	1,427,250.00	4,417,250.00
2027	3,140,000	1,277,750.00	4,417,750.00
2028	3,295,000	1,120,750.00	4,415,750.00
2029	3,460,000	956,000.00	4,416,000.00
2030	3,635,000	783,000.00	4,418,000.00
2031	3,815,000	601,250.00	4,416,250.00
2032	4,005,000	410,500.00	4,415,500.00
2033	4,205,000	210,250.00	4,415,250.00
	<hr/>	<hr/>	<hr/>
	\$71,450,000	\$60,622,425.94	\$132,072,425.94

## Redemption

### *Optional Redemption*

The Bonds maturing on or before January 15, 2013 are not subject to redemption prior to maturity. Bonds maturing on or after January 15, 2014, are subject to optional redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and by lot within a maturity), on or after January 15, 2013, at redemption prices equal to the principal amount thereof to be redeemed, without premium, together with accrued interest to the date fixed for redemption.

*Right to Rescind Optional Redemption*

The City shall have the right to rescind any optional redemption by written notice to the Owner of any Bond previously called for redemption prior to the redemption date. Any notice of optional redemption shall be rescinded if for any reason funds are not available on the date fixed for redemption of the payment in full of the Bonds then called for redemption. Notice of rescission of redemption, whether resulting from the exercise of the City’s discretion or from the unavailability of sufficient funds, shall be mailed in the same manner notice of redemption was originally provided. The actual receipt by the owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

*Mandatory Sinking Fund Redemption*

The Bonds maturing on January 15, 2028 (the “2028 Term Bonds”) are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon to the redemption date, without premium, in the amount and at the times, as follows:

<u>Mandatory Redemption Date</u> <u>(January 15)</u>	<u>Principal Amount</u>
2027	\$3,140,000
2028†	3,295,000

† Maturity

The Bonds maturing on January 15, 2033 (the “2033 Term Bonds”) are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon to the redemption date, without premium, in the amount and at the times, as follows:

<u>Mandatory Redemption Date</u> <u>(January 15)</u>	<u>Principal Amount</u>
2029	\$3,460,000
2030	3,635,000
2031	3,815,000
2032	4,005,000
2033†	4,205,000

† Maturity

*Notice of Redemption*

The City shall, so long as DTC or its nominee is the registered owner of the Bonds, mail notice of redemption to DTC not less than 30 days and not more than 60 days prior to any redemption date. If for any reason DTC or any other securities depository shall not be engaged by the City with respect to some or all such Bonds, the Fiscal Agent shall give notice of any redemption of the Bonds by mail, postage prepaid, to the respective registered owners thereof at the addresses appearing on the bond registration books not less than 30 and not more than 60 days prior to any redemption date. See APPENDIX E — “BOOK-ENTRY ONLY SYSTEM.”

The actual receipt by the registered owner of any bond of such notice of redemption, or failure to receive such notice, or any defect in such notice, shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the date fixed for redemption.

### **Defeasance**

The Bonds, or portions thereof, may be defeased and deemed paid prior to maturity by irrevocably depositing with the Fiscal Agent or other fiduciary (i) cash in an amount equal to the principal amount of all of such Bonds or portion thereof to be defeased, and all unpaid interest thereon to maturity, except that in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as described above under "Redemption – Notice of Redemption" or an irrevocable election to give such notice shall have been made by the City, the amount to be deposited shall be the principal amount thereof, all unpaid interest thereon to the redemption date, and any premium due on such redemption date; or (ii) non-callable Defeasance Securities (defined below) not subject to call except as provided below in the definition thereof, maturing and paying interest at such times and in such amounts, together with cash, if required, as will, without reinvestment, as certified by an independent certified public accountant or an independent financial consulting firm of recognized standing in the field of municipal bonds, be fully sufficient to pay the principal and all unpaid interest to maturity, or to the redemption date, as the case may be, and any premium due, on the Bonds to be paid or redeemed, as such principal and interest come due; provided, that, in the case of the Bonds which are to be redeemed prior to maturity, notice of such redemption shall be given as described above or an irrevocable election to give such notice shall have been made by the City. Upon such deposit, and provided the City shall obtain verification from such independent accountant or financial consultant, all payment obligations of the City with respect to said Bonds, except to the extent of such deposited cash and/or Defeasance Securities, shall cease and terminate.

Defeasance Securities means any of the following which at the time of purchase are legal investments under the laws of the State for moneys proposed to be invested therein: (i) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation bonds which have been stripped by request to the Federal Reserve Bank of New York in book-entry form ("United States Obligations"); (ii) evidence of direct ownership of proportionate interests in future interest or principal payments of United States Obligations which meets the following conditions (a) a bank or trust company acts as custodian and holds the underlying United States Obligations, (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations and (c) the underlying United States Obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated; and (iii) pre-refunded municipal bonds rated in the highest rating category by each Rating Agency then rating the Bonds; provided that if the Bonds are only rated by S&P (i.e., there is no Moody's or Fitch rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or AAA-rated pre-refunded municipal to satisfy this condition.

If cash or Defeasance Securities have been set aside and are held for the payment of principal of any particular Bonds at the maturity date thereof and all interest installments and any redemption premium thereon in accordance with the preceding paragraphs, then such Bonds shall be deemed defeased within the meaning and with the effect as described in the preceding paragraphs.

## SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the Bonds:

### Sources

Principal Amount of Bonds	\$71,450,000.00
Reoffering Premium	<u>586,927.10</u>
Total Sources of Funds	<u>\$72,036,927.10</u>

### Uses

Deposit to Project Fund	\$70,750,000.00
Debt Service Fund	526,927.10
Cost of Issuance <sup>(1)</sup>	214,865.76
Underwriter's Discount	224,834.24
Bond Insurance Premium	<u>320,300.00</u>
Total Uses of Funds	<u>\$72,036,927.10</u>

<sup>(1)</sup> Includes fees for services of rating agencies, financial advisor, bond counsel and other costs including printing.

## SECURITY FOR THE BONDS

### General

The Bonds are general obligations of the City payable from *ad valorem* taxes levied upon all taxable property in the City. The Council has the power and is obligated to levy *ad valorem* taxes for the payment of the Bonds and interest thereon upon all property within the City that is subject to taxation by the City without limitation as to the rate or the amount (except certain property which is taxable at limited rates) for the payment of the Bonds and the interest thereon. By reason of a constitutional exception for certain voter-approved indebtedness, the City may levy such taxes in an amount sufficient to pay debt service on the Bonds without regard to provisions of the State Constitution otherwise limiting *ad valorem* tax rates of local governments. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS." Such taxes, when collected, will be deposited in the Debt Service Account for the Bonds which will be held by the City and pledged for the payment of the principal of and interest on the Bonds when due.

The annual tax rate will be based on the assessed value of taxable property in the City. Fluctuations in the annual debt service on the Bonds (and other general obligation bonds issued by the City) and in the assessed value of taxable property in the City may cause the annual tax rate to fluctuate. Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other disasters, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. See APPENDIX A -- "CITY OF OAKLAND -- CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND -- Property Taxation -- Tax levies, Collections and Delinquencies," for information on the City's tax base, tax collection system, and property tax revenues.

For a discussion of the City's overall organization, finances and economic information, see generally APPENDIX A -- "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND -- CITY DEMOGRAPHIC AND ECONOMIC INFORMATION."

## **Outstanding Indebtedness**

As of May 1, 2003, the City had outstanding \$169,075,000 aggregate principal amount of general obligation bonds (not including the Bonds offered hereunder) which equals 0.67% of the net assessed valuation of the City as projected by the Alameda County Assessor for Fiscal Year 2002-03. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND – Statement of Direct and Overlapping Debt.”

The City has also incurred a number of bonded lease obligations secured by revenues of the City's General Fund and consisting of lease revenue bonds and certificates of participation. As of June 30, 2003, the total principal amount of outstanding lease obligations will be \$446,258,024. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND -- Financial Obligations.”

## **BOND INSURANCE**

*The following information has been furnished by MBIA Insurance Corporation (the “Insurer”) for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Insurer's policy.*

### **The MBIA Insurance Corporation Insurance Policy**

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “Preference”).

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Fiscal Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any

appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

### **The Insurer**

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA Insurance Corporation (the "Insurer") does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer's policy and the Insurer set forth under the heading "BOND INSURANCE." Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guaranty Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Insurer Financial Information**

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, the Insurer had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2003, the Insurer had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### **Financial Strength Ratings of the Insurer**

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Insurer "AAA."

Fitch Ratings rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

There can be no assurances that payments made by the Insurer representing interest on the Bonds will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the political subdivision.

## **CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS**

### **Article XIII A of the California Constitution**

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according

to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, acquisition, equipping or leasing of school facilities approved by 55% of the voters voting on the proposition.

Section 2 of Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. 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. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value.

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

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

### **Article XIII B of the California Constitution**

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



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

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

### **Articles XIII C and XIII D of the California Constitution (Proposition 218)**

On November 5, 1996, the voters of the State approved Proposition 218 - the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIII C and XIII D to the State Constitution, which affect the ability of local government, including charter cities (such as the City), to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. General taxes, imposed for general governmental purposes of the City, require a majority vote and special taxes, imposed for specific purposes (even if deposited in the General Fund), require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if they are approved by the voters by November 6, 1998. The voter approval requirements of Article XIII C reduce the Council's flexibility to deal with fiscal problems by raising revenue through new or extended or increased taxes and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by initiative, repeal or reduce any existing local tax, assessment, fee or charge, or limit the future imposition or increase of any local tax, assessment, fee or charge subject to certain limitations imposed by courts, and additional limitations discussed below with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which could be reduced by initiative under Article XIII C. "Assessment," "fee" and "charge" are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related as described below) would be applied to Article XIII C. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges.

The State Constitution and the laws of the State impose a mandatory, statutory duty on the Council to levy a property tax sufficient to pay debt service on the Bonds coming due in each year; the initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the City with respect to such taxes which are pledged as security for payment of the Bonds.

Legislation adopted by the State Legislature in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the Contracts Clause of the United States Constitution.

Article XIII D contains several new provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" for local services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property, and expressly includes standby charges. Article XIII D also includes new 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 county 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 existing property-related fees and charges must conform to specific requirements and restrictions set forth in Article XIII D. 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 (or 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 or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above. It is not possible to predict the outcome of such determinations or their effect on City revenues.

### **Statutory Limitation (Proposition 62)**

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* (the “Santa Clara” decision), 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 and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The Santa Clara decision did not address the question of whether or not Proposition 62 should be applied retroactively nor whether it applies to charter cities, such as the City.

Two cases decided by the California Courts of Appeals in 1993, *Fielder v. City of Los Angeles*, and *Fisher v. County of Alameda*, held that the restriction imposed by Proposition 62 on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5 of the California Constitution relating to municipal affairs.

On December 15, 1997, the Court of Appeals for the State of California, Fourth Appellate District, in *McBrearty v. City of Brawley*, concluded that the Santa Clara decision is to be applied retroactively to require voter approval of previously enacted taxes. On June 4, 2001, the California Supreme Court concluded in *Jarvis Taxpayers Association v. City of La Habra* that the three-year statute of limita-

tions on court challenges to special taxes begins to run from each collection of the tax, not its original imposition.

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment, is applicable to charter cities and supersedes many of the provisions of Proposition 62.

Several questions raised by the Santa Clara, McBrearty and La Habra 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 these decisions.

## **TAX MATTERS**

### **Federal Income Taxes**

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Resolution and the Tax Certificate as to Arbitrage and the provisions of Sections 103 and 141-150 of the Code dated the Date of Delivery (the "Tax Certificate"), the City has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code.

In the opinion of Nixon Peabody LLP, San Francisco, California, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

### **State Taxes**

Bond Counsel is also of the opinion that interest on the Bonds is exempt from California personal income taxes.

### **Original Issue Premium**

The Bonds maturing on January 15, 2004 through and including January 15, 2007; on January 15, 2013, and January 15, 2014; on January 15, 2021, through January 15, 2026; on January 15, 2028; and on January 15, 2033, (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For

date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

### **Certain Federal Tax Information**

**General.** The following is a discussion of certain additional tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular investors. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

**Social Security and Railroad Retirement Payments.** The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income.

**Branch Profits Tax.** The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

**Borrowed Funds.** The Code provides that interest paid (or deemed paid) on borrowed funds used during a tax year to purchase or carry tax-exempt obligations is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

**Property and Casualty Insurance Companies.** The Code contains provisions relating to property and casualty insurance companies whereunder the amount of certain loss deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

**Financial Institutions.** The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than certain "qualified" obligations. The Bonds are not "qualified" obligations for this purpose.

**S Corporations.** The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Interest on tax-exempt obligations must be included in passive investment income for purposes of this tax.

**Earned Income Credit.** For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to persons otherwise eligible for it if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds \$2,200, subject to adjustment for inflation for taxable years beginning after December 31, 1996. Interest on the Bonds will constitute disqualified income for this purpose.

**Changes in Federal Tax Law and Post Issuance Events.** From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for Federal income tax purposes of the interest on the Bonds, and thus on the economic value of the Bonds. This could result from reductions in Federal income tax rates, changes in the structure of the Federal income tax rates, changes in the structure of the Federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the Bonds may be proposed or enacted. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Bonds may affect the tax status of interest on the Bonds. Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

### **CERTAIN LEGAL MATTERS**

The legal opinion of Bond Counsel, approving the validity of the Bonds, in substantially the form attached hereto as APPENDIX F, will be made available to purchasers of the Bonds at the time of original delivery of the Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Payment of fees of Bond Counsel is contingent upon the issuance of the Bonds.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. is acting as Financial Advisor to the City with respect to the Bonds. The Financial Advisor has assisted the City in the matters relating to the planning, structuring, execution and delivery of the Bonds. Because of its limited participation in reviewing this Official Statement, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the Bonds.

### **ABSENCE OF LITIGATION**

No material litigation is pending, with service of process having been accomplished or, to the knowledge of the City, threatened, concerning the validity of the Bonds, the corporate existence of the City, or the title of the officers of the City who will execute the Bonds as to their respective offices. The City will furnish to the initial purchaser or purchasers of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Owners of the Bonds 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 2002-03 (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 D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the purchasers in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to such Rule to provide annual reports or notices of material events.

## **RATINGS**

Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings Group, have assigned the Bonds ratings of "Aaa", "AAA" and "AAA", respectively, with the understanding that, upon delivery of the Bonds, the Financial Guaranty Insurance Policy will be issued by the Insurer.

Credit ratings reflect the views of the respective rating agencies and any explanation of the significance of ratings should be obtained directly from the agencies. In order to obtain such ratings, the City furnished to the rating agencies certain information and materials, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There is no assurance that any ratings assigned to the Bonds by any rating agency will be continued for any given period of time or that they will not be lowered or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The City expects to furnish to each rating agency such information and materials as it may request. The City, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Bonds.

## **SALE OF THE BONDS**

The Bonds were sold at competitive bid on July 23, 2003, and awarded to Morgan Stanley & Co. Incorporated, at a purchase price of \$71,812,092.86 and an estimated true interest cost of 4.721282%, as defined in the Official Notice of Sale relating to the Bonds. The Official Notice of Sale provides that all Bonds will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the legal opinion of Bond Counsel, and certain other conditions.

## **MISCELLANEOUS**

The purpose of this Official Statement is to supply information to purchasers of the Bonds. Quotations from and summaries and explanations of the Bonds and the Resolution of laws and documents contained herein do not purport to be complete, and reference is hereby made to said Resolution, laws and documents for full and complete statements of their provisions.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds.

All data contained herein have been taken or construction from the City's records and other sources. The appropriate City officials, acting in their official capacity, have reviewed this Official Statement and have determined that as of the date hereof the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The appropriate City official will execute a certificate to this effect upon delivery of the Bonds.

This Official Statement and its distribution have been duly authorized and approved by the City Council of the City.

CITY OF OAKLAND, CALIFORNIA

By: s/ Deborah A. Egerly  
Interim City Manager

By: s/ William E. Noland  
Interim Director, Finance and  
Management 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, franchises, licenses, permits, leases and sales; employee's pension funds; and the creation and organization of the Port of Oakland (the "Port"). An eight-member City Council, seven of whom are elected by district and one of which is elected on a city-wide basis, governs the City. 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 appoints a City Manager, subject to confirmation by the City Council, who is responsible for daily administration of City affairs and preparation and submission of the annual budget for the Mayor's submission to the City Council.

Subject to civil service regulations, the City Manager appoints all City employees that are not elected officers of the City except for the City Clerk. 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 and the City Attorney is elected two-years after the mayoral election.

On November 3, 1998, the voters amended the City's charter by approving ballot Measure X. 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 provisions of Measure X will sunset in November 2004. If voters do not extend the terms of Measure X, the city attorney position will revert to an appointed position and the provisions relating to the Mayor-Council form of government would expire. 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.

**Reorganization.** The City's Adopted Policy Budget for Fiscal Years 2003-2005 was approved on June 26, 2005. To preserve core programs and services and to minimize the necessity for employee layoffs or service reductions, the City has utilized strategies that reduce the cost of doing business and raise certain fees and fines. At the core of the budget is restructuring and streamlining of City government to maximize the efficiency of delivering services while minimizing reductions in such 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 that 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 2000-2001 and 2001-2002 was KPMG LLP.

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 that delegates to the Director, Finance and Management 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 2003-2004 on July 23, 2002. 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's operating fund balance is currently approximately \$199 million, 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 June 30, 2003. As of June 30, 2003, the City maintained approximately 55.02% of the Operating Fund in investments that mature in one year or less.

**CITY OF OAKLAND**  
**Operating Fund**  
**Portfolio Master Summary**  
**June 30, 2003**

Investments	Book Value	Percent of Portfolio*	Average Term-Days	Days To Mat./Call	--- Yield To Maturity -	
					360 Equivalent	365 Equivalent
Federal Agency Issues-Coupon	96,583,701.54	48.49	1,423	377	3.112	3.155
Medium Term Notes	4,999,169.81	2.51	538	90	3.274	3.320
Money Market	35,310,000.00	17.73	1	1	1.026	1.040
Local Agency Investment Funds	37,000,000.00	18.58	1	1	1.608	1.630
Certificates of Deposit	300,000.00	15	181	175	1.050	1.065
Commercial Paper - Discount	\$24,972,675.22	12.54	32	14	1.226	1.244
<b>Investments</b>	<b>\$ 199,165,546.57</b>	<b>100.00%</b>	<b>708</b>	<b>187</b>	<b>2.227</b>	<b>2.258</b>

\* rounded

Source: City of Oakland, Finance and Management Agency, Treasury Division

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, 2003, the City had outstanding a total of \$135,295,000 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 1991A (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 is-

sued 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, Tassafioranga 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 and Science Center (now known as the "Chabot Space & 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.

*\$38,000,000 City of Oakland General Obligation Bonds, Series 2002A (Measure G).* On March 5, 2002, the electorate authorized the issuance of \$59 million in general obligation bonds. The purpose of the bonds are to acquire, renovate, improve, construct and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo and the Chabot Space & Science Center.

The City issued the first series on November 6, 2002, in the amount of \$38,000,000. The Oakland Zoo will expend 40% of proceeds of the authorized bonds on the acquisition and construction of new exhibit areas, including, but not limited to the New Children's Zoo and the Wild California Exhibit. The Oakland Museum of California will expend 40% of the proceeds of the authorized bonds on architectural and structural improvements to its landmark building, enhancing visitor access, and increasing the educational facilities. The Chabot Science and Space Center will expend 20% of the proceeds of the authorized bonds on the acquisition and construction of a new education facility and an additional observation deck space.

*Measure DD.* On November 5, 2002, at the City's General Municipal Election the electorate approved an initiative measure authorizing the issuance of \$198,250,000 in general obligation bonds to finance, acquire, rehabilitate and construct improvements to recreational facilities, Lake Merritt, the Oakland Estuary, creeks, Lake Merritt Channel. The City anticipates issuing the bonds over a ten-year period and the first tranche will be issued during the summer of 2003.

**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 12 Fiscal Years, including the issuance of \$53,965,000 Tax and Revenue Anticipation Notes for the Fiscal Year ended June 30, 2003. 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.

On March 12, 2002, the City refunded all of the 1992 Series A Certificates maturing on April 1, 2012 with its \$16,295,000 of Refunding Certificates of Participation (Oakland Museum) 2002 Series A.

**\$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-I/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.

*\$187,500,000 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 entitled the City to receive variable rate payments equal to the Bond Market Association Municipal Swap Index (the "BMA 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.

On March 27, 2003, the City changed the index on which the swap is based from the BMA Index to 65% of the 1-month London Interbank Offer Rate (LIBOR) and entered into an Amended and Revised Confirmation with Goldman Sachs. As a result of the change in the index, the City received an up-front payment, which will partially compensate the City for assuming a potentially greater basis risk.

*\$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).

*\$16,295,000 City of Oakland Refunding Certificates of Participation (Oakland Museum) 2002 Series A.* The 2002 Series A Certificates were issued on March 12, 2002. The proceeds of the 2002 Series A Cer-

tificates were 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 and to pay costs of issuance. Since completion of this financing, \$11,688,025 of the 1992 A Certificates remain outstanding and are payable from Lease Payments on a parity with the 2002 Series A Certificates.

***Pension Obligation Bonds.*** \$436,289,659.15 *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) 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 ten-year 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 June 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.

**CITY OF OAKLAND**  
**Statement of Direct and Overlapping Debt, as of May 1, 2003**

2002-03 Assessed Valuation: \$25,173,705,687  
 Redevelopment Incremental Valuation: 3,516,090,448  
 Adjusted Assessed Valuation: \$21,657,615,239

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/03</u>
East Bay Municipal Utility District	20.825%	\$ 996,476
East Bay Municipal Utility District, Special District No. 1	52.833	22,047,211
East Bay Regional Park District	10.938	17,533,302
Peralta Community College District	54.999	61,156,138
Berkeley and Castro Valley Unified School Districts	0.006 & 0.082	33,370
Oakland Unified School District	99.996	322,556,306
San Leandro Unified School District	17.125	7,526,782
City of Oakland	100.000	169,075,000 <sup>(1)</sup>
City of Oakland 1915 Act Bonds	100.000	8,380,000

City of Emeryville 1915 Act Bonds 4.183 510,326

TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT \$609,834,911  
 Less: East Bay Municipal Utility District (100% self-supporting) 996,476  
 TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT \$608,838,435

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Alameda-Contra Costa Transit District Certificates of Participation	21.774%	\$ 4,858,868
Alameda County and Coliseum Authority General Fund Obligations	18.304	102,330,159
Alameda County Pension Obligations	18.304	74,151,002
Alameda County Board of Education Public Facilities Corporation	18.304	584,813
Chabot-Las Positas Community College District Certificates of Participation	21.940	183,815
Oakland Unified School District Certificates of Participation	99.996	32,508,700
San Leandro Unified School District Certificates of Participation	17.125	2,762,263
Castro Valley Unified School District Certificates of Participation	0.082	1,829
City of Oakland and Coliseum Authority General Fund Obligations	100.000	604,803,205
City of Oakland Pension Obligations	100.000	408,939,842
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,231,124,316

GROSS COMBINED TOTAL DEBT \$1,840,959,227 <sup>(2)</sup>  
 NET COMBINED TOTAL DEBT \$1,839,962,751

1. Excludes general obligation bonds to be sold.

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

Ratios to 2002-03 Assessed Valuation:

DIRECT DEBT (\$169,075,000)..... 0.67%  
 Total Gross Direct and Overlapping Tax and Assessment Debt..... 2.42%  
 Total Net Direct and Overlapping Tax and Assessment Debt..... 2.42%

Ratios to Adjusted Assessed Valuation:

COMBINED DIRECT DEBT (\$1,182,817,867)..... 5.46%  
 Gross Combined Total Debt..... 8.50%  
 Net Combined Total Debt..... 8.50%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$831.665

Source: California Municipal Statistics



## 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 0.52% 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 six-year history of assessed valuations in the City:

**CITY OF OAKLAND  
ASSESSED VALUATIONS <sup>1</sup>  
(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
2002-03	22,468,401	49,548	2,655,756	25,173,705

<sup>1</sup> Net of exemptions other than homeowners' exemptions

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 1<sup>st</sup> 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
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
2002	128,354	7,076	5.51

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 Oak- land	Alameda County	Others <sup>1</sup>	Total
1993	0.5222	0.3086	0.4130	1.2438
1994 <sup>2</sup>	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
2003	0.4625	0.1570	0.6845	1.3040

<sup>1</sup> "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.

<sup>2</sup> Educational Revenue Augmentation Fund Shift began in 1994.

Sources: Alameda County, Office of the Auditor-Controller and City of Oakland, Finance and Management Agency

**Principal Property Taxpayers**

A summary of the City's fiscal year 2002-2003 largest secured taxpayers is presented below:

**CITY OF OAKLAND  
TOP TEN TAXPAYERS, 2002 - 2003<sup>1</sup>**

Property Owner	Primary Land Use	2002-03 Assessed Valuation	Percentage of Total Local Secured Valuation <sup>2</sup>
1. Oakland City Center LLC	Office Building	\$262,269,874	1.17%
2. Prentiss Properties Acquisition Prtnr	Office Building	108,415,864	0.48
3. Kaiser Foundation Health Plan, Inc.	Office Building	107,249,425	0.48
4. Kaiser Center Inc.	Office Building	86,610,468	0.39
5. 1800 Harrison Foundation	Office Building	85,142,383	0.38
6. LMP I LLC	Office Building	73,929,760	0.33
7. Clorox Company	Office Building	60,711,422	0.27
8. KSL Claremont Resort, Inc.	Hotel	55,212,259	0.25
9. Webster Street Partners, Ltd.	Office Building	45,517,500	0.20
10. SSR Western Multifamily LLC	Apartments	44,595,289	0.20
<b>Total - Top Ten</b>		<b>\$929,654,244</b>	<b>4.15%</b>

<sup>1</sup> Net of Exemptions.

<sup>2</sup> 2002-03 Local Secured Assessed Valuation: \$22,468,401,526 (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 \$15.4 million for the Fiscal Year 2001-02. To ensure a balance between spending and revenue collection by the end of the fiscal year, and avoid the shortfall, the City implemented several cost containment measures in March 2002, mainly related to freezes of vacant positions. In June 2002, the City implemented changes to the second year of its Fiscal Year 2001-03 budget (i.e., a midcycle budget adjustment to Fiscal Year 2002-03) to avoid an estimated \$28.4 million shortfall. Major balancing measures included elimination of vacant positions (mainly vacancies), mandatory furloughs for employees with annual salaries of more than \$50,000 and revenue enhancements (land sales, fee increases, and reimbursements).

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

<b>Fiscal Year Ending June 30:</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<i>Revenues</i>					
Taxes <sup>1</sup>	\$237,658	\$258,853	\$282,322	\$314,731	\$313,519
Licenses and Permits	7,690	8,043	9,088	11,418	11,738
Traffic Fines and Various Penalties	11,873	13,224	14,129	16,150	12,277
Interest Income	5,793	4,785	10,019	6,530	11,442
Revenue from Current Services	30,920	34,517	36,506	40,962	48,442
Grant Revenue	6,242	6,695	7,265	5,385	2,842
Other Revenue, incl. Transfers	14,730	27,732	8,813	11,056	14,025
Annuity Income					16,568
<b>Total Revenues</b>	<b>\$314,902</b>	<b>\$353,849</b>	<b>\$368,142</b>	<b>\$406,232</b>	<b>\$434,899</b>
<i>Expenditures</i>					
General Government <sup>2</sup>	\$ 33,970	\$ 38,685	\$ 41,245	\$44,110	\$47,219
Public Safety <sup>3</sup>	158,948	166,389	190,782	207,392	225,407
Public Works <sup>4</sup>	29,359	26,070	25,050	24,185	26,052
Life Enrichment <sup>5</sup>	26,565	28,874	31,749	37,149	36,320
Economic and Community Development <sup>6</sup>	14,775	18,403	18,954	20,288	22,512
Other <sup>7</sup>	18,180	16,478	23,462	33,112	28,889
Transfers/other sources and uses	35,847	2,543	581	364	--
<b>Total Expenditures</b>	<b>\$317,644</b>	<b>\$297,442</b>	<b>\$331,823</b>	<b>\$366,600</b>	<b>\$386,399</b>
<b>Excess of Revenues and Other Sources over Expenditures and Other Uses</b>	<b>\$2,738</b>	<b>\$156,407</b>	<b>\$36,319</b>	<b>\$39,362</b>	<b>\$48,500</b>

Source: City of Oakland, Finance and Management Agency

<sup>1</sup> Includes property, state and local taxes.

<sup>2</sup> Includes elected and appointed officials, general governmental agencies and administrative services.

<sup>3</sup> Includes police and fire services.

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

<sup>5</sup> Includes Parks and Recreation, Library, Museum, Aging and Health, and Human Services.

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

<sup>7</sup> Includes capital outlays and certain debt service charges; does not include rent payable on lease obligations. In addition, approximately \$45.7 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 Understanding effective July 1, 2002, 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 (As of August 2002)**

<b>Employee Organization/Bargaining Unit</b>	<b>Number of Employees</b>	<b>Contract Termination</b>
International Association of Firefighters (Local 557)	481	6/30/07
International Brotherhood of Electrical Workers (Local 1245)	28	6/30/08
International Federation of Professional and Technical Engineers (Local 21)/Units A, W, and F	660	6/30/08
IFPTE, Local 21 Units H (Supervisors) & M (Managers)	375	6/30/08
IFPTE, Local 21 (Deputy City Attorneys)	29	6/30/08
Oakland Police Officers Association	779	6/30/06
Service Employees International Union (Local 790)/full-time	1,479	6/30/08
Service Employees International Union (Local 790)/part-time	1,317	6/30/02*
Ranger Association	21	6/30/06

\* The City is in the process of negotiating new contracts with this Union.

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, 2002, PFRS covered 26 current employees and 1,464 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, 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, 2002, contributions to PFRS totaling \$297,645 (no employer contributions; all \$297,645 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, 2002, 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, 2002 was 0.0% for miscellaneous employees. On October 13, 2001, the collective bargaining agreement for safety employees was amended to allow the transfer of 104 PFRS firefighters to PERS and to provide 3.0% at 55 retirement benefits for fire department members. As a result of the amendments, the City’s contribution for safety employees increased from 8.488% to 18.446%. 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, located immediately east of the City and County of San Francisco, across the San Francisco - Oakland Bay Bridge, lies at the heart of the East Bay. The City occupies approximately 53.8 square miles, is served by both Interstate 80 and Interstate 880, and boasts a world-class seaport. Oakland is California's most strategic location for companies seeking to move goods and ideas quickly and seamlessly through air, water, land or cyberspace. In 2002, the City was rated by Forbes as the 8<sup>th</sup> best city for business in the nation.<sup>1</sup>

As the 19<sup>th</sup> largest metropolitan economy in the United States<sup>2</sup>, Oakland has a solid, diverse mix of traditional and new economy companies. Companies are attracted to our excellent quality of life, comparatively lower business costs, extensive fiber-optic infrastructure, vast inter-modal network, and a highly skilled labor pool – ranked the 8<sup>th</sup> most educated in the nation.<sup>3</sup>

All of these factors – combined with great weather, a vibrant waterfront, lush hills, plentiful open space, beautiful neighborhoods, panoramic vistas, and abundant cultural amenities – make Oakland a highly desirable place to live, work and do business.

*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: 1,055 units in 9 completed projects; 579 units in 7 projects under construction; 1,112 units in 7 projects with planning approvals; 189 units in 2 projects submitted for planning approval; and 1,498 units in 5 projects in discussion with the City's Planning Department. Together, these developments represent 4,428 units, or 74% of the goal of the 10k Initiative.

### *Office and Hotel Development.*

- The downtown Oakland area added a new 162-room Marriott Courtyard Hotel in April 2002.
- The Downtown Facade Improvement Program has completed 33 projects. There are currently 27 projects under construction and an additional 40 in the design phase.
- An additional 2.5 million square feet of new office space has entitlement and the developers are waiting for economic conditions to improve before starting construction.
- Oakland Harbor Partners, LLC, will manage redevelopment of 60 acres in the waterfront Oak-to-Ninth District between Oak Street and the Ninth Avenue Terminal for a planned mixed-use development project.
- Metroport is a Simeon Properties development that is planned to anchor the Hegenberger Corridor by offering more than 1 million square feet of top quality office space, conference facilities and a 300-room hotel along the stretch of road that connects I-880 with the Oakland International Airport.

*Commerce/Transportation.* Oakland International Airport will spend approximately \$400 million over the next three years on phase one of its terminal development program, including a five-gate expansion of terminal 2 with a new concourse, concessions and waiting areas, a 6,000-space parking garage, and new utilities. The second phase of the \$1.6 billion program, which will include a new two-level consolidated terminal building with, a central concessions court and a two-tiered roadway system, will be implemented as the port evaluates its financial capability.

In FY2002, the Airport completed portions of the 98th Avenue/Doolittle Road intersection reconstruction, including a new underpass into the airport. This project is part of the Airport's expansion program that will eventually widen the 98th Avenue/Airport Access Road into a six-lane parkway between the Airport, Bay Farm Island (Alameda) and Interstate 880. Completion of this roadway project is expected in Fall 2003.

Oakland International Airport is one of the few airports in the country and the only one in the Bay Area whose utilization has grown in the post-9/11 environment. Oakland International posted a 7.5 percent increase in passenger traffic in 2001, serving 11.4 million passengers. The airport expects to complete 2002 with almost 12.5 million passengers a year-to-year increase of approximately 10%. Oakland International is served by 16 airlines with more than 200 (daily nonstop) flights to 38 domestic and international destinations, including Atlanta, New York, Washington, D.C., Hawaii and Mexico.

The Port of Oakland, which holds a 98% share of Northern California's container freight market, continued construction in FY2002 on projects to boost maritime capacity, improve intermodal rail connections, and deepen berths and channels. A two-berth marine terminal was opened in 2001, and a three-berth terminal will open in FY2003, for an eventual total of 270 acres of new shipping terminals. The Port also dedicated an 85-acre near-dock joint intermodal rail terminal to provide enhanced freight rail access to the harbor area. Finally, the Port embarked on the construction phase of a project to deepen the shipping channel and berths to -50 feet.

In conjunction with its maritime developments, the Port is building the 37-acre Middle Harbor Shoreline Park and a 180-acre shallow water habitat restoration. Both projects will expand waterfront access and enjoyment opportunities for residents of Oakland and the Bay Area.

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

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## Population

The Demographic Research Unit of the California Department of Finance estimated the City's population on January 1, 2003, at 412,200. This figure represents 28% of the corresponding County figure and 1.16% of the corresponding State figure. The City's population has grown over 20% in the twenty-two 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	403,500	1,462,900	34,385,000
2002	408,800	1,486,600	35,037,000
2003	412,200	1,496,200	35,591,000

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

## Employment

Over the past several years, both the City's labor force and employment levels have gradually grown; the unemployment rate dropped through 2000, but has increased since then. The following table shows the labor patterns in the City, the State of California, and the United States as of June 1995 through June 2002; and March 2003.

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**CITY OF OAKLAND, STATE OF CALIFORNIA AND UNITED STATES  
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT  
As of June 1995 through June 2002; March 2003**

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
1996 - June				
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 - June				
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 - June				
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 - June				
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 - June				
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 - June				
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
2002 - June				
City	206,100	184,700	21,400	10.4
State	17,571,300	16,426,000	1,145,300	6.5
United States	142,476,000	134,053,000	8,423,000	5.9
2003 - March				
City	206,410	184,860	21,550	10.4
State	17,572,000	16,378,000	1,194,000	6.8
United States	145,801,000	136,783,000	9,018,000	6.2

Source: 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, 2002.

**TOP TEN PUBLIC EMPLOYERS  
(as of June 30, 2002)**

<b>Employer</b>	<b>Type of Organization</b>	<b>Number of Employees*</b>
U.S. Federal Government (Civilian)	Government Operations	10,300
County of Alameda	Government Operations	9,738
Oakland Unified School District	Education	7,500
City of Oakland	Government Operations	4,288
State of California (not including University of California)	Government Operations	4,200
Bay Area Rapid Transit District	Public Transportation	2,800
Alameda Contra Costa Transit	Public Transportation	2,540
East Bay Municipal Utility District	Utility/Water/Wastewater	1,900
University of California (Office of the President)	Education	1,000
United States Post Office	Mail Services	950

\* Approximate figures

Sources: Alameda County, Economic Development Alliance for Business; Dun & Bradstreet; State of California, Employment Development Department; City of Oakland, Finance and Management Agency.

**TOP TEN PRIVATE EMPLOYERS  
(as of June 30, 2002)**

<b>Employer</b>	<b>Type of Organization</b>	<b>Number of Employees*</b>
Kaiser Permanente	Health Services	6,611
Southwest Airlines	Air Transportation	2,414
Summit Medical Center	Health Services	2,400
Oakland Children's Hospital Medical Center	Health Services	2,340
Federal Express Corporation	Courier Services	2,214
Highland Hospital	Health Services	2,200
United Parcel Service	Courier Services	1,550
Clorox Company	Household Products	1,337
SBC/Pacific Bell	Communications	1,159
United Airlines Hanger	Air Transportation	1,097

\* Approximate figures

Sources: Alameda County, Economic Development Alliance for Business; Dun & Bradstreet; City of Oakland, Finance and Management Agency

**Commercial Activity**

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

**CITY OF OAKLAND  
TAXABLE RETAIL TRANSACTIONS 1997-2002**

Fiscal Year	Total Sales
1997	3,312,000
1998	3,250,000
1999	3,812,000
2000	3,591,000
2001	4,038,000
2002	3,783,000

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2002

**Construction Activity**

A six-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 1997-2002**

Fiscal Year	Number of Permits Issued	Authorized New Dwelling Units	Residential Valuation (In Thousands)	Nonresidential Valuation (In Thousands)
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
2002	15,805	757	317,792	165,731

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2002

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### **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 1996-2001<sup>1</sup> Median EBI**

Year	City of Oakland	Alameda County	California	United States
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
2001	39,567	54,076	43,532	38,365

<sup>1</sup> 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 Raiders 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 agreed to indemnify 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. By Stipulation, their claims have been removed from the civil lawsuit and will be adjudicated in a binding arbitration. The city believes that these claims as currently pleaded are 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. Trial began March 24, 2003, and is expected to continue for six to twelve weeks from that date.

**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 in August 2002, that appeal was decided in favor of the Authority. The Warriors petition for certiorari to the California Supreme Court was denied in November 2002 and the entire Phase I Award was paid by the Warriors to the Authority in January 2003. 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 awarded the Authority \$1.5 million that has yet to be paid. It is expected that this award will also require Superior Court confirmation and could be appealed. The Authority and the Warriors are working to resolve this matter and settlement discussions have made considerable progress.

***"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 plaintiffs' civil rights. The litigation is colloquially known as the "Riders" litigation. The lawsuit involved 15 individual cases have been filed in U.S. District Court, on behalf of 121 plaintiffs. Allegations include charges of false arrest, false imprisonment and/or use of excessive force. Over 40 are named, including four officers who have since been terminated from the Police Department because of inappropriate conduct towards plaintiffs.

***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 its own behalf and on behalf of its lessor for the 1994 through 2000 tax years, in the amount of \$2,953,875. 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.

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. The City settled this matter for \$2.2 million. The City paid \$1.5 million during the fiscal year 2001/2002. The remaining \$700,000 was paid on July 1, 2002.

The Kaiser case was tried beginning October 2, 2002. The Court heard further briefing on the matter on November 22, 2002. The Court delivered a verdict in favor of the City on all causes of action. Plaintiffs have filed a notice of appeal.



**APPENDIX B**

**ANNUAL FINANCIAL REPORT OF THE CITY OF OAKLAND  
FOR THE YEAR ENDED JUNE 30, 2002**

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Three Embarcadero Center  
San Francisco, CA 94111

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland, California (the City), as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oakland Redevelopment Agency (the Agency), the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), the Port of Oakland (the Port) and the City of Oakland Housing Finance Revenue Bonds Issue D1 and D2 (the Agency Fund), which represents \$245.8 million and \$58.2 million, respectively, of the assets and revenues of the governmental activities and Oakland Redevelopment Agency major fund, \$994.8 million and (\$19.8) million, respectively, of the assets and revenues/additions of the aggregate remaining fund information, and \$1.9 billion and \$281.7 million, respectively, of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Agency, OMERS, PFRS, the Agency Fund, and the Port in the governmental activities, the Oakland Redevelopment Agency major fund, aggregate remaining fund information, and discretely presented component unit, respectively, are based 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland, California, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.





As described in Note 2, the City has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of July 1, 2001. The City has also adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*; as of July 1, 2001.

The management’s discussion and analysis, OMERS and PFRS schedules of funding progress, and budgetary comparison schedule, on pages 3 through 16, 88 through 89, and 90 through 94, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

May 2, 2003

# BASIC FINANCIAL STATEMENTS

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**CITY OF OAKLAND**  
**Statement of Net Assets**  
**June 30, 2002**  
*(In Thousands)*

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit Port of Oakland
<b>ASSETS</b>				
Cash and investments	\$ 172,373	\$ 259	\$ 172,632	\$ 93,357
Receivables (net of allowance for uncollectible amounts of \$6,884 for the primary government and \$3,286 for the component unit)				
Accrued interest and dividends	1,756	-	1,756	2,117
Property taxes	16,508	-	16,508	-
Accounts receivable	57,153	1,993	59,146	52,660
Grants receivable	35,336	-	35,336	-
Due from component unit	22,523	-	22,523	-
Internal balances	5,050	(5,050)	-	-
Due from other governments	44	-	44	-
Due from pension trust fund	4,416	-	4,416	-
Notes and loans receivable (net of allowance for uncollectibles)	107,482	-	107,482	-
Restricted cash and investments	383,343	-	383,343	128,781
Inventories	911	-	911	-
Capital assets				
Land and other assets not being depreciated	86,308	1,574	87,882	685,738
Facilities, infrastructure, and equipment, net of depreciation	737,660	109,286	846,946	917,061
Total capital assets	823,968	110,860	934,828	1,602,799
Property held for resale	66,775	-	66,775	-
Unamortized bond issuance costs	3,440	-	3,440	-
Other	524	-	524	47,267
<b>TOTAL ASSETS</b>	<u>1,701,602</u>	<u>108,062</u>	<u>1,809,664</u>	<u>1,926,981</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	104,389	1,489	105,878	77,382
Accrued interest payable	7,423	-	7,423	-
Due to primary government	-	-	-	22,523
Unearned revenue	20,320	-	20,320	4,965
Matured bonds and interest payable	661	-	661	29,404
Other	1,965	-	1,965	55,851
Noncurrent liabilities:				
Due within one year	116,407	662	117,069	17,308
Due in more than one year	1,442,837	7,001	1,449,838	1,042,682
<b>TOTAL LIABILITIES</b>	<u>1,694,002</u>	<u>9,152</u>	<u>1,703,154</u>	<u>1,250,115</u>
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	395,311	103,197	498,508	380,675
Restricted net assets				
Debt Service	82,366	-	82,366	110,363
Capital project funds	74,918	-	74,918	-
Urban redevelopment and housing	64,778	-	64,778	-
Other purposes	24,861	-	24,861	-
Unrestricted net assets (deficit)	(634,634)	(4,287)	(638,921)	185,828
<b>TOTAL NET ASSETS</b>	<u>\$ 7,600</u>	<u>\$ 98,910</u>	<u>\$ 106,510</u>	<u>\$ 676,866</u>

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

**CITY OF OAKLAND**  
**Statement of Activities**  
**For the Year Ended June 30, 2002**  
*(In Thousands)*

Functions/Programs	Expenses	Charges for Service	Program Revenues		Capital Grants and Contributions	Primary Government Activities		Net (Expense) Revenue and Changes in Net Assets		Component Unit Port of Oakland
			Operating Grants and Contributions	Grants and Contributions		Governmental Activities	Business-type Activities	Total		
<b>PRIMARY GOVERNMENT</b>										
Governmental activities:										
General government	\$ 80,170	\$ 25,131	\$ 529	\$ -	\$ -	\$ (54,510)	\$ -	\$ (54,510)		
Public safety	250,503	14,715	8,129	-	-	(227,659)	-	(227,659)		
Life enrichment	99,223	5,123	18,812	286	-	(75,092)	-	(75,092)		
Community and economic development	198,101	21,533	18,350	379	-	(67,819)	-	(67,819)		
Public works	72,639	21,872	17,415	9,888	-	(23,464)	-	(23,464)		
Interest on long-term debt	72,924	-	-	-	-	(72,924)	-	(72,924)		
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>683,560</b>	<b>88,394</b>	<b>63,235</b>	<b>10,553</b>	<b>-</b>	<b>(521,378)</b>	<b>-</b>	<b>(521,378)</b>		
Business-type activities:										
Sewer	15,848	19,153	19	-	-	-	3,324	3,324		
Parks and recreation	94	100	-	-	-	-	6	6		
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>15,942</b>	<b>19,253</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,330</b>	<b>3,330</b>		
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 699,502</b>	<b>\$ 107,647</b>	<b>\$ 63,254</b>	<b>\$ 10,553</b>	<b>\$ -</b>	<b>(521,378)</b>	<b>3,330</b>	<b>(518,048)</b>		
<b>COMPONENT UNIT</b>										
Port of Oakland	\$ 214,289	\$ 225,339	\$ -	\$ 46,550	\$ -	\$ -	\$ -	\$ -	\$ 57,600	\$ 57,600
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 214,289</b>	<b>\$ 225,339</b>	<b>\$ -</b>	<b>\$ 46,550</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 57,600</b>	<b>\$ 57,600</b>
<b>General revenues:</b>										
Property taxes						172,029		172,029		
State taxes						68,603		68,603		
Local taxes						160,729		160,729		
Interest and investment income						36,463	10	36,473	5,587	5,587
Other						66,883	1,891	68,774	4,243	4,243
Transfers						659	(659)	-	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>						<b>505,366</b>	<b>1,242</b>	<b>506,608</b>	<b>9,830</b>	<b>9,830</b>
Change in net assets						(16,012)	4,572	(11,440)	67,430	67,430
<b>NET ASSETS - BEGINNING</b>						<b>23,612</b>	<b>94,338</b>	<b>117,950</b>	<b>609,436</b>	<b>609,436</b>
<b>NET ASSETS - ENDING</b>						<b>\$ 7,600</b>	<b>\$ 98,910</b>	<b>\$ 106,510</b>	<b>\$ 676,866</b>	<b>\$ 676,866</b>

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



**CITY OF OAKLAND**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2002**  
*(In Thousands)*

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 16,837	\$ -	\$ 91,106	\$ 56,306	\$ 164,249
Receivables (net of allowance for uncollectibles amount of \$6,529)					
Accrued Interest and dividends	345	-	931	480	1,756
Property taxes	10,391	-	2,174	3,943	16,508
Accounts receivable	53,367	94	152	3,294	56,907
Grants receivable	-	35,336	-	-	35,336
Due from component unit	19,573	2,010	-	940	22,523
Due from other funds	89,147	3,161	3,602	2,147	98,057
Due from other governments	-	-	44	-	44
Notes and loans receivable (net of allowance for uncollectibles)	14,826	38,443	48,434	5,779	107,482
Restricted cash and investments	181,055	-	32,592	144,537	358,184
Property held for resale	-	-	66,775	-	66,775
Other	33	24	-	467	524
<b>TOTAL ASSETS</b>	<b><u>\$ 385,574</u></b>	<b><u>\$ 79,068</u></b>	<b><u>\$245,810</u></b>	<b><u>\$ 217,893</u></b>	<b><u>\$ 928,345</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 84,027	\$ 5,965	\$ 6,379	\$ 6,128	\$ 102,499
Due to other funds	1,267	32,678	34,821	9,031	77,797
Deferred revenue	73,463	62,243	54,109	9,732	199,547
Matured bonds and interest payable	-	-	-	520	520
Other	1,084	-	158	723	1,965
<b>TOTAL LIABILITIES</b>	<b><u>159,841</u></b>	<b><u>100,886</u></b>	<b><u>95,467</u></b>	<b><u>26,134</u></b>	<b><u>382,328</u></b>
<b>Fund balances (deficit)</b>					
Reserved:					
Encumbrances	1,744	5,673	-	4,648	12,065
Projects	12,644	3,365	74,797	91,094	181,900
Debt service	181,679	-	7,976	73,543	263,198
Property held for resale	-	-	66,775	-	66,775
Unreserved (deficit) reported in:					
General fund	29,666	-	-	-	29,666
Special revenue funds	-	(30,856)	-	19,047	(11,809)
Capital project funds	-	-	795	3,427	4,222
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b><u>225,733</u></b>	<b><u>(21,818)</u></b>	<b><u>150,343</u></b>	<b><u>191,759</u></b>	<b><u>546,017</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b><u>\$ 385,574</u></b>	<b><u>\$ 79,068</u></b>	<b><u>\$245,810</u></b>	<b><u>\$ 217,893</u></b>	<b><u>\$ 928,345</u></b>

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

**CITY OF OAKLAND**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2002**  
*(In Thousands)*

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Fund balances - total governmental funds	\$ 546,017
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	795,182
Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets.	3,440
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(7,423)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.	179,227
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(1,524,714)
Internal service funds are used by the City to charge the costs of providing supplies and services such as printing, reproduction, and mailing services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>15,871</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 7,600</u></u>

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

**CITY OF OAKLAND**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2002**  
*(In Thousands)*

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes:					
Property	\$ 94,306	\$ -	\$ 41,182	\$ 27,642	\$ 163,130
State:					
Sales and use	38,447	-	-	7,302	45,749
Motor vehicle in-lieu	22,854	-	-	-	22,854
Gas	-	-	-	7,705	7,705
Business license	42,094	-	-	-	42,094
Utility consumption	49,547	-	-	-	49,547
Real estate transfer	37,272	-	-	-	37,272
Transient occupancy	10,530	-	-	-	10,530
Parking	7,525	-	-	-	7,525
Voter approved special tax	-	5,085	-	-	5,085
Franchise	10,944	-	-	-	10,944
Licenses and permits	11,738	-	-	20	11,758
Fines and penalties	16,277	323	-	1,206	17,806
Interest and investment income	11,442	2,829	7,296	13,914	35,481
Charges for services	48,484	312	7,630	4,414	60,840
Federal and state grants and subventions	2,846	33,615	-	11,773	48,234
Annuity income	16,568	-	-	-	16,568
Other	14,025	9,169	2,085	19,544	44,823
<b>TOTAL REVENUES</b>	<b>434,899</b>	<b>51,333</b>	<b>58,193</b>	<b>93,520</b>	<b>637,945</b>
<b>EXPENDITURES</b>					
Current:					
Elected and Appointed Officials-					
Mayor	1,330	-	-	103	1,433
Council	2,338	-	-	704	3,042
City Manager	8,283	534	-	2,722	11,539
City Attorney	6,409	239	-	2,441	9,089
City Auditor	1,076	2	-	-	1,078
City Clerk	1,773	-	-	188	1,961
Agencies/Departments:					
Personnel Resource Management	3,838	-	-	7	3,845
Retirement and Risk Administration	200	-	-	-	200
Information Technology	7,469	-	-	1,733	9,202
Financial Services	14,503	144	-	1,990	16,637
Police Services	146,649	4,457	-	685	151,791
Fire Services	78,758	571	-	4,910	84,239
Life Enrichment:					
Administration	561	-	-	-	561
Parks and Recreation	13,673	421	-	18,387	32,481
Library	10,181	5,854	-	505	16,540
Museum	6,364	-	-	914	7,278
Aging	2,989	3,449	-	847	7,285
Health and Human Services	1,177	15,586	-	520	17,283
Cultural Arts	1,375	-	-	7	1,382
Community and Economic Development	22,512	33,841	47,988	13,893	118,234
Public Works	26,052	5,430	-	21,359	52,841
Other	23,945	1,154	-	16,372	41,471
Capital outlay	2,697	9,091	-	10,267	22,055
Debt service:					
Principal repayment	466	725	8,915	29,580	39,686
Bond issuance cost	-	-	-	3,711	3,711
Interest charges	1,781	653	12,269	43,855	58,558
<b>TOTAL EXPENDITURES</b>	<b>386,399</b>	<b>82,151</b>	<b>69,172</b>	<b>175,700</b>	<b>713,422</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>48,500</b>	<b>(30,818)</b>	<b>(10,979)</b>	<b>(82,180)</b>	<b>(75,477)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of refunding bonds	1,723	-	-	211,932	213,655
Payment to refunded bond escrow agent	-	-	-	(208,907)	(208,907)
Premiums on issuance of refunding bonds	-	-	-	788	788
Property sale proceeds	54	9,000	3,619	3,421	16,094
Transfers in	46,264	-	-	96,552	142,816
Transfers out	(91,390)	-	-	(50,767)	(142,157)
<b>TOTAL OTHER FINANCING SOURCES AND USES</b>	<b>(43,349)</b>	<b>9,000</b>	<b>3,619</b>	<b>53,019</b>	<b>22,289</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>5,151</b>	<b>(21,818)</b>	<b>(7,360)</b>	<b>(29,161)</b>	<b>(53,188)</b>
Fund balances - beginning, as restated	220,582	-	157,703	220,920	599,205
<b>FUND BALANCES - ENDING</b>	<b>\$ 225,733</b>	<b>\$ (21,818)</b>	<b>\$ 150,343</b>	<b>\$ 191,759</b>	<b>\$ 546,017</b>

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

**CITY OF OAKLAND**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**June 30, 2002**  
*(In Thousands)*

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Net change in fund balances - total governmental funds	\$ (53,188)
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(4,243)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	8,899
Revenues that do not provide current financial resources are not reported as revenues in the funds. This represents the change in deferred amounts during the current period.	14,190
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(17,739)
Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.	15,065
Bond issuance costs are expended in governmental funds when paid, and are deferred and amortized over the life of the corresponding bonds for purposes of the statement of net assets. This is the amount by which current year bond issuance costs exceeded amortization expense in the current period.	3,440
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which principal retirement and payment to escrow exceeded bond proceeds in the current period.	
Principal payments	39,686
Payment to escrow for refunded debt	208,907
Issuance of refunding bonds	<u>(213,655)</u>
Difference	<u>34,938</u>
Bond premiums are recognized in the governmental funds when the bonds are issued, and are deferred and amortized over the life of the bonds in the government-wide financial statements. This is the amount deferred in the current period.	(788)
Amortization of bond premiums	20
Amortization of refunding loss	(1,716)
Additional accrued and accreted interest calculated on bonds and notes payable	(11,292)
The net loss of certain activities of internal service funds is reported with governmental activities.	<u>(3,598)</u>
<b>CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES:</b>	<b>\$ <u>(16,012)</u></b>

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

**CITY OF OAKLAND**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2002**  
*(In Thousands)*

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Sewer Service</b>	<b>Parks and Recreation</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ -	\$ 259	\$ 259	\$ 8,124
Accounts receivables (net of uncollectible amounts of \$506 and \$355 for the enterprise funds and internal service funds, respectively):	1,989	4	1,993	246
Inventories	-	-	-	911
Total current assets	<u>1,989</u>	<u>263</u>	<u>2,252</u>	<u>9,281</u>
Restricted Assets:				
Restricted cash and investments	-	-	-	25,159
Total restricted assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,159</u>
Noncurrent Assets:				
Capital assets:				
Land and other assets not being depreciated	1,356	218	1,574	310
Facilities and equipment, net of depreciation	109,276	10	109,286	28,476
Total noncurrent assets	<u>110,632</u>	<u>228</u>	<u>110,860</u>	<u>28,786</u>
<b>TOTAL ASSETS</b>	<u>112,621</u>	<u>491</u>	<u>113,112</u>	<u>63,226</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	1,483	6	1,489	1,890
Due to other funds	5,050	-	5,050	10,794
Bonds, notes and other payables	662	-	662	6,974
Total current liabilities	<u>7,195</u>	<u>6</u>	<u>7,201</u>	<u>19,658</u>
Noncurrent Liabilities:				
Bonds, notes and other payables	7,001	-	7,001	27,697
Total noncurrent liabilities	<u>7,001</u>	<u>-</u>	<u>7,001</u>	<u>27,697</u>
<b>TOTAL LIABILITIES</b>	<u>14,196</u>	<u>6</u>	<u>14,202</u>	<u>47,355</u>
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	102,969	228	103,197	17,002
Unrestricted (deficit)	(4,544)	257	(4,287)	(1,131)
<b>TOTAL NET ASSETS</b>	<u>\$ 98,425</u>	<u>\$ 485</u>	<u>\$ 98,910</u>	<u>\$15,871</u>

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

**CITY OF OAKLAND**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2002**  
*(In Thousands)*

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Parks and Recreation	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Rental	\$ -	\$ 100	\$ 100	\$ -
Sewer charges	19,153	-	19,153	-
Charges for services	-	-	-	31,651
Other	1,891	-	1,891	471
<b>TOTAL OPERATING REVENUES</b>	<u>21,044</u>	<u>100</u>	<u>21,144</u>	<u>32,122</u>
<b>OPERATING EXPENSES</b>				
Personnel	8,225	6	8,231	12,478
Supplies	360	17	377	4,632
Depreciation and amortization	2,514	1	2,515	5,042
Contractual services and supplies	1,266	56	1,322	811
Repairs and maintenance	53	10	63	2,146
General and administrative	2,201	-	2,201	3,227
Rental	728	4	732	1,332
Other	105	-	105	6,064
<b>TOTAL OPERATING EXPENSES</b>	<u>15,452</u>	<u>94</u>	<u>15,546</u>	<u>35,732</u>
<b>OPERATING INCOME (LOSS)</b>	<u>5,592</u>	<u>6</u>	<u>5,598</u>	<u>(3,610)</u>
<b>NONOPERATING REVENUES, NET</b>				
Interest and investment income	-	10	10	830
Interest expense	(396)	-	(396)	(1,378)
Federal and state grants	19	-	19	31
Other, net	-	-	-	529
<b>TOTAL NON OPERATING REVENUE, NET</b>	<u>(377)</u>	<u>10</u>	<u>(367)</u>	<u>12</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	5,215	16	5,231	(3,598)
Transfers out	(659)	-	(659)	-
Change in Net Assets	4,556	16	4,572	(3,598)
Net Assets - Beginning	93,869	469	94,338	19,469
<b>NET ASSETS - ENDING</b>	<u>\$ 98,425</u>	<u>\$ 485</u>	<u>\$98,910</u>	<u>\$ 15,871</u>

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

**CITY OF OAKLAND**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2002**  
*(In Thousands)*

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Parks and Recreation	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers, including other funds and cash deposits	\$ 24,171	\$ 100	\$ 24,271	\$ 36,344
Cash received from tenants for rents	-	-	-	362
Cash paid to employees for services	(8,225)	(6)	(8,231)	(12,478)
Cash paid to suppliers for goods and services	(5,058)	(103)	(5,161)	(19,131)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>10,888</u>	<u>(9)</u>	<u>10,879</u>	<u>5,097</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating grants	19	-	19	31
Operating transfers out	(659)	-	(659)	-
Other non capital decreases	-	-	-	(160)
<b>NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES</b>	<u>(640)</u>	<u>-</u>	<u>(640)</u>	<u>(129)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(9,334)	-	(9,334)	(9,227)
Repayment of long-term debt	(640)	-	(640)	(4,626)
Proceeds from notes payable	-	-	-	14,923
Interest paid on long-term debt	(274)	-	(274)	(1,255)
<b>NET CASH USED IN CAPITAL FINANCING ACTIVITIES</b>	<u>(10,248)</u>	<u>-</u>	<u>(10,248)</u>	<u>(185)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income received	-	10	10	931
Other investing activities	-	-	-	585
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>-</u>	<u>10</u>	<u>10</u>	<u>1,516</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>-</u>	<u>1</u>	<u>1</u>	<u>6,299</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>-</u>	<u>258</u>	<u>258</u>	<u>26,984</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ 259</u>	<u>\$ 259</u>	<u>\$ 33,283</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 5,592	\$ 6	\$ 5,598	\$ (3,610)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Depreciation	2,514	1	2,515	5,042
Other	-	-	-	2
Changes in Assets and Liabilities:				
Receivables	(144)	-	(144)	110
Inventories	-	-	-	(124)
Accounts payable and accrued liabilities	(345)	(16)	(361)	(797)
Due to other funds	3,271	-	3,271	4,474
Total Adjustments	<u>5,296</u>	<u>(15)</u>	<u>5,281</u>	<u>8,707</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 10,888</u>	<u>\$ (9)</u>	<u>\$ 10,879</u>	<u>\$ 5,097</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>				
Cash and investments	\$ -	\$ 259	\$ 259	\$ 8,124
Restricted cash and investments	-	-	-	25,159
<b>TOTAL</b>	<u>\$ -</u>	<u>\$ 259</u>	<u>\$ 259</u>	<u>\$ 33,283</u>

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

**CITY OF OAKLAND**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2002**  
*(In Thousands)*

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Fund</b>	<b>Agency Fund</b>
<b>ASSETS</b>			
Cash and investments	\$ 121,803	\$ 2,266	\$ -
Receivables:			
Accrued interest and dividends	3,879	36	109
Investments and contributions	48,164	-	-
Mortgage loan receivable	-	-	2,925
Restricted cash and investments	640,887	-	8,018
Investment of Securities lending collateral	168,813	-	-
Other	-	-	147
<b>TOTAL ASSETS</b>	<u>983,546</u>	<u>2,302</u>	<u>11,199</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable and accrued liabilities	128,634	46	257
Due to other funds	4,416	-	-
Securities lending collateral	168,813	-	-
Long-term obligations	308	-	-
Due to bond holders	-	-	10,942
Other	-	7	-
<b>TOTAL LIABILITIES</b>	<u>302,171</u>	<u>53</u>	<u>\$ 11,199</u>
<b>NET ASSETS HELD IN TRUST</b>	<u>\$ 681,375</u>	<u>\$ 2,249</u>	

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



CITY OF OAKLAND  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2002  
(In Thousands)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS:</b>		
Contributions:		
Members	\$ 304	\$ -
<b>TOTAL CONTRIBUTIONS</b>	<u>304</u>	<u>-</u>
Trust receipts:	-	1,305
Investment Income:		
Net decrease in fair value of investments	(48,687)	-
Interest	24,572	104
Dividends	5,913	-
Securities Lending	<u>3,363</u>	<u>-</u>
<b>TOTAL INVESTMENT LOSS</b>	(14,839)	104
Less investment expenses:		
Investment expenses	(2,433)	-
Borrowers rebates and other agent fees and securities lending transactions	<u>(2,839)</u>	<u>-</u>
Total investment expense	<u>(5,272)</u>	<u>-</u>
<b>NET INVESTMENT LOSS</b>	<u>(20,111)</u>	<u>104</u>
<b>TOTAL ADDITIONS (LOSS), NET</b>	<u>(19,807)</u>	<u>1,409</u>
<b>DEDUCTIONS:</b>		
Disbursements to members and beneficiaries:		
Retirement	41,628	-
Disability	23,622	-
Death	2,044	-
Retiree medical	<u>-</u>	<u>1,468</u>
<b>TOTAL DISBURSEMENTS TO MEMBERS AND BENEFICIARIES</b>	<u>67,294</u>	<u>1,468</u>
Administrative expenses	397	-
Interest expense - bonds	27	-
Change in payable to City	(1,365)	-
Transfer to CALPERS	69,830	-
Termination of refunds of employees' contributions	103	-
Police services	<u>-</u>	<u>430</u>
<b>TOTAL DEDUCTIONS</b>	<u>136,286</u>	<u>1,898</u>
Change in net assets	<u>(156,093)</u>	<u>(489)</u>
<b>NET ASSETS - BEGINNING</b>	<u>837,468</u>	<u>2,738</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 681,375</u>	<u>\$ 2,249</u>

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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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**(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY**

The City of Oakland, California, (the City or Primary Government) 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 accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are combined with the data of the primary government within the governmental activities column in the government-wide financial statements and governmental funds in the fund financial statements. The Port of Oakland (Port) is the City's only discretely presented component unit and is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. Although the Port has a significant relationship with the City, the entity is fiscally independent and does not provide services solely to the City and, therefore, is presented discretely.

**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 a major governmental fund.

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. It is reported in other governmental funds.

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 reported in other governmental funds. Related debt is included in the long-term obligations of the City in the governmental activities column of the government-wide statement of net assets.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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**Discretely Presented Component Units**

The 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) that 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. The Port is presented in a separate column in the government-wide financial statements.

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

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

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Implementation of New Accounting Principles**

**Governmental Accounting Standards Board Statement No. 34**

Effective July 1, 2001, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the City records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

*Management's Discussion and Analysis* – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the City's financial activities in the form of "management's discussion and analysis" (MD&A).

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

***Government-wide Financial Statements*** – The reporting model includes financial statements prepared using full accrual accounting for all of the City’s activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

***Statement of Net Assets*** – The statement of net assets is designed to display the financial position of the City. The City now reports all capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net assets of the City are broken into three categories – (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

***Statement of Activities*** – The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City’s functions. The expenses of individual functions are compared to the revenue generated directly by the function.

Accordingly, the City has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

**Governmental Accounting Standards Board Statement No. 37**

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*. This statement amends GASB Statement No. 34 to either clarify certain provisions or modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the City considered the effects of this statement when adopting the provisions of GASB Statement No. 34 as previously discussed.

**Governmental Accounting Standards Board Statement No. 38**

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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**Governmental Accounting Standards Board Interpretation No. 6**

Effective July 1, 2001, the City adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. This interpretation impacts the fund level financial statements (governmental funds only) required by GASB Statement No. 34 but has no direct impact on the government-wide financial statements. Accordingly, the City has not recognized the current portion of certain long-term liabilities and related expenditures in the governmental fund financial statements for amounts not considered to be due and payable as of June 30, 2002, and has restated fund balances as of July 1, 2001, to reflect the cumulative effect of the changes as of that date.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

**Restatement of Fund Balances**

The City's beginning fund balances have been restated to reflect the cumulative effect of the implementation of GASB Interpretation No. 6 and GASB Statement No. 34. The impact of GASB Interpretation No. 6 was to reduce the current portion of certain long-term liabilities, and only recognize expenditures in the governmental fund financial statements for those liabilities considered to be due and payable as of June 30, 2001. The impact of GASB Statement No. 34 was to reduce certain assets and liabilities to conform with the new reporting requirements, and recognize operations not previously reported (in thousands).

	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
Fund Equity:					
Fund balances at June 30, 2001, as previously reported					
Governmental fund types:					
General fund	\$ 22,796	\$ —	\$ —	\$ —	\$ 22,796
Special revenue	—	—	2,586	34,167	36,753
Debt service	—	—	13,158	80,905	94,063
Capital projects	—	—	127,451	108,790	236,241
Funds previously reported as expendable trust funds:					
ORA projects	—	—	—	(4,798)	(4,798)
Parks and recreation and cultural	—	—	—	1,656	1,656
Pension annuity	<u>175,138</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>175,138</u>
<b>TOTAL FUND BALANCES AT JUNE 30, 2001, AS PREVIOUSLY REPORTED</b>	<u>197,934</u>	<u>—</u>	<u>143,195</u>	<u>220,720</u>	<u>561,849</u>
Adjustments to Oakland Redevelopment Agency Fund (GASB Statement No. 34):					
Reduction of deferred revenue against property held for resale	—	—	23,300	—	23,300
Recognition of the fund balance of operations previously not reported	—	—	1,143	—	1,143
Reduction of the carrying value of property held for resale	—	—	(9,935)	—	(9,935)
GASB Interpretation No. 6 adjustment:					
Reduction in current portion of long-term liabilities not considered due and payable	<u>22,648</u>	<u>—</u>	<u>—</u>	<u>200</u>	<u>22,848</u>
Cumulative effect of a change in accounting principles	<u>22,648</u>	<u>—</u>	<u>14,508</u>	<u>200</u>	<u>37,356</u>
<b>FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED – GOVERNMENTAL FUNDS</b>	<u>\$ 220,582</u>	<u>\$ —</u>	<u>\$ 157,703</u>	<u>\$ 220,920</u>	<u>\$ 599,205</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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The impact of GASB Statement No. 34 on the City's accounting and financial reporting practices was to (1) classify certain activities as governmental that were previously reported as fiduciary, (2) report the residual balances of certain internal activities within the net assets of governmental activities, (3) report all long-term assets, including capital assets, and liabilities in the statement of net assets, and (4) report all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. These adjustments are summarized in the table below (amounts in thousands):

	<b>Governmental Activities</b>
Net assets:	
Fund balances at beginning of year, as restated – governmental funds	
General	\$ 220,582
Federal/State Grant Fund	—
Oakland Redevelopment Agency	157,703
Other Governmental Funds	<u>220,920</u>
Total fund balances at beginning of year, as restated – governmental funds	599,205
GASB Statement No. 34 adjustments:	
Addition of:	
Beginning residual balances from internal activities accounted for as internal service funds (Equipment, Radio, Facilities, Reproduction, and Central Stores)	19,469
Net capital assets	799,425
Reduction of deferred credits offsetting long-term receivables	141,073
Accrued interest	(9,084)
Long-term liabilities	<u>(1,526,476)</u>
Net assets at July 1, 2001	<u>\$ 23,612</u>

The impact of GASB Statement No. 34 on the City's beginning proprietary fund balances was to include certain long-term assets and related depreciation that was previously not reported by the City due to it previously being identified as general infrastructure assets. The addition of the additional long-term assets is summarized in the table below:

Retained earnings at June 30, 2001, as previously reported	\$ 76,316
Infrastructure assets not previously reported, net of accumulated depreciation	<u>18,022</u>
Net assets at July 1, 2001, reported as business-type activities – enterprise fund	<u>\$ 94,338</u>

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## **Government-wide and fund financial statements**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component units. The effect of inter-fund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the Port, a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## **Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However,



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debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Special assessments are recorded as revenues and receivables to the extent installments are considered current. The estimated installments receivable not considered available, as defined above, are recorded as receivables and offset by deferred revenue.

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, 2002.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial activities and resources of the general government, except those 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.

The **Federal/State Grant Fund** accounts for various Federal and State grants used or expended for a specific purpose, activity or program.

The **Oakland Redevelopment Agency Fund** accounts for federal grants, land sales, rents and other revenue relating to redevelopment projects. Expenditures are comprised of land acquisitions and improvements and all other costs inherent in redevelopment activities.

The City reports the following major proprietary (enterprise) fund:

The **Sewer Service Fund** accounts for the sewer service charges received by the City based on the use of water by East Bay Municipal Utility District customers residing in

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the City. The proceeds from the sewer charges are used for the construction and maintenance of sanitary sewers and storm drains and the administrative costs of the program.

Additionally, the City reports the following fund types:

The **Internal Service Funds** account for the purchase of automotive and rolling equipment; radio and other communication equipment; the repair and maintenance of City facilities; acquisition, maintenance and provision of reproduction equipment and services; and acquisition of inventory provided to various City departments on a cost reimbursement basis.

The **Pension Trust Funds** account for closed benefit plans that cover uniformed employees hired prior to July 1976 and non-uniformed employees hired prior to September 1970.

The **Private Purpose Trust Fund** accounts for the operations of the Youth Opportunity Program, retiree medical payments and certain gifts that are not related to Oakland Redevelopment Agency projects or parks, recreation and cultural activities.

The **Agency Fund** accounts for assets held in trust for the other agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The effect of inter-fund activity has been eliminated from the government-wide financial statements. Charges between the City and the Port are not eliminated because the elimination of these charges would distort the direct costs and revenues reported.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: sewers, golf courses, vehicle acquisition and maintenance, radio and telecommunication support charges, and reproduction services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **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 and investment income.

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

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 and Internal Balances**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds." In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Receivables and payables between the governmental activities and business-type activities are classified as internal balances.

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**Notes to Basic Financial Statements**  
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### **Interest Rate Swap**

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expense resulting from these agreements, no amounts are recorded in the financial statements.

### **Inter-fund Transfers**

In the fund financial statements, inter-fund transfers are recorded as transfers in (out) except for certain types of transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of the fiscal year.

Reimbursements for expenditures, initially made by one fund that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as other revenue in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

### **Bond Issuance Costs and Discounts/Premiums**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

### **Inventories**

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

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## **Capital Assets**

Capital assets, which include land, facilities and improvements, furniture, machinery and equipment, infrastructure (e.g., streets, streetlights, traffic signals, and parks), and sewers and storm drains are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the general, federal/state grant, and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

The City has a collection of artwork presented for public exhibition and education that is being preserved for future generations. These items are protected, kept unencumbered, cared for and preserved by the City. The proceeds from the sale of any pieces of the collection are used to purchase other acquisitions for the collection. The collection is not capitalized as part of the capital assets of the City.

As required by the Governmental Accounting Standards Board Statement No. 34, beginning July 1, 2001, the City has capitalized its infrastructure, primarily its street land park networks, as part of the capital assets shown in the governmental column on the government-wide statement of net assets. This capitalization included infrastructure that could be identified and has been acquired since July 1, 1980.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Facilities and improvements	15-40 years
Furniture, machinery and equipment	3-20 years
Sewers and storm drains	15-50 years
Infrastructure	7-50 years

## **Land Held for Resale**

Land Held for Resale is recorded as an asset at the lower of cost or estimated net realizable value. In its fund statements, the Agency charges as expenditures the cost of developing and administering its capital development projects related to costs over and above the cost of the initial acquisition.

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## **Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vested vacation, sick leave and other compensatory time. All earned compensatory time is accrued when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

## **Retirement Plans**

City employees participate in one of 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 provisions of the Plans. Refer to Note 15 for additional information.

## **Refunding of Debt**

Gain or losses occurring from advance refunding completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities reported in the government-wide financial statements, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

## **Fund Balances**

Reservations of fund balances of the governmental funds indicate those portions of fund equity that are not available for appropriation for expenditure or which have been legally restricted to a specific use. Following is a brief description of the nature of certain reserves.

**Reserve for Encumbrances** – 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.

**Reserve for Projects** – This fund balance is reserved for various capital projects and other miscellaneous projects.

**Reserve for Debt Service** – This fund balance is reserved for the payment of debt service requirements in subsequent years.

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**Reserve for Property Held for Resale** – This fund balance is reserved for the full cost of developing and administering residential and commercial properties intended for resale.

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.

### **Restricted Net Assets**

Restricted net assets are those assets, net of their related liabilities, that have constraints placed on their use by creditors, grantors, contributors, or by enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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**Notes to Basic Financial Statements**  
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**(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

Total fund balances of the City's governmental funds, \$546,017 differ from net assets of governmental activities, \$7,600, reported in the statement of net assets. The difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets (in thousands).

	Total Governmental Funds	Long-term Assets, Liabilities	Internal Service Funds	Reclassifications and Eliminations	Statement of Net Assets Total
<b>ASSETS</b>					
Cash and investments	\$ 164,249	\$ --	\$ 8,124	\$ --	\$ 172,373
Receivables (net of allowance for uncollectibles):					
Accrued interest and dividends	1,756	--	---	---	1,756
Property taxes	16,508	---	---	---	16,508
Accounts receivable	56,907	---	246	---	57,153
Grants	35,336	---	--	---	35,336
Due from component unit	22,523	---	---	---	22,523
Due from other funds/ internal balances	98,057	---	---	(93,007)	5,050
Due from other governments	44	---	---	---	44
Due from pension trust fund	---	---	---	4,416	4,416
Notes and loans receivable	107,482	---	---	---	107,482
Restricted cash and investments	358,184	--	25,159	---	383,343
Inventories	---	---	911	---	911
Capital assets, net	---	795,182 <sup>(1)</sup>	28,786	---	823,968
Property held for resale	66,775	---	--	---	66,775
Unamortized bond issuance costs	---	3,440 <sup>(2)</sup>	---	---	3,440
Other	524	---	---	---	524
<b>TOTAL ASSETS</b>	<b><u>\$ 928,345</u></b>	<b><u>\$ 798,622</u></b>	<b><u>\$ 63,226</u></b>	<b><u>\$(88,591)</u></b>	<b><u>\$1,701,602</u></b>



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	Total Governmental Funds	Long-term Assets, Liabilities	Internal Service Funds <sup>(6)</sup>	Reclassifications and Eliminations	Statement of Net Assets Total
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 102,499	\$ —	\$ 1,890	\$ —	\$ 104,389
Due to other funds	77,797	—	10,794	(88,591)	—
Accrued interest payable	—	7,423 <sup>(3)</sup>	—	—	7,423
Deferred/unearned revenue	199,547	(179,227) <sup>(4)</sup>	—	—	20,320
Matured bonds and interest payable	520	141 <sup>(5)</sup>	—	—	661
Other	1,965	—	—	—	1,965
Liabilities due within one year	—	109,433 <sup>(5)</sup>	6,974	—	116,407
Liabilities due in more than one year	—	<u>1,415,140<sup>(5)</sup></u>	<u>27,697</u>	—	<u>1,442,837</u>
<b>TOTAL LIABILITIES</b>	<b>382,328</b>	<b>1,352,910</b>	<b>47,355</b>	<b>(88,591)</b>	<b>1,694,002</b>
<b>FUND BALANCES/NET ASSETS</b>					
Total fund balances/ net assets	<u>546,017</u>	<u>(554,288)</u>	<u>15,871</u>	—	<u>7,600</u>
<b>TOTAL LIABILITIES AND FUND BALANCES/NET ASSETS</b>	<b><u>\$ 928,345</u></b>	<b><u>\$ 798,622</u></b>	<b><u>\$ 66,226</u></b>	<b><u>\$(88,591)</u></b>	<b><u>\$1,701,602</u></b>

- (1) When capital assets (land, buildings, equipment, and infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole. The capital assets (except those reported in the internal service funds below) are as follows:

Cost of capital assets	\$1,073,643
Accumulated depreciation	<u>(278,461)</u>
<b>TOTAL</b>	<b><u>\$ 795,182</u></b>

- (2) Bond issuance costs are recognized in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the net assets.

\$ 3,440

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(3) Interest on long-term debt is not accrued in governmental funds; rather, it is recognized as an expenditure when paid. \$ (7,423)

(4) Because the focus of governmental funds is on short term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus, are not included in the fund balance.

Adjustment of deferred revenue \$ 179,227

(5) Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Bond discounts, premiums, and refunding losses incurred on the issuance and refinancing of debt are included as other financing uses in the governmental funds, and are deferred and amortized for purposes of the government-wide financial statements. All liabilities, both current and long-term, are reported in the statement of net assets, net of unamortized bond discounts, premiums, and refunding losses.

Long-term obligations	\$(1,543,686)
Unamortized bond premium	(768)
Unamortized refunding losses	19,881
Interest payable	<u>(141)</u>
	(1,524,714)

Less:	
Amount due in one year	109,433
Interest payable	<u>141</u>

AMOUNT DUE IN MORE  
 THAN ONE YEAR \$ (1,415,140)

(6) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing, reproduction, mailing services, and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in the governmental activities in the statement of net assets. \$ 15,871

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**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The net change in fund balances for governmental funds, (\$53,188) differs from the change in net assets for governmental activities, (\$16,012), reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below (in thousands).

	Total Governmental Funds	Long-term Revenues/ Expenses <sup>(1)</sup>	Capital-related Items <sup>(2)</sup>	Internal Service Funds <sup>(3)</sup>	Long-term Debt Transactions <sup>(4)</sup>	Reclass	Statement of Net Assets Total
<b>REVENUES</b>							
Taxes:							
Property	\$ 163,130	\$ 8,899	\$ —	\$ —	\$ —	\$ —	\$ 172,029
State:							
Sales and use	45,749	—	—	—	—	—	45,749
Motor vehicle in-lieu	22,854	—	—	—	—	—	22,854
Gas	7,705	—	—	—	—	—	7,705
Local:							
Business license	42,094	(2,268)	—	—	—	—	39,826
Utility consumption	49,547	—	—	—	—	—	49,547
Real estate transfer	37,272	—	—	—	—	—	37,272
Transient occupancy	10,530	—	—	—	—	—	10,530
Parking	7,525	—	—	—	—	—	7,525
Voter approved special tax	5,085	—	—	—	—	—	5,085
Franchise	10,944	—	—	—	—	—	10,944
Licenses and permits	11,758	—	—	—	—	—	11,758
Fines and penalties	17,806	—	—	—	—	—	17,806
Interest and investment income	35,481	152	—	830	—	—	36,463
Charges for services	60,840	(2010)	—	—	—	—	58,830
Federal and state grants and subventions	48,234	17,818	—	31	—	—	66,083
Annuity income	16,568	—	—	—	—	—	16,568
Other	44,823	498	—	—	—	(11,100)	34,221
<b>TOTAL REVENUES</b>	<b>637,945</b>	<b>23,089</b>	<b>—</b>	<b>861</b>	<b>—</b>	<b>(11,100)</b>	<b>650,795</b>
<b>EXPENDITURES:</b>							
Current:							
General government	58,026	(3,116)	501	117	271	24,371	80,170
Public Safety	236,030	11,389	2,052	1,032	—	—	250,503
Life Enrichment	82,810	4,572	9,953	740	—	1,148	99,223
Community and Economic Development	118,234	(15,065)	2,421	136	—	2,375	108,101
Public Works	52,841	4,894	11,371	1,056	—	2,477	72,639
Other	41,471	—	—	—	—	(41,471)	—
Capital outlay	22,055	—	(22,055)	—	—	—	—
Debt service:							
Principal repayment	39,686	—	—	—	(39,686)	—	—
Bond issuance costs	3,711	—	—	—	(3,711)	—	—
Interest charges	58,558	—	—	1,378	12,988	—	72,924
<b>TOTAL EXPENDITURES/ EXPENSES</b>	<b>713,422</b>	<b>2,674</b>	<b>4,243</b>	<b>4,459</b>	<b>(30,138)</b>	<b>(11,100)</b>	<b>683,560</b>

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	Total Governmental Funds	Long-term Revenues/ Expenses <sup>(1)</sup>	Capital- related Items <sup>(2)</sup>	Internal Service Funds <sup>(3)</sup>	Long-term Debt Transactions <sup>(4)</sup>	Reclass	Statement of Net Assets Total
<b>OTHER FINANCING SOURCES (USES)/CHANGES IN NET ASSETS</b>							
Issuance of refunding bonds	213,655	---	---	-	(213,655)	---	---
Payment to refunded bond escrow	(208,907)	---	---	---	208,907	---	---
Property sale proceeds	16,094	-	---	-	-	-	16,094
Premiums on issuance of bonds	788	-	---	-	(788)	-	-
Net transfers (to)/from other funds	<u>659</u>	---	---	---	---	---	<u>659</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)/CHANGES IN NET ASSETS</b>	<u>22,289</u>	---	---	---	<u>(5,536)</u>	---	<u>16,753</u>
<b>NET CHANGE FOR THE YEAR</b>	<u><b>\$ (53,188)</b></u>	<u><b>\$20,415</b></u>	<u><b>\$ (4,243)</b></u>	<u><b>\$ (3,598)</b></u>	<u><b>\$ 24,602</b></u>	<u><b>\$ ---</b></u>	<u><b>\$ (16,012)</b></u>

- (1) Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered available revenues in the governmental funds.

\$ 8,899

Some revenues will not be collected within the City's stated accrual period established for the governmental funds. As a result, they are not considered available revenues in the governmental funds. This represents the change in deferred amounts during the current period.

14,190

23,089

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

(17,739)

Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.

15,065

**\$20,415**

- (2) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets

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decrease by the amount of depreciation expense charged for the year, and the loss of disposal of capital assets.

Capital expenditures	\$ 29,759
Depreciation expense	(33,993)
Loss on disposal of capital assets	<u>(9)</u>
Difference	<u>\$ (4,243)</u>

- (3) Internal service funds are used by management to charge the costs of certain activities, such as equipment maintenance, radio maintenance, facilities maintenance, reproduction, and central stores, to individual funds. The adjustments for internal service funds close those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' cost for the year.

\$ (3,598)

- (4) Bond issuance costs are expended in governmental funds when paid, and are deferred and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

Bond issuance costs	\$ 3,711
Amortization of bond issuance costs	<u>(271)</u>
Difference	<u>3,440</u>

Bond premiums are recognized in the governmental funds when the bonds are issued, and deferred and amortized over the life of the bonds for purposes of the government-wide financial statements.

(788)

Repayment of bond principal and the payment to escrow in conjunction with the advance refunding of debt are reported as expenditures and other financing uses in governmental funds, and thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City of Oakland's debt was reduced because principal payments were made to bond holders and payments were made to escrow for refunded debt.

Principal payments made	39,686
Payments to escrow for refunded debt	<u>208,907</u>
Total	<u>248,593</u>

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Interest expense in the statement of activities differs from the amount reported in governmental funds due to additional accrued and accreted interest on bonds payable and the amortization of the refunding loss and bond premiums.

Accrued and accreted interest	(11,292)
Amortization of bond premiums	20
Amortization of refunding loss	<u>(1,716)</u>
Difference	<u>(12,988)</u>

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(213,655)  
\$ 24,602

**(4) 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 that may be invested in:

- 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;
- 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;

**CITY OF OAKLAND**  
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- 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.

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 City deposits and investments at fair value are as follows (in thousands):

	Primary Government			Total	Port
	Governmental Activities	Business-type Activities	Fiduciary Funds		
Cash and investments	\$172,373	\$ 259	\$ 124,069	\$ 296,701	\$ 93,357
Restricted cash and investments	383,343	—	648,905	1,032,248	128,781
Invested securities lending collateral	—	—	<u>168,813</u>	<u>168,813</u>	—
<b>TOTAL</b>	<b><u>\$555,716*</u></b>	<b><u>\$ 259</u></b>	<b><u>\$ 941,787</u></b>	<b><u>\$1,497,762</u></b>	<b><u>\$222,138</u></b>
Deposits	\$213,415	\$ 259	\$ 118,218	\$ 331,892	\$ 32,826
Investments	<u>342,301</u>	—	<u>823,569</u>	<u>1,165,870</u>	<u>189,312</u>
<b>TOTAL</b>	<b><u>\$555,716*</u></b>	<b><u>\$ 259</u></b>	<b><u>\$ 941,787</u></b>	<b><u>\$1,497,762</u></b>	<b><u>\$222,138</u></b>

\*\$555,716 consists of all governmental funds and the internal service funds.

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**Notes to Basic Financial Statements**  
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***Deposits***

At June 30, 2002, the carrying amount of the City's deposits was \$331,892,000 and the bank balance was \$331,442,000. 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, \$450,000 was FDIC insured and \$330,992,000 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 counter-party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counter-party or by its trust department or agent but not in the City's name.

At June 30, 2002, investments included the following (in thousands):

	Category 1	Carrying Value
<b>Subject to Custodial Risk Categorization</b>		
U.S. Treasury securities	\$ 98,180	\$ 98,180
Federal agency issues	181,173	181,173
Municipal bonds	5,102	5,102
Commercial paper	43,266	43,266
Corporate stocks and bonds	233,735	233,735
Medium term corporate notes	152,714	152,714
Long-term repurchase and investment agreements	11,353	11,353
<b>Investments made with securities lending cash collateral:</b>		
Municipal bonds	41,314	41,314
Corporate stocks	124,688	124,688
International stocks and bonds	<u>2,811</u>	<u>2,811</u>
<b>Total</b>	<b>\$ 894,336</b>	<b>\$ 894,336</b>



**CITY OF OAKLAND**  
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**Investments Not Subject to  
Custodial Risk Categorization**

Real estate deeds	\$ 8,259
Real estate mortgage loans/investments	4,830
Local Agency Investment Fund	66,628
Life Insurance Annuity Contracts	150,389
<b>Investments lent to broker-dealers with cash collateral:</b>	
Government bonds	56,891
Corporate stocks	88,646
Medium term corporate notes	<u>16,925</u>
Total	<u>392,568</u>
TOTAL INVESTMENTS	1,286,904
Less: Port of Oakland Investments	<u>(121,034)</u>
TOTAL PRIMARY GOVERNMENT INVESTMENTS	<u>\$1,165,870</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.

There are no restrictions on the amount of securities that may be lent.

At present, the custodians are investing the cash collateral received for securities lent for periods averaging one week or less which generally matches the term of the period of the security loans.

As of June 30, 2002, PFRS had securities on loan with a market value of approximately \$162,462,442 for cash collateral of \$168,813,454.

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*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, 2002.

**Discretely Presented Component Unit**

The Port's cash and investments are reported as follows at June 30, 2002 (in thousands):

Cash and investments:	
Cash and investments with the City	\$ 90,461
Cash on hand	3
Cash in bank accounts	<u>2,893</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<u><b>93,357</b></u>
Restricted cash and investments:	
Sinking fund and reserve deposits with fiscal agents	68,903
Deposits in escrow	29,018
Cash and investments with City:	
Passenger facility charges	28,805
Customer facility charges	834
Other	934
Restricted deposits with fiscal agents for current debt service	<u>287</u>
<b>TOTAL RESTRICTED CASH AND INVESTMENTS</b>	<u><b>128,781</b></u>
<b>TOTAL</b>	<u><b>\$222,138</b></u>

The carrying amount of Port cash and investments is as follows at June 30, 2002 (in thousands):

Cash on hand and at bank	\$ 21,657
Government securities money market mutual funds	11,169
U.S. Treasury obligations	21,475
Guaranteed investment contracts	46,803
Cash and investments with the City of Oakland	<u>121,034</u>
<b>TOTAL</b>	<u><b>\$222,138</b></u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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***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 and construction funds. Authorized investment securities are specified in the various bond indentures. Authorized investments are U.S. Treasury obligations, bank certificates of deposit, 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 \$2,896 at June 30, 2002. Bank balances of \$1,770 at June 30, 2002, is insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name. The difference between the carry amount and the bank balance was primarily due to deposits in transit and outstanding checks.

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 1 investments.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**(5) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash. The amounts due from the Oakland Redevelopment Agency (Agency) are related to advances made by the City for projects, loans and services. The receivable amounts in the Agency relate to project advances made by the Agency for the City. The composition of inter-fund balances as of June 30, 2002, is as follows (in thousands):

**DUE FROM/DUE TO OTHER FUNDS:**

Receivable Fund	Payable Fund	Amount
General Fund	Federal/State Grant Fund	\$ 32,678
	Oakland Redevelopment Agency	29,513
	Other Governmental Funds	6,696
	Sewer Service Fund	5,050
	Internal Service Fund	10,794
	Pension Trust Fund	4,416
Federal/State Grant Fund	Oakland Redevelopment Agency	3,161
Oakland Redevelopment Agency	General Fund	1,267
	Other Governmental Funds	2,335
Other Governmental Funds	Oakland Redevelopment Agency	<u>2,147</u>
<b>TOTAL</b>		<b><u>\$ 98,057</u></b>

**INTERFUND TRANSFERS:**

	TRANSFERS IN		
	General Fund	Governmental Funds	Other Total
<b>TRANSFERS OUT</b>			
General Fund	\$ —	\$ 91,390	\$ 91,390
Other Governmental Funds	45,664	5,103	50,767
Sewer Service Fund	<u>600</u>	<u>59</u>	<u>659</u>
<b>TOTAL</b>	<b><u>\$ 46,264</u></b>	<b><u>\$ 96,552</u></b>	<b><u>\$ 142,816</u></b>

**CITY OF OAKLAND**  
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The \$91.4 million general fund transfer out includes a total of \$17.9 million to provide for the payment of pension obligation bonds and \$73.5 million transfer to provide funding for other debt service payments.

The \$50.7 million consists of \$39.2 million transfers from other governmental funds to the general fund for the Museum and the City Administrative reserves and for repayment of the pension obligation bonds. Also, \$10.8 million was transferred from other governmental funds to the general fund to provide funds for the Oakland Convention Center.

**(6) 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, 2002, \$14,768,000 in Special Services expenses has 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, 2002, \$655,000 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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**(7) NOTES AND LOANS RECEIVABLE**

The composition of the City's notes and loans receivable as of June 30, 2002, is as follows (in thousands):

Type of Loan	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds/ Governmental Activities
Pass thru loans	\$ 15,100	\$ 2,709	\$ 18,501	\$ 799	\$ 37,109
Loans to Oakland Hotel Assoc. Ltd	12,038	—	—	—	12,038
Community Development Block Grant	—	45,608	—	—	45,608
Economic Development loans and other	1,931	26,779	—	10,816	39,526
Central District	—	—	3,801	—	3,801
Low and moderate housing	—	—	26,623	—	26,623
Less: Allowance for uncollectible accounts	<u>(14,243)</u>	<u>(36,653)</u>	<u>(491)</u>	<u>(5,836)</u>	<u>(57,223)</u>
<b>TOTAL LOANS, NET</b>	<b>\$ 14,826</b>	<b>\$ 38,443</b>	<b>\$ 48,434</b>	<b>\$ 5,779</b>	<b>\$107,482</b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**(8) CAPITAL ASSETS**

**Primary Government**

Capital assets activity of the primary government for the year ended June 30, 2002, is as follows (in thousands):

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 74,417	\$ —	\$ —	\$ 74,417
Construction in progress	<u>10,693</u>	<u>1,198</u>	<u>—</u>	<u>11,891</u>
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<u>85,110</u>	<u>1,198</u>	<u>—</u>	<u>86,308</u>
Capital assets, being depreciated:				
Facilities and improvements	614,655	6,498	—	621,153
Furniture, machinery and equipment	129,815	14,378	(5,342)	138,851
Infrastructure	<u>292,569</u>	<u>16,951</u>	<u>—</u>	<u>309,520</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>1,037,039</u>	<u>37,827</u>	<u>(5,342)</u>	<u>1,069,524</u>
Less accumulated depreciation:				
Facilities and improvements	148,303	19,278	—	167,581
Furniture, machinery and equipment	72,601	10,401	(5,293)	77,709
Infrastructure	<u>77,217</u>	<u>9,357</u>	<u>—</u>	<u>86,574</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>298,121</u>	<u>39,036</u>	<u>(5,293)</u>	<u>331,864</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<u>738,918</u>	<u>(1,209)</u>	<u>(49)</u>	<u>737,660</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<u>\$ 824,028</u>	<u>\$ (11)</u>	<u>\$ (49)</u>	<u>\$ 823,968</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
<b>Business-type activities:</b>				
<b>Sewer fund:</b>				
Capital assets, not being depreciated:				
Land	\$ 2	\$ 2	\$ ---	\$ 4
Construction in progress	<u>---</u>	<u>1,352</u>	<u>---</u>	<u>1,352</u>
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<u>2</u>	<u>1,354</u>	<u>---</u>	<u>1,356</u>
Capital assets, being depreciated:				
Furniture, machinery and equipment	749	---	---	749
Sewers and storm drains	<u>153,906</u>	<u>7,980</u>	<u>---</u>	<u>161,886</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>154,655</u>	<u>7,980</u>	<u>---</u>	<u>162,635</u>
Less accumulated depreciation:				
Furniture, machinery and equipment	499	111	---	610
Sewers and storm drains	<u>50,346</u>	<u>2,403</u>	<u>---</u>	<u>52,749</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>50,845</u>	<u>2,514</u>	<u>---</u>	<u>53,359</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<u>103,810</u>	<u>5,466</u>	<u>---</u>	<u>109,276</u>
<b>SEWER FUND CAPITAL ASSETS, NET</b>	<u>103,812</u>	<u>6,820</u>	<u>---</u>	<u>110,632</u>
<b>Other proprietary funds:</b>				
Capital assets, not being depreciated:				
Land	<u>218</u>	<u>---</u>	<u>---</u>	<u>218</u>
Capital assets, being depreciated:				
Furniture, machinery and equipment	<u>434</u>	<u>---</u>	<u>---</u>	<u>434</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>434</u>	<u>---</u>	<u>---</u>	<u>434</u>
Less accumulated depreciation:				
Furniture, machinery and equipment	<u>423</u>	<u>1</u>	<u>---</u>	<u>424</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>423</u>	<u>1</u>	<u>---</u>	<u>424</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<u>11</u>	<u>(1)</u>	<u>---</u>	<u>10</u>
<b>OTHER PROPRIETARY FUND CAPITAL ASSETS, NET</b>	<u>229</u>	<u>(1)</u>	<u>---</u>	<u>228</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET</b>	<u>\$104,041</u>	<u>\$ 6,819</u>	<u>\$ ---</u>	<u>\$110,860</u>



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental activities:

General Government	\$ 1,878
Police Services	1,036
Fire Services	1,140
Life Enrichment	11,498
Community and Economic Development	2,421
Public Works	16,021
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	<u>5,042</u>

TOTAL \$39,036

Business-type activities:

Sewer	\$ 2,514
Golf	<u>1</u>
TOTAL	<u>\$ 2,515</u>

**Construction Commitments**

The City has active construction projects as of June 30, 2002. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	<b>Spent to date</b>	<b>Remaining Commitment</b>
Infrastructure – streets	\$ 5,192	\$ 19,400
Infrastructure – parks	618	1,705
Building improvements	6,081	11,227
Sewers and storm drains	<u>1,352</u>	<u>33,842</u>
TOTAL	<u>\$ 13,243</u>	<u>\$ 66,174</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

**Discretely Presented Component Unit**

Capital assets activity for the Port for the year ended June 30, 2002, is as follows (in thousands):

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	\$ 206,718	\$ 8,207	\$ (8)	\$ 214,917
Construction in progress	<u>329,372</u>	<u>333,539</u>	<u>(192,090)</u>	<u>470,821</u>
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<u>536,090</u>	<u>341,746</u>	<u>(192,098)</u>	<u>685,738</u>
Capital assets, being depreciated:				
Building and improvements	461,330	33,082	(28,041)	466,371
Container cranes	112,297	12,371	(72)	124,596
Systems and structures	589,615	137,903	(1,307)	726,211
Other equipment	<u>32,730</u>	<u>3,926</u>	<u>(1,511)</u>	<u>35,145</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>1,195,972</u>	<u>187,282</u>	<u>(30,931)</u>	<u>1,352,323</u>
Less accumulated depreciation:				
Building and improvements	199,206	18,800	(12,399)	205,607
Container cranes	41,706	4,111	(2)	45,815
Systems and structures	143,317	21,953	—	165,270
Other equipment	<u>17,732</u>	<u>1,538</u>	<u>(700)</u>	<u>18,570</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>401,961</u>	<u>46,402</u>	<u>(13,101)</u>	<u>435,262</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<u>794,011</u>	<u>140,880</u>	<u>(17,830)</u>	<u>917,061</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$1,330,101</u>	<u>\$ 482,626</u>	<u>\$(209,928)</u>	<u>\$1,602,799</u>

The capital assets, net on lease at June 30, 2002, consist of the following (in thousands):

Land	\$ 81,937
Container cranes	124,630
Buildings and other facilities	<u>542,011</u>
Total	748,578
Less accumulated depreciation	<u>(116,934)</u>
Capital assets, net on lease	<u>\$ 631,644</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE**

Accounts payable and accrued liabilities payable as of June 30, 2002, for the City's individual major funds, nonmajor funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Check Payable	Accrued Payroll/ Employee Benefits	Total
<b>Governmental funds:</b>				
General	\$ 16,853	\$ 12,899	\$ 54,275	\$ 84,027
Federal/state grant fund	5,044	—	921	5,965
Oakland Redevelopment Agency	6,379	—	—	6,379
Other governmental funds	6,038	—	90	6,128
Governmental activities- Internal service funds	<u>1,716</u>	<u>—</u>	<u>174</u>	<u>1,890</u>
<b>TOTAL</b>	<b><u>\$ 36,030</u></b>	<b><u>\$ 12,899</u></b>	<b><u>\$ 55,460</u></b>	<b><u>\$ 104,389</u></b>
<b>Business-type activities – Enterprise Funds:</b>				
Sewer service	786	—	697	1,483
Park and recreation	<u>6</u>	<u>—</u>	<u>—</u>	<u>6</u>
<b>TOTAL</b>	<b><u>\$ 792</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 697</u></b>	<b><u>\$ 1,489</u></b>

Accrued liabilities for the pension trust funds at June 30, 2002, are as follows (in thousands):

Investment payable	\$ 77,689
Accrued investment management fees	553
Member benefits	<u>50,392</u>
<b>TOTAL ACCRUED LIABILITIES</b>	
AT JUNE 30, 2002	<b><u>\$ 128,634</u></b>

Accounts payable and accrued expenses for the component unit Port of Oakland at June 30, 2002 (in thousands):

Accounts payable and accrued expenses	<b><u>\$ 77,382</u></b>
---------------------------------------	-------------------------

**(10) PROPERTY HELD FOR RESALE**

A summary of changes in property held for resale follows (in thousands):

	July 1, 2001	Purchases and Other Debits	Sales and Other Credits	June 30, 2002
Property held for resale	\$ 74,953	\$ 4,126	\$ 12,304	\$ 66,775

**CITY OF OAKLAND**  
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**(11) TAX AND REVENUE ANTICIPATION NOTES PAYABLE**

The City issued tax and revenue anticipation notes in advance of property tax collections. The notes were used to satisfy General Fund obligation and carried an approximate effective interest rate of 2.6%. Principal and interest were paid on June 30, 2002.

The short-term debt activity for the year ended June 30, 2002, is as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Notes	\$0	\$65,000	\$(65,000)	\$0

**(12) LONG-TERM OBLIGATIONS**

**Long-term Obligations**

The following is a summary of long-term obligations for the year ended June 30, 2002 (in thousands):

Governmental Activities			
Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
General obligation bonds (A)	2025	4.25-8.50%	\$ 133,295
Tax allocation bonds (B)	2021	4.00-8.03%	214,295
Certificates of participation (C)	2015	2.25-6.45%	67,346
Lease revenue bonds (C)	2026	2.25-5.90%	399,675
Pension obligation bonds (D)	2022	5.63-7.31%	435,686
City guaranteed special assessment district bonds (D)	2024	3.70-6.70%	8,870
Notes payable (C) & (E)	2016	4.11-14.48%	52,283
Accrued vacation and sick leave (C)			31,923
Self-insurance liability for workers' compensation (C)			90,694
Estimated claims payable (C)			45,242
Contingent liability for authority debt (C)			<u>99,048</u>
<b>GOVERNMENTAL ACTIVITIES TOTAL</b>			
<b>LONG-TERM OBLIGATIONS</b>			<u><b>1,578,357</b></u>

**CITY OF OAKLAND**  
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DEFERRED AMOUNTS:

Bond issuance premiums	768
Bond refunding loss	<u>(19,881)</u>

GOVERNMENTAL ACTIVITIES TOTAL  
LONG-TERM OBLIGATIONS, NET

\$1,559,244

Debt service payments are made from the following sources:

- (A) Property tax recorded in the debt service funds
- (B) Property tax allocated to the Redevelopment Agency based on increased assessed valuations in the project area
- (C) Revenues recorded in the general fund
- (D) Property tax voters approved debt
- (E) Revenues recorded in the special revenue funds

**Business-Type Activities**

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
Sewer fund – notes payable	2014	3.0-3.5%	<u>\$ 7,663</u>
BUSINESS-TYPE ACTIVITIES – TOTAL LONG-TERM OBLIGATIONS			<u>\$ 7,663</u>

**Component Unit - Port of Oakland**

Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
Parity bonds	2030	2.75-8.00%	\$ 833,572
Notes and loans	2029	1.25-6.80%	<u>232,990</u>
			1,066,562
Self-insurance liability for workers' compensation			<u>3,000</u>
TOTAL			1,069,562
Unamortized bond discount and premium			<u>(9,572)</u>
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			<u>\$ 1,059,990</u>

**CITY OF OAKLAND**  
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## **Debt Compliance**

There are a number of limitations and restrictions contained in the various bond indentures.

## **Legal Debt Limit and Legal Debt Margin**

As of June 30, 2002, the City's debt limit (3.75% of valuation subject to taxation) was \$745,230,478. The total amount of debt applicable to the debt limit was \$133,295,000, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was \$611,935,478.

## **Interest Rate Swaps**

On January 9, 1997, the City entered into a forward-starting interest rate swap with a financial institution, the "counter-party," for the period July 31, 1998 to July 31, 2021, for Special Assessment Revenue Bonds 1996 Series A issued by the City on August 3, 1998. The bonds were sold in variable-rate mode, in two series: \$131.5 million Series A-1 and \$56 million Series A-2, with a final maturity of August 1, 2021.

Under the rate swap, the City owes interest calculated at a fixed rate of 5.6775% to the counter-party to the swap with a notional amount of \$156.4 million as of June 30, 2002. In return, the counter-party owes the City interest based on the difference between the Bond Market Association Municipal Swap Index and the fixed rate. Only the net difference in interest payments is actually exchanged with the counter-party. The bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

City continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the City effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds are based on that fixed rate.

The City will be exposed to variable rates if the counter-party to the swap defaults or if the swap is terminated early. A termination of the swap agreement may also result in the City's making or receiving a termination payment.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**Changes in Long-term Obligations**

The changes in long-term obligations for the year ended June 30, 2002, are as follows (in thousands):

<b>Governmental Activities</b>					
	<b>Balance at July 1, 2001</b>	<b>Additional Obligations, Interest Accretion and Net Increases</b>	<b>Current Maturities Retirements and Net Decreases</b>	<b>Balance at June 30, 2002</b>	<b>Amounts Due Within One Year</b>
<b>Bonds Payable</b>					
G.O. bonds	\$ 137,080	\$ —	\$ 3,785	\$ 133,295	\$ 3,945
Tax allocation bonds	221,666	1,544	8,915	214,295	9,110
Certificates of participation	70,459	16,557	19,670	67,346	3,995
Lease revenue bonds	417,780	—	18,105	399,675	17,030
Pension obligation bonds	400,421	206,675	171,410	435,686	10,525
City guaranteed special assessment district bonds	9,415	—	545	8,870	485
Less deferred amounts:					
Bond issuance premiums	—	788	20	768	79
Bond refunding loss	—	(21,597)	(1,716)	(19,881)	(2,330)
<b>TOTAL BONDS PAYABLE</b>	<u>1,256,821</u>	<u>203,967</u>	<u>220,734</u>	<u>1,240,054</u>	<u>42,839</u>
Notes payable	45,970	16,644	10,331	52,283	11,610
<b>Other Long Term Liabilities</b>					
Accrued vacation and sick leave	29,043	2,880	—	31,923	26,363
Self-insurance workers' compensation	55,497	49,342	14,145	90,694	17,958
Contingent liability for authority debt	101,375	—	2,327	99,048	2,328
Estimated claims payable	62,144	(5,328)	11,574	45,242	15,309
<b>TOTAL OTHER LONG TERM LIABILITIES</b>	<u>248,059</u>	<u>46,894</u>	<u>28,046</u>	<u>266,907</u>	<u>61,958</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES – LONG TERM OBLIGATIONS</b>	<u>\$1,550,850</u>	<u>\$ 267,505</u>	<u>\$ 259,111</u>	<u>\$1,559,244</u>	<u>\$ 116,407</u>

Internal service funds predominantly serve the governmental funds and therefore, the long-term liabilities of these funds are included as part of the above totals for governmental activities. At the year ending June 30, 2002, \$34.7 million of notes payable related to the internal service funds are included in the above amounts.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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**Business-Type Activities**

	Balance at July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2002	Amounts Due Within One Year
Sewer fund – notes payable	<u>\$ 8,303</u>	<u>\$—</u>	<u>\$640</u>	<u>\$7,663</u>	<u>\$662</u>

**Component Unit - Port of Oakland**

	Balance at July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2002	Amounts Due Within One Year
Parity bonds	\$ 847,382	\$ —	\$ 13,810	\$ 833,572	\$ 14,725
Notes and loans	181,180	78,647	26,837	232,990	2,763
Self-insurance workers' compensation	<u>3,000</u>	<u>1,056</u>	<u>1,056</u>	<u>3,000</u>	<u>—</u>
<b>TOTAL</b>	1,031,562	79,703	41,703	1,069,562	17,488
Unamortized bond discount premium	<u>(9,743)</u>	<u>—</u>	<u>(171)</u>	<u>(9,572)</u>	<u>(180)</u>
<b>TOTAL DEBT</b>	<u>\$ 1,021,819</u>	<u>\$ 79,703</u>	<u>\$ 41,532</u>	<u>\$ 1,059,990</u>	<u>\$ 17,308</u>



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**Repayment Schedule**

The annual requirements to amortize all long-term debt as of June 30, 2002, are as follows (in thousands):

	2003	2004	2005	2006	2007	2008-12	2013-17	2018-22	2023-27	Total
<b>Government-type</b>										
<b>Activities:</b>										
General obligation bonds:										
Principal	\$ 3,945	\$ 4,145	\$ 4,320	\$ 4,485	\$ 4,660	\$ 27,645	\$ 36,065	\$ 40,235	\$ 7,795	\$ 133,295
Interest	7,471	7,300	7,030	6,797	6,552	28,603	19,785	8,721	472	92,731
Tax allocation bonds:										
Principal	9,110	10,536	10,817	11,024	11,430	60,788	60,455	40,135	—	214,295
Interest	11,961	11,833	11,618	11,340	11,015	45,739	23,058	5,399	—	131,963
Certificates of participation:										
Principal	3,995	4,195	4,585	4,325	4,451	30,395	15,400	—	—	67,346
Interest	2,796	2,702	2,335	3,697	3,694	7,078	1,280	—	—	23,582
Lease revenue financing:										
Principal	17,030	17,250	19,480	19,770	20,185	107,635	93,800	71,710	32,815	399,675
Interest	21,057	20,278	19,344	18,331	17,297	69,764	39,646	19,980	4,934	230,631
Pension obligation bonds:										
Principal	10,525	20,025	22,420	25,020	27,850	147,700	94,489	74,987	12,670	435,686
Interest	13,963	12,954	11,534	9,928	8,118	47,032	119,742	172,037	40,460	435,768
City guaranteed special assessment bonds:										
Principal	485	510	530	285	285	1,680	1,695	2,005	1,395	8,870
Interest	464	439	411	390	377	1,634	1,167	669	128	5,679
Notes payable:										
Principal	11,609	7,229	7,025	4,694	5,194	12,064	4,470	—	—	52,285
Interest	2,455	1,673	1,336	1,055	1,147	3,404	845	—	—	11,915
<b>TOTAL PRINCIPAL</b>	<b>\$56,699</b>	<b>\$63,890</b>	<b>\$69,177</b>	<b>\$69,603</b>	<b>\$74,055</b>	<b>\$387,907</b>	<b>\$306,374</b>	<b>\$229,072</b>	<b>\$54,675</b>	<b>\$1,311,452</b>
<b>TOTAL INTEREST</b>	<b>\$60,167</b>	<b>\$57,179</b>	<b>\$53,608</b>	<b>\$51,538</b>	<b>\$48,200</b>	<b>\$203,254</b>	<b>\$205,523</b>	<b>\$206,806</b>	<b>\$45,994</b>	<b>\$932,269</b>

The specific year for payment of estimated vacation, sick leave, workers' compensation, and estimated claim is not practicable to determine.

	2003	2004	2005	2006	2007	2008-12	2013-17	2018-22	2023-27	Total
<b>Business-type</b>										
<b>Activities:</b>										
Sewer Bonds										
Principal	\$ 662	\$ 684	\$ 707	\$ 730	\$ 755	\$ 3,553	\$ 572	\$ —	\$ —	\$ 7,663
Interest	253	231	223	185	160	406	26	—	—	1,484

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**Component Unit - Port of Oakland**

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002, are as follows (in thousands):

Fiscal year ending	Principal	Interest	Total
2003	\$ 190,614	\$ 49,516	\$ 240,130
2004	15,505	51,482	66,987
2005	14,808	52,183	66,991
2006	21,530	51,766	73,296
2007	21,738	51,143	72,881
2008-2012	132,233	231,337	363,570
2013-2017	195,333	172,179	367,512
2018-2022	198,128	105,053	303,181
2023-2027	169,612	55,841	225,453
2028-2032	<u>107,061</u>	<u>12,846</u>	<u>119,907</u>
SUBTOTAL	1,066,562	833,346	1,899,908
Unamortized bond discount	<u>(9,572)</u>	<u>—</u>	<u>(9,572)</u>
TOTAL	<u>\$1,056,990</u>	<u>\$833,346</u>	<u>\$1,890,336</u>

Net interest costs of \$8,389,000 was capitalized in fiscal 2002, following the capitalization of interest revenue of \$7,349,000. Total capitalized interest expense amounted to \$15,738,000 for fiscal 2002.

**Taxable Pension Obligation Bonds Series 2001**

On October 17, 2001, the City issued \$195.6 million of Taxable Pension Obligation Bonds with interest rates ranging from 6.00% to 6.89% to advance refund \$171.4 million of outstanding 1997 series bonds with interest rates ranging from 5.63% to 7.31%. The taxable pension obligation bond will mature on December 15, 2022. The net proceeds of \$192.4 million (after payment of \$3.2 million in underwriters discount and cost of issuance) were used to tender outstanding bonds (\$149.5 million) and to purchase U.S. government securities (\$42.9 million). Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, \$171.4 million of the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the City's books.

The City refunded those bonds in order to reduce average annual debt service payments by \$15.5 million to a level at or below projected voter-approved tax increment revenues, which pay the debt service. The refinancing resulted in the recognition of an accounting loss of \$21.0

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million for the year ended June 30, 2002, increased aggregate debt service payments by \$304.4 million over the next 20 years, and resulted in an economic loss of \$14.4 million.

### **Oakland Museum 2002 Series A**

On May 12, 2002, the City issued \$16.4 million of Refunding Certificates of Participation with interest rates ranging from 4.00% to 5.00% to advance refund \$15.9 million of outstanding 1992 series bonds with interest rates ranging from 6.00% to 6.55%. The Oakland Museum 2002 Series A will mature on April 1, 2012. The net proceeds of \$16.5 million (after payment of \$.6 million in underwriters discount and cost of issuance and an original issue premium of \$0.7 million) were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, \$15.9 million of the 1992 series bonds are considered to be defeased and the liability for those bonds has been removed from the City's books. Although the advanced refunding resulted in the recognition of an accounting loss of \$.6 million for the year ended June 30, 2002, the City reduced its aggregate debt service requirements by \$1.5 million over the next 10 years and obtained an economic gain of \$1.3 million.

### **Sun Trust Corporation Notes**

During June 2002, the City executed four additional financing schedules totaling \$14.9 million to fund the acquisition of certain equipment in the internal service funds as a part of the April 2002 Master Lease Agreement entered into with the Oakland Joint Powers Financing Authority. The interest rates for these four schedules range from 3.28% to 4.35%. The final debt payment will be on June 6, 2012.

### **GE Capital**

In August 2001, the City executed a note, with a stated interest rate of 5.23%, with GE Capital in the amount of \$1.7 million to fund the acquisition of a computer server. It will be repaid by the general fund. The final debt payment will be on July 1, 2004.

### **Prior Year's Debt Defeasance**

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2002, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to \$23.8 million.

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**Notes to Basic Financial Statements**  
**June 30, 2002**

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**Authorized and Unissued Debt**

The net amount of authorized and unissued governmental activities -- general obligation bonds as of June 30, 2002, was \$59 million (Measure G). These bonds were authorized by the voters in a City election on March 5, 2002. The bonds are to be issued by the City to acquire, renovate, improve, construct, and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo, and the Chabot Space and Science Center.

**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. The debt issued and outstanding at June 30, 2002, follows (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2002
Housing Mortgage Programs			
Housing Revenue Bonds Series D, 1991	\$ 65,500	2010-2024	\$ 7,195
City of Oakland Insured Refunding Revenue Bonds (Children's Hospital Medical Center of Northern California), 1994 Series A	19,490	05/01/09	11,910
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	1,565
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	2,175
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1996	8,650	06/01/10	6,195
City of Oakland Variable Economic Development Revenue Bond 1997 Series A (Allen Temple Family Life Center Project)	5,000	08/01/04	4,600
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	19,800
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc.)	5,800	07/01/33	<u>5,800</u>
<b>TOTAL</b>			<b>\$ 152,660</b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**(13) SELF-INSURANCE**

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2002 and 2001, are as follows (in thousands):

	2002	2001
<b>Workers' Compensation</b>		
Unpaid claims, beginning of fiscal year	\$ 55,497	\$ 55,497
Current year claims and changes in estimates	49,342	21,997
Claim payments	<u>(14,145)</u>	<u>(21,997)</u>
Unpaid claims, end of fiscal year (see Note 12)	<u>\$ 90,694</u>	<u>\$ 55,497</u>
<b>General Liability</b>		
Unpaid claims, beginning of fiscal year	\$ 62,144	\$ 31,053
Current year claims and changes in estimates	(5,328)	40,630
Claims payment	<u>(11,574)</u>	<u>(9,539)</u>
Unpaid claims, end of fiscal year (Note 12)	<u>\$ 45,242</u>	<u>\$ 62,144</u>

The above estimated undiscounted liability for claims and contingencies is based on the results of actuarial studies and includes amounts for claims incurred but not reported. The estimated liability is calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

**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.

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**Notes to Basic Financial Statements**  
**June 30, 2002**

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**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, 2002, the amount of liability determined to be probable of occurrence is approximately \$45,242,000. Of this amount, claims and litigation approximating \$15,309,000 are estimated to be due within one year. 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. Of the \$90,694,000 in reserves, approximately \$17,958,000 is estimated to be due within one year.

**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 \$500,000 per accident. Effective February 7, 1997, the Port carries commercial insurance for claims in excess of \$500,000.

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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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and include an estimate of claims that have been incurred but not reported. Changes in the reported liability resulted from the following (in thousands):

	<b>2002</b>	<b>2001</b>
Workers' compensation liability at beginning of fiscal year	\$ 3,000	\$ 3,000
Current year claims and changes in estimates	1,056	854
Claim payments	<u>(1,056)</u>	<u>(854)</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 \$250,000 in the aggregate up to a maximum of \$200,000,000. For the harbor area, coverage is provided in excess of \$200,000 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.

**(14) 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 eight-member Board of Commissioners of the Authority consists of two council members from the City, two members of the Board of Supervisors from the County, two appointees of the City Council, and two appointees of the Board of Supervisors. 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.

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The Stadium Bonds are limited obligations of the Authority payable solely from revenues 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 Agreements) between the Warriors, the City, the County, Coliseum Inc. and the Authority.

Under the 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 base rental payments from the City and County and certain payments from the Warriors of up to \$7,428,000 annually from premium seating revenues, and other payments from Arena operations. If the revenues received from the Warriors and from Arena operations 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 could 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.



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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 to \$1.1 billion for damages related to claims of fraudulent inducement. A trial began on March 24, 2003. 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 (the 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 sought 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 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 appealed the judgment. Subsequent to June 30, 2002, the Warriors lost the appeal and the judgment was settled in favor of the Authority for the above-mentioned \$17 million plus interest.

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

For the period ending June 30,	Stadium Debt		Arena Debt	
	Principal	Interest	Principal	Interest
2003	\$ 4,915	\$ 7,895	\$ 2,200	\$ 8,389
2004	5,280	7,623	2,400	8,249
2005	5,600	7,276	2,500	8,097
2006	6,100	6,949	2,700	7,938
2007	5,500	6,606	3,000	7,766
2008-2012	33,300	27,939	18,000	35,742
2013-2017	43,400	20,458	25,400	29,101
2018-2022	54,500	12,089	35,600	19,738
2023-2026	<u>39,500</u>	<u>2,332</u>	<u>38,900</u>	<u>6,491</u>
<b>TOTAL</b>	<b><u>\$198,095</u></b>	<b><u>\$ 99,167</u></b>	<b><u>\$130,700</u></b>	<b><u>\$131,511</u></b>

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

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 and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2002, the City made contributions of approximately \$11,500,000 to fund its share of operating deficits and debt service payments of the Authority.

The Authority has anticipated a deficit for operating costs and 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 \$10,500,000 for the 2002-03 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 statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of \$99,047,500. The City has not established a contingent liability for the Arena Bonds because management is of the opinion that revenues from the Arena, including payments from the Warriors and revenues from Arena operations, will be sufficient to cover the debt payments.

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**(15) 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 that 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 Basic 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.

Investments representing 5% or more of the fair value of the OMERS net assets for pension benefits as of June 30, 2002, are as follows:

<b>Stocks</b>	<b>Shares</b>	<b>Market Value</b>
Fidelity National Financial	20,000	\$ 632,000
Phillips Petroleum Company	8,000	471,040
Southern Company	20,000	<u>548,000</u>
		<u>\$1,651,040</u>

No investments in any one non-federal organization represented 5% or more of PFRS net assets for pension benefits as of June 30, 2002.

	<b>PFRS</b>	<b>OMERS</b>	<b>PERS</b>
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 1, 2001	July 01, 2000	June 30, 2001

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**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 rate	3.5%	4.5%	3.5%
Average salary increases	4.0%	3.0%	3.8%
Investment rate of return	8.0%	8.0%	8.3%

	PFRS	OMERS	PERS	Total
<b>Employees covered as of June 30, 2002</b>				
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not currently receiving them	1,464	119	2,020	3,603
Current employees—vested	26	2	4,871	4,899

**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

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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, 2002, employee contributions to PFRS totaling \$297,645 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
2000	—*	—
2001	—*	—
2002	—*	—

\*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.

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Employee contributions to OMERS totaling \$6,161,000 were made during 2002 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. Because of the Retirement System's current funding status, the City is currently 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%.

## **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 0.00% for non-safety employees and 15.171% 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 2001-02, the City's annual pension cost of \$26,958,112 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2002, 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

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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 for PERS**  
(in millions)

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$23.6	100%	0
2001	24.0	100	0
2002	26.9	100	0

**(16) 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 \$1,478,738 was paid on behalf of 525 retirees under this program for the year ended June 30, 2002.

The Retirement System had 104 active members transfer to PERS during 2002. As part of the transfer, \$69,829,757 of assets were designated for transfer to PERS to cover the liabilities that were assumed, of which \$50,388,808 were still payable at June 30, 2002.

**(17) 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.

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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 \$77,040,100 to a number of capital improvement projects for fiscal years 2002-03 to 2003-04.

#### *Discretely Presented Component Unit*

The Port anticipates spending a \$1.2 billion (in actual dollars) over the next six 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, 2002, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	\$ 71,804
Aviation	105,627
Commercial real estate	<u>5,313</u>
	<u>\$182,744</u>

### **Other Contingencies**

#### *Primary Government*

As of June 30, 2002, the Agency has entered into contractual commitments of \$7,555,805 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, 2002, the Agency was committed to fund \$3,300,480 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.



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**Notes to Basic Financial Statements**  
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*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.

A summary of the environmental liability accounts, included within the basic financial statements at June 30, 2002, is as follows (in thousands):

Environmental remediation	\$ 9,895
Miscellaneous compliance	<u>1,379</u>
Total environmental liabilities	<u>\$11,274</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
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**(18) DEFICIT FUND BALANCE/NET ASSETS**

As of June 30, 2002, the following funds reported deficits in fund balance/net assets (in thousands):

Federal/State Grant Fund	\$ (21,818)
ORA Projects	(5,701)

The City's federal/state deficit is expected to be funded through more timely drawdown of federal/state funds. The ORA projects deficit is expected to be funded by reimbursements from the Agency.

Internal Service:	
Facilities	\$ (6,834)
Central Stores	(3,343)

The City's facilities and central stores deficits are expected to be funded through increased user charges for the costs incurred in each fund.

**(19) SUBSEQUENT EVENTS**

**Tax and Revenue Anticipation Notes**

On July 30, 2002, the City issued tax and revenue anticipation notes payable of \$53,965,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 1.44%. Principal and interest are due and payable on July 29, 2003.

**Acquisition of Oakland Army Base**

In September 2002, the Oakland Redevelopment Agency of the City of Oakland (Agency) entered into an agreement to acquire 366 acres of the former Oakland Army Base. The Agency will be receiving the land for redevelopment at no direct cost but will be responsible, along with the Port of Oakland, for site remediation costs estimated at \$15 million and other costs related to relocation of the homeless and the establishment of a Community trust Fund estimated at an additional maximum of \$19 million. The total estimated costs associated with this acquisition is \$34 million and will be shared equally by the Agency and the Port.

The potential site mediation cost is capped at \$15 million as a result of an insurance policy being paid for by the Department of the Army at the time of the transfer.

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**Notes to Basic Financial Statements**  
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Sufficient funds are anticipated to be transferred by the Oakland Base Reuse Authority to the Agency at the time of the actual land transfer in 2006 to offset the Agency's share of all the costs referred to above.

The Port has agreed in principle to purchase from the Agency the former Knight Rail Yard, part of the 366 acres being acquired by the Agency from the Department of the Army for \$30 million.

**Long-term Debt**

In October 2002, the City issued \$38 million of General Obligation Bonds, Series 2002A, Measure G. The bonds have interest rates of 3.75% to 5.0% and mature in 2032. These bonds constitute a portion of the total authorized amount of \$59 million of bonds approved on Measure G at the March 5, 2002 election and were issued to acquire, renovate, improve, construct and finance existing and educational facilities for the Oakland Museum of California, the Oakland Zoo, and the Chabot Space and Science Center.

In January 2003, the Agency issued \$121 million of principal amount of Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003, and \$23 million of principal amount of Redevelopment Agency of the City of Oakland Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2003. The Central District bonds have interest rates of 3.0% to 5.50% and mature in 2019. The Coliseum bonds have interest rates of 2.50% to 5.125% and mature in 2022.

**Elections**

On November 5, 2002, the Oakland voters approved Proposition DD which authorizes the issuance of \$198 million in general obligation bonds for the improvement of Lake Merritt, the Estuary, inland creeks, Studio One and other specifically identified projects in the City.

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**Notes to Basic Financial Statements**  
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**Insurance Coverage**

On July 15, 2002, the City entered into a contract with the California State Association of Counties - Excess Insurance Authority (CSAC EIA), a joint powers authority, whose purpose is to develop and fund programs of excess insurance for its member counties. Self-insured retention levels and purchased insurance per occurrence are as follows:

Type of Coverage	Self-Insurance Retention	Insurance Authority/Purchase Insurance
General Liability	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence
Automobile Liability	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence
Public Officials Errors and Omissions	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence/annual aggregate
Products & Completed Operations	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence/annual Aggregate
Employment Practices Liability	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence/annual Aggregate
Workers' Compensation	up to \$2,000,000	\$2,000,000 to \$10,000,00 per occurrence and aggregate

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

**Long-term Debt**

In August 2002, the Port of Oakland issued the 2002 Series L and M Revenue Bonds (the 2002 Bonds) in the aggregate amount of \$620 million (Series L interest rates range from 5.0% to 5.5%, maturing on November 1, 2033 and Series M interest rates range from 3.0% to 5.25%, maturing on November 1, 2020). The 2002 Bonds were issued to finance and refinance certain capital projects included in the Port's Capital Improvement Program (CIP), including the refunding of certain commercial paper notes previously issued by the Port to finance a portion of these projects.

In October 2002, the Port issued the 2002 Series N Refunding Revenue Bonds (the 2002 Series N Bonds) in the amount of \$121.2 million (interest rates range from 3.5% to 5.0%, maturing on November 1, 2023). Proceeds from the 2002 Series N Bonds, together with other available monies, were applied to refund all of the 1992 Series E bonds outstanding with an aggregate principal amount of \$135.3 million plus interest on November 1, 2002, to satisfy the Reserve

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**June 30, 2002**

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Fund Requirements with respect to the 2002 Series N Bonds, and to finance costs of issuance of the 2002 Series N Bonds.

The Board of the Port of Oakland previously authorized and issued the Port of Oakland Special Facilities Bonds, 1992 Series A (Mitsui O.S.K. Lines, Ltd. Project), in an original aggregate amount of \$53.3 million of which \$46.5 million was outstanding as of June 30, 2002. Excess bond proceeds plus accumulated interest of \$9.2 million were on deposit with the fiscal agent at June 30, 2002. On July 1, 2002, \$9.2 million of these funds were used to call a portion of the bonds, reducing the principal outstanding to \$37.3 million.

The Port's Commercial Real Estate Division plans to sell three properties in fiscal year 2003. The Port completed the sale of 14.2 acres at the intersection of Hegenberger and Pardee Drive on September 5, 2002, for \$5.5 million. The net book value of the property at June 30, 2002, was \$472,000.

**CITY OF OAKLAND**  
**Required Supplemental Information - Historical Pension Data**  
**(unaudited)**  
**June 30 2002**

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

Actuarial Valuation Date July 1,	Actuarial Value of Plan Assets <sup>(1)</sup> (a)	Accrued Actuarial Liability (AAL) (b)	Funded Ratio (%) (a/b)	Actuarial Surplus (AS) (a-b)	Covered Payroll (c)	AS as a Percentage (%) of Covered Payroll [(a-b)/c]
1994	\$16.2	\$12.0	\$135	\$4.2	\$.119	3529
1995 <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
1996	16.9	11.8	143	5.1	.124	4113
1997 <sup>(2)</sup>	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	5733
2000 <sup>(a)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
2001 <sup>(a)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
2002 <sup>(a)</sup>	N/A	N/A	N/A	N/A	N/A	N/A

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

<sup>(1)</sup>At market.

<sup>(2)</sup>Actuarial valuation conducted biennially.

**CITY OF OAKLAND**  
**Required Supplemental Information - Historical Pension Data**  
**(unaudited)**  
**June 30 2002**

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

Actuarial Valuation Date July 1,	Actuarial Value of Plan Assets <sup>(1)</sup> (a)	Accrued Actuarial Liability (AAL) (b)	Funded Ratio (%) (a/b)	(Unfunded)/ Overfunded AAL (UAAL)/OAAL (a-b)	Covered Payroll (c)	(UAAL)/OAAL as a Percentage (%) of Covered [(a-b)/c]
1994	\$304.3	\$947.4	32.1	\$(643.1)	\$20.1	(3200)
1995 <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
1995 <sup>(2)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
2000 <sup>(a)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
2001 <sup>(a)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
2002 <sup>(a)</sup>	N/A	N/A	N/A	N/A	N/A	N/A

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

<sup>(1)</sup>At market.

<sup>(2)</sup>Actuarial valuation conducted biennially.

**CITY OF OAKLAND**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2002**  
*(In Thousands)*

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 97,165	\$ 97,166	\$ 94,306	\$ (2,860)
State:				
Sales and use	41,976	41,976	38,447	(3,529)
Motor vehicle in-lieu	6,813	6,813	22,854	16,041
Local:				
Business license	40,817	40,817	42,094	1,277
Utility consumption	46,640	46,640	49,547	2,907
Real estate transfer	30,000	30,000	37,272	7,272
Transient occupancy	12,569	12,776	10,530	(2,246)
Parking	6,190	6,190	7,525	1,335
Franchise	-	10,442	10,944	502
Licenses and permits	11,728	12,069	11,738	(331)
Fines and penalties	20,956	18,498	16,277	(2,221)
Interest and investment income	3,998	3,998	11,185	7,187
Charges for services	77,243	49,647	48,484	(1,163)
Federal and state grants and subventions	2,089	3,217	2,846	(371)
Other	17,164	34,376	40,161	5,785
<b>TOTAL REVENUES</b>	<u>415,348</u>	<u>414,625</u>	<u>444,210</u>	<u>29,585</u>
<b>EXPENDITURES</b>				
Current:				
Elected and Appointed Officials-				
Mayor	1,161	1,166	1,330	(164)
Council	2,398	2,482	2,338	144
City Manager	7,995	8,708	8,283	425
City Attorney	6,486	6,535	6,409	126
City Auditor	1,079	1,079	1,076	3
City Clerk	1,567	1,598	1,773	(175)
Agencies/Departments:				
Personnel Resource Management	3,201	3,401	3,838	(437)
Retirement and Risk Administration	219	220	200	20
Information Technology	8,410	8,678	7,469	1,209
Financial Services	14,540	15,511	14,503	1,008
Police Services	129,786	136,247	146,649	(10,402)
Fire Services	74,024	77,230	78,758	(1,528)
Life Enrichment:				
Administration	873	1,141	561	580
Parks and Recreation	15,549	18,127	13,673	4,454
Library	11,376	11,176	10,181	995
Museum	5,612	5,601	6,364	(763)
Aging	3,142	4,282	2,989	1,293
Health and Human Services	1,195	1,303	1,177	126
Cultural Arts	1,390	1,707	1,375	332
Community and Economic Development	24,416	28,616	22,512	6,104
Public Works	25,019	29,675	26,052	3,623
Other	34,500	35,704	29,547	6,157
Capital outlay	312	6,444	2,697	3,747
Debt service:				
Bond issuance cost	-	-	466	(466)
Interest charges	214	1,124	1,781	(657)
<b>TOTAL EXPENDITURES</b>	<u>374,464</u>	<u>407,755</u>	<u>392,001</u>	<u>15,754</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>40,884</u>	<u>6,870</u>	<u>52,209</u>	<u>45,339</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of refunding bonds	-	1,613	1,723	110
Property sale proceeds	-	18	54	36
Transfers in	22,478	15,062	46,264	31,202
Transfers out	(58,545)	(58,545)	(91,390)	(32,845)
<b>TOTAL OTHER FINANCING USES, NET</b>	<u>(36,067)</u>	<u>(41,852)</u>	<u>(43,349)</u>	<u>(1,497)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>4,817</u>	<u>(34,982)</u>	<u>8,860</u>	<u>43,842</u>
Fund balances - beginning, as restated	45,444	45,444	226,184	180,740
<b>FUND BALANCES - ENDING</b>	<u>\$ 50,261</u>	<u>\$ 10,462</u>	<u>\$ 235,044</u>	<u>\$ 224,582</u>



**CITY OF OAKLAND**  
**Notes to Required Supplemental Information**  
**June 30, 2002**

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**(1) 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, 2001, the City Council approved the City's third two-year budget for fiscal years 2001-02 and 2002-03. 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 final budgetary data presented in the required supplemental information reflects approved changes to the original 2001-02 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. Final budget amounts reported in the required supplemental information reflect both the appropriation changes approved by the City Council and the transfers approved by the City Manager.

General Fund budgetary comparisons are not presented at the detail object level in this financial report due to their excessive length. A separate publication presenting this information is available from the Financial Services Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, CA 94612-2093.

**CITY OF OAKLAND**  
**Notes to Required Supplemental Information**  
**June 30, 2002**

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## **Budgetary Basis of Accounting**

The City adopts budgets each fiscal year on a basis of accounting which is substantially the same as GAAP except as to certain investment earnings.

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:

### **Major Funds**

- Federal and State Grants
- Oakland Redevelopment Agency

### **Nonmajor Funds**

- Special Revenue
  - ORA Projects
  - Parks and Recreation and Cultural
- Capital Projects Funds
  - Parks and Recreation
  - Municipal Capital Improvement
  - Emergency Services

While the City adopts budgets for all funds, the budget to actual comparisons for proprietary and fiduciary funds are not presented because some projects and programs are adopted on a multi-year basis.

**CITY OF OAKLAND**  
**Notes to Required Supplemental Information**  
**June 30, 2002**

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**(2) RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS**

The governmental fund financial statements has been prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The "Budgetary Comparison Schedule – General Fund" has been prepared on a budgetary basis, which is different from GAAP.

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget to actual comparison schedule 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 October 2001, the City entered into a debt service deposit agreement with a third party whereby the City received approximately \$9.6 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 year 2002 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and is being recognized over the 21-year life of the agreement. Amortization for the year ended June 30, 2002, was \$256,348. At the same time, the City retired its previous debt service deposit agreement, a payment of approximately \$8.5 million. The unamortized balance of the previous agreement was approximately \$5.6 million, which resulted in a loss of \$2.9 million, on a GAAP basis.

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

	<b>General Fund</b>
Net change in fund balance - GAAP basis	\$ 5,151
New debt service deposit agreement	9,568
Amortization of debt service deposit agreement	(257)
Retirement of prior debt service deposit agreement	<u>(5,602)</u>
Net change in fund balance - budgetary basis	<u>\$ 8,860</u>

**CITY OF OAKLAND**  
**Notes to Required Supplemental Information**  
**June 30, 2002**

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The General Fund Balance on a Budgetary Basis reconciled to that on a GAAP basis as of June 30, 2002, is as follows (in thousands):

	<b>General Fund</b>
Fund Balance, June 30, 2002 - GAAP Basis	\$225,733
Unamortized debt service deposit agreement	<u>9,311</u>
Fund Balance, June 30, 2002 - Budgetary Basis	<u>\$235,044</u>

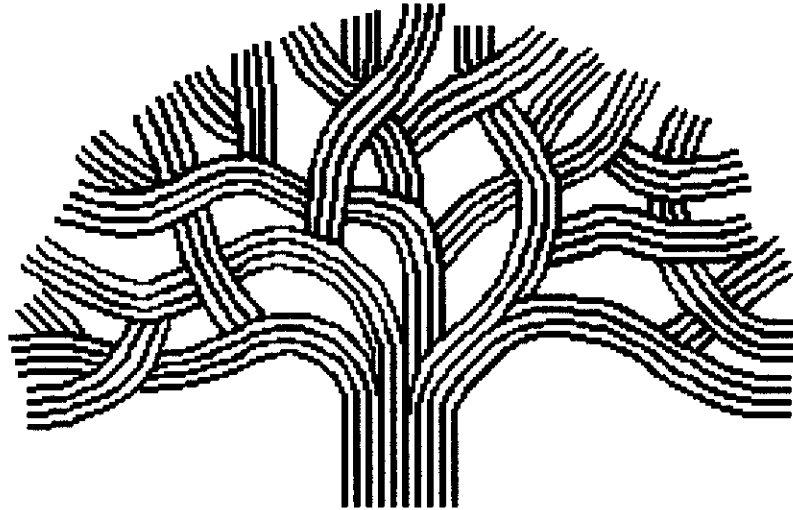
General Fund Budgetary Basis Fund Balance at June 30, 2002, is composed of the following (in thousands):

	<b>General Fund</b>
Reserved:	
Encumbrance	\$ 1,744
Projects	12,644
Debt service	181,679
Unreserved/(deficit) reported in:	
General fund	<u>38,977</u>
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<u><b>\$ 235,044</b></u>

**APPENDIX C**

**FORM OF CITY INVESTMENT POLICY**

***City of Oakland***  
**And Oakland Redevelopment**  
**Agency**  
**INVESTMENT POLICY**  
For  
**Fiscal Year 2003-2004**



*Prepared by*

**Treasury Division, Financial Services Agency**  
**Adopted by the City Council and Oakland Redevelopment Agency**  
**On June 17, 2003**

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## ***I. General***

### ***Authority***

Pursuant to Council Resolution Nos. 75855 C.M.S. and 00-38 C.M.S. and in accordance with Government Codes Section 53607, the City Council delegates to the Director of Financial Services/Treasurer the authority to invest the City's and the Agency's operating fund within the guidelines of Section 53600 of the 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. This Investment Policy is now amended and adopted as of July 2003 and will serve as the City of Oakland's Investment Policy for fiscal year 2003-04 and until further revised. By approval of this Investment Policy the City Council extends the authority and responsibility of the Director of Financial Services Agency/Treasurer to invest or to reinvest the City's and the Agency's funds, or to sell or exchange securities so purchased, all as provided by Government Code Section 53607.

### ***Scope***

The Investment Policy applies to the operating funds of the City of Oakland and the Port of Oakland (the "City Operating Portfolio") and the Oakland Redevelopment Agency (the "Agency Operating Portfolio"). As specified in the Government Code, the proceeds of notes, bond issues or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, are not governed by this Investment Policy, but rather shall be invested pursuant to their respective bond or trust indentures or the State of California Government Code 53600, as applicable. Similarly, retirement/pension funds and deferred compensation funds also are not governed by this Investment Policy, but rather by the policies and federal or State statutes explicitly applicable to such funds.

### ***Delegation***

Management responsibility for the investment program is specifically delegated to the Treasury Manager who shall establish procedures for the investment program, which are consistent with this Investment Policy. Authorization for investment decisions is limited to the Treasurer, Treasury Manager, and Assistant Treasury Manager. The Financial and Treasury Analysts may make decisions only with respect to overnight investments. The Financial and Treasury Analysts also may implement investment decisions of the Treasurer, Treasury Manager or Assistant Treasury Manager, with implementation of such approved transactions to be reviewed daily by the Treasurer, Treasury Manager or Assistant Treasury Manager.

### ***Prudent Investor Standard***

All investments and evaluation of such investments shall be made with regard to the "prudent Investor" standard of care, that is, with the care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

## ***Ethics and Avoidance of Conflicts of Interest***

All officers and employees involved in the investment process shall not engage in any personal business activity, which could conflict with proper execution of the investment program or impair their ability to make impartial investment decisions. Any material financial interests in financial institutions, which do business with the City, should be disclosed to the City Manager. Personal investment transactions are to be subordinate to those of the City, particularly with respect to the timing of purchases and sales. All individuals involved in the investment process are required to report all gifts and income in accordance with California State law.

## ***Internal Control***

The Director of Financial Services Agency/Treasurer, Treasury Manager, and Assistant Treasury Manager shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, misrepresentations by third parties or unanticipated changes in financial markets.

The independent/external auditors shall perform an annual appraisal audit of the investment portfolio to evaluate the effectiveness of the City's investment program as well as its compliance with the Investment Policy. Additionally, the City Auditor's Office is directed to conduct periodic audits of Treasury operations to review its procedures and policies and to make recommendations for changes and improvements, if warranted.



## ***2. Applicable Ordinances***

### ***Nuclear Free Zone Ordinance***

Under the guidelines of a voter-approved Measure, the Oakland City Council approved Ordinance No. 11062 C.M.S., which restricts the City's investment in U.S. Government Treasuries. The Treasurer will make every attempt to invest in any available short-term option that provides approximately the same level of security and return as Treasuries issued by the Government. In the event that no reasonable alternatives exist, or to the extent that the City may experience financial hardship as a result of investment in these alternatives, the City Council may adopt a waiver for a period not to exceed 60 days, as authorized by the Ordinance, allowing the City to invest in U.S. Treasury securities.

### ***Linked Banking Ordinance***

Pursuant to Ordinance No. 11067 C.M.S. the City has established a Linked Banking Service Program. This reference applies to depositories for both the City of Oakland and the Port of Oakland banking needs. Depositories are defined within the Ordinance as "all banking services utilized by the City including the Port of Oakland operating fund, with the exception of investments made through investment banks and broker/dealers." Depositories providing services to the City and the Port of Oakland must provide to the City, annually, the information enumerated under Section 3 of the Ordinance.

### ***Tobacco Divestiture Resolution***

On February 17, 1998 Council adopted Resolution No. 74074 C.M.S., which prohibits investment in businesses deriving greater than fifteen percent of their revenues from tobacco products. Treasury Division maintains a list of firms excluded from permitted investments due to the tobacco divestiture requirements.

### ***Preferences***

When possible, it is the City's policy to invest in companies that promote the use and production of renewable energy resources, subject to the prudent investment standard.

# ***3. The Portfolio***

## ***Definition of the Portfolio***

For the purposes of this Investment Policy, the “Portfolio” or “Fund” consists of the unexpended fund balances of the City of Oakland (including certain operating funds held from time to time for the City’s Retirement systems) and the Port of Oakland, and the “Agency Portfolio” or “Agency Fund” consists of the unexpended fund balances of the Oakland Redevelopment Agency. This Investment Policy applies equally to both the City and the Agency, and all references to “Portfolio” or “Fund” are deemed to include that of each respective entity.

As specified in the Government Code, the proceeds of notes, bond issues or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, are not included in the Portfolio, but rather shall be invested separately pursuant to their respective bond or trust indentures or the State of California Government Code 53600, as applicable. Similarly, retirement/pension funds and deferred compensation funds are not included in the Portfolio, but rather shall be invested separately pursuant to the respective policies and federal or State statutes explicitly applicable to such funds.

## ***Objectives***

### ***Preservation of capital (Safety)***

The first and primary goal of the Fund is the preservation of capital. Investments shall be made with the aim of avoiding losses due to market value risk, issuer default and broker default. Diversification of the Fund further ensures that potential losses on individual securities do not exceed the income generated on the remainder of the Fund.

### ***Liquidity***

Adequate cash on hand to meet cash disbursements and payroll are to be covered through maturing investments. Cash flow modeling is an integral part of the overall cash management responsibilities of the Treasury Division.

### ***Diversity***

Reducing overall portfolio risks while maintaining market average rates of return is essential. The objective is to avoid over-concentration in issuers, instruments, and maturity sectors. No more than 5 percent of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Fund and proceeds of or pledged revenues for any tax revenue anticipation notes.

## ***Yield***

While not the primary consideration of the Fund, it is important to recognize that the objectives of the City go beyond the preservation of capital. The Fund is managed to maximize its overall return with consideration of the safety, liquidity, and diversity parameters discussed above.

## ***Custody***

All investments of the City/Agency are to be secured through third-party custody and safekeeping procedures. All securities purchased from dealers and brokers shall be held in safekeeping by the City's custodial bank, which establishes ownership, by the City of Oakland or the Agency, as applicable.

All collateralized securities, such as repurchase agreements, are to be purchased using delivery versus payment procedures.

## ***Reporting Requirements***

### ***Interim Reports to Council***

The Director of Financial Services Agency/Treasurer will submit a quarterly investment report for the City and the Agency within 30 days following the period being reported to the City Council. Such a quarterly report will be deemed timely pursuant to this Investment Policy and Government Code Section 53646, so long as it has been placed in the published Council agenda materials within 30 days following the period being reported. The report will include the information required under Government Code Section 53646 including: the type of investment, issuer, date of maturity, par and dollar amount invested (this data may be in the form of a subsidiary ledger of investments); a description of any investments under management of contracted parties, if any; current market values and source of valuation; statement of compliance or manner of non-compliance with the Investment Policy; and a statement denoting the ability to meet the Fund's expenditure requirements for the next six months. In addition, the report shall summarize economic conditions, liquidity, diversity, risk characteristics and other features of the portfolio. The report will disclose the total investment return for the 3-month period. In meeting these requirements, the report shall include an appendix that discloses all transactions during each month and the holdings at the end of each month during the period being reported.

### ***Reports to California Debt and Investment Advisory Commission (CDIAC)***

The city shall submit copies of its second and fourth quarter reports to CDIAC within 60 days after the close of the second and fourth quarters of each calendar year.

## ***Annual Requirements***

The annual report shall provide an overall performance appraisal of various investment securities classes, overall economic and interest rate trends, and the overall outlook for the portfolio. As a part of the annual audit, the portfolio will be marked to market each June 30 in accordance with requirements of generally accepted accounting principals and the Government Accounting Standards Board. However, unrealized gains or losses will not be distributed.

## ***Derivatives***

Callable step-up securities and floaters (which are tied to a short-term index such as 3- or 6-month LIBOR, 3-month Treasury Bills or Fed Funds rate) are considered suitable investments.

Structured notes, capped and range floaters, floating rate notes tied to a long-term index such as Cost of Funds Index, inverse floaters and leveraged floaters are not permitted investments of the Fund at this time.

Collateralized Mortgage Obligations or their derivatives such as interest only strips are not permitted investments at this time.

## ***General Credit Quality***

Short-term debt shall be rated at least "A-1" by Standard & Poor's Corporation, "P-1" by Moody's Investor Service, Inc. or "F-1" by Fitch. Long-term debt shall be rated at least "A" by Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch.

The minimum credit requirement for each security is further defined within the *Permitted Investments* section of the policy. If securities, which are purchased for the Fund, are downgraded below the credit quality required by the Fund, the Treasurer, in consultation with the Treasury Manager, will determine whether to retain or to sell the security. Evaluation of divestiture of securities will be determined on a case-by-case basis.

## ***Maturity***

The average maturity of the investment portfolio shall not exceed 540 days. The maximum maturity for any one investment shall not exceed 5 years unless authority for such investment is expressly granted in advance by the City Council in accordance with Government Code Section 53601.

## ***Trading Policies***

### ***Sales Prior to Maturity***

“Buy and hold” is not necessarily the strategy to be used in managing the Funds. It is expected that gains will be realized when prudent. Losses are acceptable if the proposed swap/trade clearly enhances the portfolio yield over the life of the new security on a total return basis.

Sufficient written documentation will be maintained to facilitate audit of the transaction. Losses, if any, will be recognized and recorded based on the transaction date.

### ***Purchasing Entities, Broker/Dealers and Financial Institutions***

The purchase of any authorized investment shall be made either directly from the issuer or from any of the following:

- Institutions licensed by the State of California as a broker/dealer
- Members of a federally regulated securities exchange
- National or state-chartered banks
- Federal or state savings institutions or associations as defined in Finance Code Section 5102
- Brokerage firms reporting as a primary government dealer to the Federal Reserve Bank

The Treasury Manager will maintain a current and eligible list of reputable primary and regional dealers, brokers and financial institutions with whom securities trading and placement of funds are authorized. A strong capital base credit worthiness, and, where applicable, a broker/dealer staff experienced in transactions with California local governments are the primary criteria for inclusion on the City of Oakland’s approved list. Approved dealers and brokers shall be limited to primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and which provide: proof of National Association of Securities Dealers certification; proof of California State registration; and a completed City of Oakland broker/dealer questionnaire. In addition, prior to approval and annually thereafter, approved dealers and brokers must provide: an audited financial statement; certification of receipt, review of and willingness to comply with the current Investment Policy; and certification of compliance with Rule G-37 of the Municipal Securities Rulemaking Board regarding limitations on political contributions to the Mayor or any member of the City Council or to any candidate for these offices.

The Treasurer or Treasury Manager may remove a firm from the approved list at any time due to: any failure to comply with any of the above criteria; any failure to successfully execute a transaction; any change in broker/dealer staff; or any other action, event or failure to act which, in the sole discretion of the Treasurer or Treasury Manager is materially adverse to the best interests of the City/Agency.

## ***4. Permitted Investments***

The following securities are permissible investments pursuant to Section 53601 of the Government Code as well as this Investment Policy. Any other investment not specified hereunder shall be made only upon prior approval by the City Council and/or the Agency.

### ***U. S. Treasury Securities***

Bills, notes and bonds issued by the U.S. Treasury which are direct obligations of the federal government.

Maximum Maturity	5 years
Maximum Portfolio Exposure	20%*
Maximum Issuer Exposure	Prudent person standard applies overall
Credit Requirement	N.A.

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\* 20% limit is a result of the Nuclear Free Zone Ordinance, subject also to prior adoption by Council of a waiver for a period not to exceed 60 days allowing investment in U.S. Treasury securities due to specified findings. There is no limitation under the Government Code.

### ***Federal Agencies and Instrumentalities***

Notes and bonds of federal agencies, government-sponsored enterprises and international institutions. Not all are direct obligations of the U. S. Treasury but may involve federal sponsorship and/or guarantees, in some instances.

Maximum Maturity	5 years
Maximum Portfolio Exposure	None
Maximum Issuer Exposure	Prudent person standard applies overall
Credit Requirement	N.A.

## ***Banker's Acceptances (BA)***

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

Maximum Maturity	180 days
Maximum Portfolio Exposure	40%
Maximum Issuer Exposure	30% of total surplus funds may be in BAs of one commercial bank; maximum 5% per issuer
Credit Requirement	A1, P1, or F1 (S&P/Moody's/Fitch)

## ***Commercial Paper***

A short-term, unsecured promissory note issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

Maximum Maturity	270 days
Maximum Portfolio Exposure	25%
Maximum Issuer Exposure	10% of the outstanding paper of the issuer; maximum 5% per issuer
Credit Requirement	A1 or P1 (S&P/Moody's); or F1 (Fitch)
Eligibility	Limited to corporations organized and operating in the United States with assets in excess of \$500 million, and having "A" or higher ratings for the issuer's debt, other than commercial paper, if any, as provided by S&P or Moody's, or Fitch

## ***Asset Backed Commercial Paper***

Asset -Backed Commercial Paper ("ABCP") issued by special purpose corporations ("SPCs") that is supported by credit enhancement facilities (e.g. over collateralization, letters of credit, surety bonds, etc.)

Maximum Maturity	270 days
Maximum Portfolio Exposure	25% (Not to exceed 25% of total secured and unsecured CP)
Credit Requirement	Rated "A1" by Standard and Poor's, "P1" by Moody's, or "F1" by Fitch
Eligibility	<p>Issued by special purpose corporations ("SPC") organized and operating in the United States with assets exceeding \$500 million. Restricted to programs sponsored by commercial banks or finance companies organized and operated in the United States</p> <p>Program must have credit facility that provides at least 100% liquidity</p> <p>Serialized ABCP programs are not eligible</p>

**Ratings are to be routinely monitored. The Treasurer, Treasury Manager or Assistant Treasury Manager is to perform his/her own due diligence as to creditworthiness.**

### ***Medium Term Notes***

Corporate Bonds, Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies, insurance companies and industrial corporations. These are debt obligations that are generally unsecured.

Maximum Maturity	5 years (additional limitations based on credit, below)
Maximum Portfolio Exposure	30%
Maximum Issuer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Credit Requirement	Top 3 rating categories, A, A2 or A (S&P/Moody's/Fitch) being the lowest. Maturity no greater than 24 months ("A" category) or 36 months ("AA" category)
Eligibility	Limited to corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States



## ***Negotiable Certificates of Deposit***

Issued by commercial banks and thrifts, and foreign banks (Yankee CD's).

Maximum Maturity	5 years
Maximum Portfolio Exposure	30%
Maximum Issuer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Credit Requirement	Top 3 rating categories, A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch, otherwise, for Domestic Banks and Savings & Loans a minimum of C (Thomson Bank Watch) and for Foreign Banks a minimum of B (Thomson Bank Watch), or in either case equivalent ratings from another generally recognized authority on bank ratings

## ***Repurchase Agreements***

A contractual transaction between the investor and a bank/dealer to exchange cash for temporary ownership or control of securities/collateral with an agreement by the bank/dealer to repurchase the securities on a future date. Primarily used as an overnight investment vehicle.

Maximum Maturity	360 days
Maximum Portfolio Exposure	None
Maximum Dealer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Collateral Requirements	Collateral limited to Treasury and Agency securities 102 or greater
Mark-to-market	Daily
Eligibility	Limited to primary dealers of the Federal Reserve Bank of New York, for which a current Master Repurchase Agreement has been executed with the City/Agency

## ***Reverse Repurchase Agreements***

The mirror image of a repurchase agreement. Used as a source of liquidity when there is a mismatch of cash flow requirement and scheduled maturities. A mechanism to avoid liquidating securities for immediate cash needs. Restricted to securities owned for a minimum of 30 days prior to settlement of the repurchase agreement.

This strategy should be used solely for liquidity and not for arbitrage or leverage purposes.

Maximum Maturity	92 days (unless a written agreement guaranteeing the earnings or spread for the entire period)
Maximum Portfolio Exposure	20% of the base value of the portfolio
Mark-to-Market	Daily
Eligibility	Limited to primary dealers of the Federal Reserve Bank of New York or nationally or State chartered bank with significant banking relationship with the City

## ***Secured Obligations and Agreements***

Obligations, including notes or bonds, collateralized at all times in accordance with Sections 53651 and 53652 of the Government Code.

Maximum Maturity	2 years
Maximum Portfolio Exposure	20%
Maximum Issued/Provider Exposure	Prudent person standard applies overall; maximum 5% per issue
Collateral Requirements	Collateral limited to Treasury and Agency securities 102 or greater
Mark-to-market	Daily
Credit Requirement	Issued/Provider rated in "AA" category by at least one national rating agency; or Agreement guaranteed by a "AA" company
Eligibility	Banks, insurance companies, insurance holding companies and other financial institutions

## ***Certificates of Deposit***

Time deposits, which are non-negotiable, are issued most commonly by commercial banks, savings and loans and credit unions with federal deposit insurance available for amounts up to \$100,000. Deposits in banks, savings and loan associations and federal credit unions with a branch office within Oakland will be made (to the extent permissible by State and federal law or rulings) pursuant to the following conditions:

Maximum Maturity	360 days
Maximum Portfolio Exposure	Prudent person standard applies
Maximum Issuer Exposure	Prudent person standard applies
Collateral	Waive first \$100,000 pursuant to Gov. Code 53653 (due to federal insurance); otherwise as provided in Gov. Code 53652
Credit Requirement	For deposits over \$100,000: Top 3 rating categories. A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch, otherwise for Domestic Banks and savings & Loans a minimum standard of C (Thompson Bank Watch) and for Foreign Banks a minimum of B (Thompson Bank Watch), or in either case equivalent ratings from another generally recognized authority on bank ratings
Deposit Limit	For federally insured deposits of \$100,000 or less: No minimum credit rating required. City's deposits cannot exceed the total shareholder's equity of the institution
Depository Selection	Highest available rate of interest
Institution Requirements	Most recent Annual Report

Note: Pursuant to Government code 53637, the City is prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or decision-making authority serves on the board of directors or committee.

## ***Money Market Mutual Funds***

Regulated by the SEC, these funds operate under strict maturity and diversification guidelines. These funds have no federal guarantee but are viewed as a very safe short-term cash investment.

Maximum Maturity	N/A
Maximum Portfolio Exposure	20%
NAV Requirement	\$1.00
Credit Requirement	Top ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations
Investment Advisor Alternative to Ratings	Registered with the SEC with not less than 5 years experience in investing securities as authorized by the Code, and with assets under management in excess of \$500 million
Fund Composition	Comprised of instruments in accordance with the California State Government Code

## ***State Investment Pool (Local Agency Investment Fund)***

A pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. Maximum currently authorized by LAIF is \$40 million, which is subject to change.

Maximum Maturity	N/A
Maximum Portfolio Exposure	None

## ***Local City/Agency Bonds***

Bonds issued by the City of Oakland, the Redevelopment Agency or any department, board, agency or authority of the City or the Redevelopment Agency.

Maximum Maturity	5 years
Maximum Portfolio Exposure	None
Maximum Issuer Exposure	Prudent person standard applies Overall; maximum 5% per issuer
Credit Requirement	Prudent person standard applies

### ***State of California Bonds***

State of California registered state warrants, treasury notes, or bonds issued by the State or by a department, board, agency or authority of the State.

Maximum Maturity	360 days
Maximum Portfolio Exposure	None
Credit Requirement	Prudent person standard applies
Maximum Issuer Exposure	Prudent person standard applies Overall; maximum 5% per issuer

### ***Other Local Agency Bonds***

Bonds, notes, warrants or other evidences of indebtedness of any local agency within the State.

Maximum Maturity	5 years
Maximum Portfolio Exposure	Prudent person standard applied overall; Maximum 5% per issuer
Maximum Issuer Exposure	Prudent person standard applies
Credit Requirement	Prudent person standard applies

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the CITY OF OAKLAND, CALIFORNIA (the "City") in favor of BNY Western Trust Company, as Fiscal Agent, in connection with the issuance of \$71,450,000 City of Oakland, General Obligation Bonds (Series 2003A, Measure DD) (the "Bonds"). The Bonds are being executed and delivered pursuant to that certain Fiscal Agent Agreement, dated as of August 1, 2003, between the City and the Fiscal Agent (the "Fiscal Agent Agreement"). Pursuant to Section 5.09 of the Fiscal Agent Agreement, the City and the Fiscal Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

Section 2. Definitions. The definitions set forth in the Fiscal Agent Agreement apply to all capitalized terms used in this Disclosure Certificate 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 Certificate.

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

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

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Certificate.

"National Repository" shall mean the repositories designated by the Securities and Exchange Commission from time to time for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at [www.sec.gov/consumer/nrmsir.htm](http://www.sec.gov/consumer/nrmsir.htm).

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

"Repository" shall mean each National Repository and each State Repository. Information regarding the National Repositories as of a particular date is available on the Internet at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm). Information regarding state information repositories can be found at [www.sec.gov/info/municipal/nrmsir.htm#state](http://www.sec.gov/info/municipal/nrmsir.htm#state).

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

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

Section 3. 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 2002-03 fiscal year, provide to each Repository an Annual Report that 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 Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the 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.

(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 by paragraph (a) above, 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 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 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 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. The assessed valuation of taxable property in the City;

c. Property taxes (including the Tax Override Revenues) due, property taxes collected and property taxes delinquent;

d. Property tax levy rate per \$1,000 of assessed valuation; and

e. Outstanding general obligation debt of the City.

Such annual information and operating data described above shall be provided on or before 270 days after the end of the City’s fiscal year. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing National Repository and the State Repository, if any. In lieu of



providing such annual financial information and operating data, the City may cross-reference to other documents provided to the National Repository, the State Repository or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the State Repository, if any, and to each National Repository or to the MSRB notice of the occurrence of any of the following events (the "Listed Events") with respect to the Bonds, if material:

- a. Principal and interest payment delinquencies.
- b. Non-payment related defaults.
- c. Modifications to rights of the Holders of the Bonds.
- d. Optional, contingent or unscheduled bond calls.
- e. Defeasances.
- f. Rating changes.
- g. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.
- h. Unscheduled draws on debt service reserves reflecting financial difficulties.
- i. Unscheduled draws on credit enhancements reflecting financial difficulties.
- j. Substitution of the credit or liquidity providers or their failure to perform.
- k. Release, substitution or sale of property securing repayment of the Bonds;

provided, that any event paragraph (a) or (f) above will always be deemed by the City to be material.

If the City determines that knowledge of the occurrence of a Listed Event would be material, the City shall promptly file a notice of such occurrence with each Repository. The City shall have no obligation under this Section 5 to give further notices after the date of the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event.

Notwithstanding any other provision of this Section, the City may amend this Section 5, and any provision of this Section 13 may be waived, provided that the following conditions are satisfied:

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

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders.

Nothing in this Section shall be deemed to prevent the City from disseminating any other information, or including any other information in any notice of occurrence of a Listed Event, in addition to that which required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

In the event of a failure of the City to comply with any provision of this Section 5, any Bondholder may take such actions as may be necessary and appropriate, including applicable legal remedies to cause the City to comply with its obligations under this Section 5. A default under this Section shall not be deemed an event of default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the city to comply with the Section shall be an action to compel performance.

This Section shall inure solely to the benefit of the City, the Participating Underwriters and holders from time to time of the Bonds and no other person shall have any rights hereunder.

Section 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity date of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Section 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;
- (b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Ordinance for amendments to the Ordinance with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder (including, without limitation, any alleged violations of the Securities Exchange Act of 1934, as amended), 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 mis-

conduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Neither the Fiscal Agent nor the Dissemination Agent shall be responsible for the accuracy or validity of any information contained in any Annual Report or report of a Listed Event prepared by the City under this Disclosure Certificate.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 13. Prior Undertakings. The City each hereby certifies that it is in compliance in all material respects with all prior undertakings made by it pursuant to Rule 15c2-12(b)(5).

Section 14. Effective Date. This Disclosure Certificate shall be effective on and as of August \_\_, 2003.

Section 15. Notices. Any notices or communications to the City relating to this Disclosure Certificate may be given as follows:

If to the City:

City of Oakland  
Finance and Management Agency  
150 Frank H. Ogawa Plaza, Suite 5330  
Oakland, California 94612  
Attention: Treasury Manager  
Telephone: (510) 238-3201  
Fax: (510) 238-2137

The City may, by written notice to the other parties acting hereunder, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 16. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Certificate is given this \_\_\_\_th day of August, 2003.

CITY OF OAKLAND, CALIFORNIA

\_\_\_\_\_  
Treasury Manager

FISCAL AGENT

By: \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: The City of Oakland, California

Name of Bond Issue: City of Oakland, California General Obligation Bonds (Series 2003A, Measure DD) (the "Bonds")

Date of Delivery: August \_\_, 2003.

NOTICE IS HEREBY GIVEN that the City of Oakland, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Fiscal Agent Agreement dated as of August 1, 2003 relating to the Bonds. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY OF OAKLAND, CALIFORNIA

By: \_\_\_\_\_  
Authorized Representative

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## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix E concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry only system has been obtained from DTC and the City takes no responsibility for the accuracy thereof. The City cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (all as defined below): (a) payments of principal of, premium if any, and interest on ("Debt Service") the Bonds; (b) confirmations of ownership interest in the Bonds; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current Rules applicable to DTC are on file with the Securities and Exchange Commission and the current Procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

*Neither the City nor the Fiscal Agent will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC or the Beneficial Owners with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC of any amount due to any Beneficial Owner in respect of the Debt Service on the Bonds; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Fiscal Agent Agreement; or (4) any consent given or other action taken by DTC as registered owner of the Bonds.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other names as may be requested by an authorized representative of DTC. One fully registered Bond certificate for each maturity will be issued for the Series 2001 Bonds in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides assets servicing for over 2 million issues of U.S. and Non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"), DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds such as redemptions, renders, defaults, and proposed amendments to the Fiscal Agent Agreement. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Fiscal Agent and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (or any other DTC nominee) will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns the consenting or voting rights of the DTC nominee to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC 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 detailed information from the Fiscal Agent, on the payment 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, the Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.



DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

**Discontinuation of Book-Entry Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Bonds, the provisions of the Fiscal Agent Agreement relating to place of payment, transfer and exchange of the Bonds, regulations with respect to exchanges and transfers, bond register, Bonds mutilated, destroyed or stolen, and evidence of signatures of Bond Owners and ownership of Bonds will govern the payment, registration, transfer, exchange and replacement of the Bonds. Interested persons should contact the City or the Fiscal Agent for further information regarding such provisions of the Fiscal Agent Agreement.

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**APPENDIX F**

**FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

City of Oakland  
Oakland, California

<b>FINAL OPINION</b>	\$71,450,000 City of Oakland General Obligation Bonds, (Series 2003A, Measure DD)
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Greetings:

We have acted as bond counsel to the City of Oakland (the "City") in connection with the City's issuance of \$71,450,000 aggregate principal amount of the City's general obligation bonds, designated as City of Oakland General Obligation Bonds (Series 2003A, Measure DD) (the "Bonds"). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California, a resolution adopted by the City Council of the City on July 15, 2003 (the "Resolution"), a Fiscal Agent Agreement, dated as of August 1, 2003 (the "Fiscal Agent Agreement"), by and between the City and BNY Western Trust Company, as fiscal agent, the Charter of the City and the provisions of Article 1 of Division 4 of Title 4 (commencing with Section 43600) and Article 4.5 of Division 2 of Title 5 (commencing with Section 53506) of the Government Code of the State of California (the "Law").

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolution, the Fiscal Agent Agreement, the Tax Certificate as to Arbitrage (the "Tax Certificate") of the City, other certifications of the City, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto.

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 undertaken neither to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Fiscal Agent Agreement and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other 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 contained in applicable law regarding legal remedies against the City. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds 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 City is duly organized and validly existing as a charter city under its Charter and the Constitution and laws of the State of California, with power to adopt the Resolution, to execute and deliver the Fiscal Agent Agreement and to perform the agreements on its part contained therein, and to issue the Bonds.
2. The Bonds are valid and binding general obligations of the City.

3. The City has the power, is obligated, and in the Fiscal Agent Agreement has covenanted to levy *ad valorem* taxes upon all property within the City which is subject to taxation by the City, without limitation of rate or amount, for the payment of the Bonds and the interest thereon.

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. Pursuant to the Fiscal Agent Agreement and the Tax Certificate, the City has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the City has made certain representations and certifications in the Fiscal Agent Agreement and the Tax Certificate. Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. We are further of the opinion that interest on the Bonds is exempt from California personal income taxes.

Except as stated in the preceding two paragraphs, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

Respectfully submitted,

**APPENDIX G  
FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance

are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

President

SPECIMEN

Attest: \_\_\_\_\_  
Assistant Secretary

STD-R-CA-6  
4/95