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Report Type: Staff/Discussion

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Title: (Public Financing) Review of Limited Offering Memorandum for the Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015 (Golden 1 Center)

Location: District 4

Recommendation: Review of Limited Offering Memorandum for the Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015 (Golden 1 Center).

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Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

1-Description/Analysis

2-Background

3-Limited Offering Memorandum

4-Appendix A

5-Proposed Statement of Decision

City Attorney Review

Approved as to Form

Joseph Cerullo

7/24/2015 6:52:48 PM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr - 7/22/2015 12:13:07 PM

Description/Analysis

Issue: On May 20, 2014, the City Council and the Sacramento Public Financing Authority approved resolutions (a) authorizing the issuance and sale of Sacramento Public Financing Authority lease-revenue bonds in one or more series to finance the City's share of the cost to acquire, design, construct, and equip a multipurpose entertainment-and-sports center; (b) approving the forms of related financing documents; (c) authorizing the City Treasurer or his designee to approve, execute, and deliver the related financing documents; and (d) authorizing certain other actions in connection with the bonds and the financing.

Because of the pending litigation, the issuance of the bonds has been delayed about a year. So staff is now presenting to the City Council, for its review, an updated offering document for the bonds, now titled Limited Offering Memorandum ("**LOM**"), that reflects the City's current financial condition and the project's current status.

Policy Considerations: Regulations of the Securities and Exchange Commission require that issuing entities disclose in an offering documents all material facts that pertain to a bond issue. The LOM is presented to City Council for review to ensure that all material facts are disclosed.

Environmental Considerations: Not applicable. The proposed issuance of the bonds is part of a project, the Entertainment and Sports Center (P13-065) (the ESC), for which the City Council has certified an environmental impact report and adopted a mitigation-monitoring program, findings of fact, and a statement of overriding conditions. Copies of the final EIR and the draft EIR are available on both the ESC website,

<http://portal.cityofsacramento.org/Arena>

and the Community Development Department's webpage,

<http://portal.cityofsacramento.org/Community-Development/Planning/Environmental/Impact-Reports>.

Sustainability: Not applicable.

Commission/Committee Action: None.

Rationale for Recommendation: Compliance with federal securities laws.

Financial Considerations: The ESC debt financing plan has the City contributing the following to the ESC project from the bond proceeds:

- construction funds of \$212.5 million; and
- additional amounts for debt-service reserves, interest costs during the construction period, and the costs associated with issuing the debt.

The financing will be structured as lease-revenue bonds supported by the City's General Fund. The source of the annual debt-service payments will be revenues

generated by the City's parking system (on and off-street), ESC facility lease payments made to the City, ESC generated property tax, and hotel taxes.

To meet the October 2016 opening date for the ESC notwithstanding the long litigation delays, the City is planning on initially issuing privately placed bonds using a more flexible short-term approach until the long-term bonds can be remarketed in the public marketplace. In this short-term approach, known as a *forward purchase*, a financial institution commits to purchase the bonds when issued. The LOM is the primary disclosure document related to the forward-purchase agreement.

Local Business Enterprise: Not applicable.

Background

On July 24, 2015, the trial-court judge in *Gonzales v. Johnson* issued a proposed statement of decision in which he dismissed all of plaintiffs' claims against the City. It is anticipated that the final judgment will be consistent with the proposed statement of decision. The City is now in a position to proceed with issuing bonds to fund the City's \$212.5-million share of the cost to construct the Golden 1 Center.

An essential part of the bond-issuance process is the preparation and circulation of the required disclosure document, typically designated as an Official Statement and sometimes, in this case, designated as a Limited Offering Memorandum ("**LOM**"). The LOM and its various appendices describe the state of the City's finances (both short-term and long-term), any litigation that could result in substantial liability for the City or adversely affect the project to be financed, the City's relationship with the federal and state governments, and any other issues that may relate to the City's ability to make payments the issuer of the bonds (Sacramento Public Financing Authority) needs to pay debt service on the bonds being offered for sale to investors. Official Statements from the City's previous debt issues are posted on the City Treasurer's part of the City web site.

The City's disclosure counsel, who has substantial experience advising California cities and counties on compliance with federal disclosure requirements, has drafted the LOM for the proposed Golden 1 Center bonds. Having disclosure counsel prepare the LOM (as well as the City's other offering documents) is a "best practice" that the City has followed since the issuance of cash-flow notes in 2010.

In preparing the LOM for the proposed Golden 1 Center bonds, disclosure counsel has had input from the members of the debt-finance team for the project, including the City Manager's Office, the City Treasurer's Office, the City Attorney's Office, the Finance Department, the Public Works Department, the construction firms working on the project, bond counsel, the City's financial advisor, and the bank underwriting the bonds (Goldman Sachs and its counsel). The Sacramento Kings also provided information regarding the Golden 1 Center and its construction status.

Securities and Exchange Commission regulations require that the City Council review the LOM. Although the City Council need not *approve* the LOM, Council Members should suggest any changes to the document they believe to be appropriate. If the City Council does not wish to make changes, then the LOM and its appendices are ready for use in the issuance of bonds.

There are other steps to be taken before the Golden 1 Center bonds may be issued including the obtaining of credit ratings satisfactory to the bond purchaser. Fitch Ratings has given the bonds a rating of "A," and we are awaiting a rating from Standard & Poor's Ratings Services LLC.

LIMITED OFFERING MEMORANDUM DATED AUGUST __, 2015

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:

See “RATINGS” herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, interest on the Series 2015 Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2015 Bonds. See “TAX MATTERS” herein.

\$282,040,000
SACRAMENTO PUBLIC FINANCING AUTHORITY
Lease Revenue Bonds, Series 2015
(Golden 1 Center)
(Federally Taxable)
CUSIP[†]: _____

Mandatory Tender Date: October 2, 2017

Dated: Date of Delivery

Price: 100%

Due: April 1, 2050

The \$282,040,000 aggregate principal amount of Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015 (Golden 1 Center) (Federally Taxable) (the “**Series 2015 Bonds**”), are being issued by the Sacramento Public Financing Authority (the “**Authority**”), a joint-exercise-of-powers entity organized and existing under the laws of the State of California (the “**State**”) and an indenture, dated as of August 1, 2015 (the “**Indenture**”), between the City of Sacramento (the “**City**”), the Authority, and Wells Fargo Bank, National Association, as trustee (the “**Trustee**”). The Series 2015 Bonds are being issued to (a) pay or reimburse a portion of the costs of the acquisition, construction, installation, and equipping of a multi-purpose entertainment-and-sports-center to be located in the downtown area of the City, and named the Golden 1 Center (the “**Arena Facility**”); (b) fund capitalized interest on the Series 2015 Bonds through and including October 1, 2017; (c) fund a reserve fund for the Series 2015 Bonds; and (d) pay costs of issuance of the Series 2015 Bonds. See “THE ARENA” and “ESTIMATED SOURCES AND USES OF FUNDS” herein. The Series 2015 Bonds are special limited obligations of the Authority payable solely from and secured solely by the Lease Revenues (defined herein) pledged therefor under the Indenture, together with amounts on deposit from time to time in the funds and accounts established under the Indenture. The Authority may issue additional bonds payable from the Lease Revenues on a parity with the Series 2015 Bonds as described herein. The Series 2015 Bonds and the additional bonds, if any, are referred to herein as “**Bonds**.”

The Series 2015 Bonds are initially being issued in the Index Floating Rate Period and will initially bear interest at the Index Floating Rate determined by the Calculation Agent from time to time as described herein and set forth in the Indenture. See “THE SERIES 2015 BONDS – Index Floating Rate Period.” The Index Floating Rate Period means the period commencing on (and including) the date of original issuance of the Series 2015 Bonds and ending on (but excluding) the Fixed Rate Conversion Date. **This Limited Offering Memorandum provides information concerning the Series 2015 Bonds while the Series 2015 Bonds are in the Index Floating Rate Period. There are significant differences in the terms of the Series 2015 Bonds if the Series 2015 Bonds are converted to a Fixed Interest Rate Period. This Limited Offering Memorandum is not intended to provide information concerning the Series 2015 Bonds if the Series 2015 Bonds are converted to a Fixed Interest Rate Period.**

The Series 2015 Bonds will be issued in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Interest on the Series 2015 Bonds is payable on the first Business Day of each January, April, July, and October, commencing October 1, 2015, and on the Fixed Rate Conversion Date. See “THE SERIES 2015 BONDS” herein.

The Series 2015 Bonds are subject to mandatory tender on October 2, 2017 (the “**Mandatory Tender Date**”) if the Series 2015 Bonds have not been converted to a Fixed Interest Rate before the Mandatory Tender Date. **There is no source of moneys to pay the purchase price of the Series 2015 Bonds on the Mandatory Tender Date other than proceeds of remarketing or refunding thereof. The City’s failure to purchase all of the Series 2015 Bonds on the Mandatory Tender Date will not constitute an Event of Default, but the Series 2015 Bonds will accrue interest at the Maximum Rate from (and including) the Mandatory Tender Date to (but excluding) the earlier of the Fixed Rate Conversion Date or the Maturity Date.**

The Series 2015 Bonds will be delivered in fully registered form only, and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as securities depository of the Series 2015 Bonds. Ownership interests in the Series 2015 Bonds may be purchased in book-entry form only. Principal of, and premium (if any) and interest on, the Series 2015 Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit the payment to its participants for subsequent disbursement to the Beneficial Owners of the Series 2015 Bonds. See “THE SERIES 2015 BONDS” herein and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

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The Series 2015 Bonds are subject to optional, mandatory, and extraordinary redemption and mandatory tender for purchase as described herein. See “THE SERIES 2015 BONDS.”

The City will lease the Arena Facility and the site on which it is located (the “**Arena Site**,” and together with the Arena Facility, the “**Arena**”) from the Authority under a Project Lease, dated as of August 1, 2015 (the “**Project Lease**”), between the Authority and the City. Under the Project Lease, subject initially to completion of construction of the Arena and thereafter subject to abatement as provided therein, the City is required to make Base Rental Payments (as defined herein) from legally available funds in amounts calculated to be sufficient to pay principal of, and interest on, the Series 2015 Bonds when due, as described herein. All of the Authority’s right, title, and interest in and to the Project Lease (except for the right to receive any Additional Payments (as defined herein) to the extent payable to the Authority and certain rights to indemnification), including the right to receive Base Rental Payments under the Project Lease, are assigned to the Trustee under the Indenture for the benefit of the Owners and beneficial owners of the Series 2015 Bonds. See “SECURITY FOR THE SERIES 2015 BONDS” herein.

The Series 2015 Bonds are special limited obligations of the Authority payable solely from, and secured solely by, the Lease Revenues pledged under the Indenture. The Series 2015 Bonds are not a debt of the City or the State of California or any of its political subdivisions, except the Authority to the extent described herein, and neither the City nor the State of California or any of its political subdivisions, except the Authority to the extent described herein, is liable thereon. In no event will the Series 2015 Bonds or any interest or redemption premium thereon be payable out of any funds or properties other than those of the Authority as set forth in the Indenture. The Series 2015 Bonds do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The Authority’s directors, the City’s officers and employees, and the persons executing the Series 2015 Bonds are not liable personally on the Series 2015 Bonds by reason of their issuance.

The purchase and holding of the Series 2015 Bonds involve risks that may not be appropriate for certain investors. In particular, litigation is now pending that challenges the validity of the Series 2015 Bonds and related documents. The opinions of Bond Counsel and the City Attorney are qualified and express no opinion as to the effect of the outcome of this litigation on the Series 2015 Bonds and the agreements that are the subject of the opinions. See “RISK FACTORS – Litigation” and “PENDING LITIGATION CHALLENGING THE SERIES 2015 BONDS” for a description of the litigation and certain additional information.

Beneficial ownership interests in the Series 2015 Bonds may only be purchased by or transferred to Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933, as amended) that have delivered to the Authority, the City, the Trustee, and the transferor an investor letter in the form attached as Appendix G to this Limited Offering Memorandum. See “THE SERIES 2015 BONDS – Transfer Restrictions.” There is no public market for the Series 2015 Bonds, and none is expected to develop in the future. Therefore, investors should be aware that they might be required to bear the financial risks of an investment in the Series 2015 Bonds for an indefinite period and that, to the extent there is a secondary market for the Series 2015 Bonds, the secondary-market price for the Series 2015 Bonds may be affected as a result of the restrictions. See “RISK FACTORS” for a discussion of certain of these risks.

This cover page contains information for general reference only. It is not a summary of this issue. Potential purchasers must read the entire Limited Offering Memorandum to obtain information essential to making an informed investment decision.

*The Series 2015 Bonds will be offered when, as and if issued, and received by Goldman, Sachs & Co. (the “**Underwriter**”), subject to the qualified approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the City and the Authority by the Sacramento City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel to the City. Certain legal matters will be passed on for the Underwriter by Nixon Peabody LLP. First Southwest Company is serving as Financial Advisor to the City. It is anticipated that the Series 2015 Bonds will be available for delivery through DTC in New York, New York, on or about _____, 2015.*

Goldman, Sachs & Co.

Dated: _____, 2015

SACRAMENTO PUBLIC FINANCING AUTHORITY

CITY OF SACRAMENTO

Authority Board of Directors and City Council

Kevin Johnson – *Authority Chair, Mayor*
Angelique Ashby – *Authority Director, Councilmember & Mayor Pro Tem*
Allen Wayne Warren – *Authority Director, Councilmember & Vice Mayor*
Jeff Harris – *Authority Director, Councilmember*
Steve Hansen – *Authority Director, Councilmember*
Jay Schenirer – *Authority Director, Councilmember*
Eric Guerra – *Authority Director, Councilmember*
Rick Jennings, II, *Authority Director, Councilmember*
Larry Carr – *Authority Director, Councilmember*

Chief Authority and City Administrative Personnel

John F. Shirey <i>City Manager</i>	Russell T. Fehr <i>Authority Treasurer, City Treasurer</i>
James Sanchez <i>Authority Legal Counsel, City Attorney</i>	Leyne Milstein <i>Authority Controller, City Finance Director</i>
Shirley Concolino <i>Authority Clerk, City Clerk</i>	

Special Services

Bond Counsel
Orrick, Herrington & Sutcliffe LLP

Disclosure Counsel
Stradling Yocca Carlson & Rauth,
A Professional Corporation

Financial Advisor
First Southwest Company

Trustee and Calculation Agent
Wells Fargo Bank, National Association

Beneficial ownership interests in the Series 2015 Bonds are being offered in Authorized Denominations (as defined herein) solely to, and may be transferred solely to, purchasers that are Qualified Institutional Buyers (within the meaning of the Rule 144A of the Securities Act of 1933, as amended) and have delivered investor letters to the Authority, the City, the Trustee, and the transferor in the form attached as Appendix G hereto

The Series 2015 Bonds will not be registered under the Securities Act of 1933, as amended, nor will the Indenture be qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in those acts. The Series 2015 Bonds will not have been recommended by any federal or state securities commission or regulatory authority. No such commission or authority has reviewed or passed upon the accuracy or adequacy of this Limited Offering Memorandum. The registration or qualification of the Series 2015 Bonds in accordance with the applicable provisions of securities laws of the jurisdictions in which the Series 2015 Bonds have been registered or qualified and the exemption therefrom in other jurisdictions cannot be regarded as a recommendation thereof by any of those jurisdictions. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective investors must rely on their own examination of the terms of the offering, including the merits and risks involved.

The contents of this Limited Offering Memorandum are not to be construed as legal, business, or tax advice. Prospective investors should consult their own attorneys, business advisors, and tax advisors as to legal, business, and tax advice.

No dealer, broker, salesperson or other person has been authorized by the Authority, the City, or the Underwriter to give any information or to make any representations other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City, or the Underwriter. This Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy. The Series 2015 Bonds may not be sold by a person in any jurisdiction in which it is unlawful for the person to make such an offer, solicitation, or sale.

This Limited Offering Memorandum is not to be construed as a contract with the purchasers of the Series 2015 Bonds. Statements in this Limited Offering Memorandum that 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.

The information set forth in this Limited Offering Memorandum has been obtained from official sources and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation of the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder will under any circumstances create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Limited Offering Memorandum is submitted in connection with the sale of the Series 2015 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum: “The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.”

This Limited Offering Memorandum contains forward-looking statements within the meaning of the federal securities laws. Those statements are based on currently available

information, expectations, estimates, assumptions, projections, and general economic conditions. Such words as *expects*, *intends*, *plans*, *believes*, *estimates*, and *anticipates* (and any variations of these words or similar expressions) are intended to identify forward-looking statements and include but are not limited to statements under the captions “SECURITY FOR THE SERIES 2015 BONDS,” “THE ARENA,” “CITY FINANCIAL INFORMATION,” “CITY FINANCIAL PRESSURES,” and APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO.” The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. The achievement of certain results or other expectations contained in forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. No assurance is given that actual results will meet the Authority’s or the City’s forecasts in any way, regardless of the level of optimism communicated in the information. The City and the Authority assume no obligation to provide public updates of forward-looking statements.

In connection with this offering, the Underwriter may overallocate or effect transactions that stabilize or maintain the market price of the Series 2015 Bonds at a level above that which might otherwise prevail in the open market. These stabilizing transactions, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2015 Bonds to certain dealers and others at prices lower than the public offering price stated on the cover page of this Limited Offering Memorandum, and the public offering prices may be changed from time to time by the Underwriter.

The City maintains a website; however, the information presented therein is not a part of this Limited Offering Memorandum and should not be relied on in making an investment decision with respect to the Series 2015 Bonds.

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LIMITED OFFERING MEMORANDUM

\$282,040,000

**SACRAMENTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 2015
(GOLDEN 1 CENTER)
(FEDERALLY TAXABLE)**

INTRODUCTION

The following introduction presents a brief description of certain information in connection with the Series 2015 Bonds (as defined below) and is qualified in its entirety by reference to the entire Limited Offering Memorandum and the documents summarized or described herein. References to, and summaries of, provisions of the Constitution and the laws of the State of California (the “State”) and any documents referred to herein do not purport to be complete and those references are qualified in their entirety by reference to the complete provisions thereof. Capitalized terms used in this Limited Offering Memorandum and not defined elsewhere herein have the meanings given the terms in the Indenture (as defined below). See APPENDIX C – “FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION AGREEMENT.”

General Description

This Limited Offering Memorandum, including the cover page and the attached appendices (this “**Limited Offering Memorandum**”), provides certain information concerning the issuance of \$282,040,000 aggregate principal amount of Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015 (Golden 1 Center) (Federally Taxable) (the “**Series 2015 Bonds**”), by the Sacramento Public Financing Authority, a joint-exercise-of-powers entity organized under the laws of the State (the “**Authority**”). The Series 2015 Bonds are being issued under the State’s Marks-Roos Local Bond Pooling Act of 1985 (Government Code §§ 6584–6599.3) and an indenture, dated as of August 1, 2015 (the “**Indenture**”), between the City of Sacramento (the “**City**”), the Authority and Wells Fargo Bank, National Association, as trustee (the “**Trustee**”). The Series 2015 Bonds are being issued to (a) pay or reimburse a portion of the costs of the acquisition, construction, installation and equipping of multi-purpose entertainment-and-sports center located in downtown Sacramento, which will be owned by the City and named the “Golden 1 Center” (the “**Arena Facility**”); (b) fund capitalized interest on the Series 2015 Bonds through October 1, 2017; (c) fund a reserve fund for the Series 2015 Bonds; and (d) pay costs of issuance of the Series 2015 Bonds. See “THE ARENA” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Litigation; Qualified Opinion of Bond Counsel and the Sacramento City Attorney

Litigation is now pending that challenges the validity of the Series 2015 Bonds and related documents. The pendency of this litigation presents significant risks to Owners of the Series 2015 Bonds in that an adverse final ruling could result in a loss of a Bondholder’s entire investment in the Series 2015 Bonds. See “RISK FACTORS – Litigation” and “PENDING LITIGATION CHALLENGING THE SERIES 2015 BONDS.”

The litigation that challenges the validity of the Series 2015 Bonds and related documents (the “**Litigation**”) was filed by three taxpayers in the City (the “**Plaintiffs**”) on May 14, 2013, in the Sacramento County Superior Court (*Gonzales v. Johnson*, Case No. 34-2013-80001489). It names as

defendants the City, the City Council, the Mayor, the City Manager, and the Assistant City Manager (collectively, the “**Sacramento Entities**”) as well as all persons interested in the validity of the Series 2015 Bonds. The Plaintiffs sought a court order—

- invalidating the City resolution that authorized the issuance of the Series 2015 Bonds and approved related documents (the “**Bond Resolution**”);
- invalidating the various agreements executed by the City in connection with developing, financing, constructing, and operating the Arena (the “**Definitive Agreements**”); and
- prohibiting the Sacramento Entities from taking any of the actions contemplated by the Bond Resolution and Definitive Agreements and from expending any public money or assets to implement the Bond Resolution and Definitive Agreements.

In general, the Plaintiffs alleged that the Bond Resolution and Definitive Agreements were illegal and invalid because the City did not publicly disclose the “true value” of three components of the deal struck between the City and the investors who proposed to buy the Sacramento Kings and build the Arena; as a result, according to the Plaintiffs, the deal “secretly subsidized” the investors’ purchase of the Sacramento Kings and was an illegal expenditure and a waste of public funds. The Plaintiffs also alleged that a statutory prerequisite for issuance of the Series 2015 Bonds had not been satisfied because the Arena will not provide “significant public benefits.” A copy of the revised third amended complaint filed by the Plaintiffs in the Litigation is attached hereto as Appendix H.

On July 24, 2015, the Superior Court issued its proposed statement of decision in the Litigation, ruling in favor of the Sacramento Entities. A copy of the tentative decision is attached hereto as Appendix I. On _____, 2015, the court filed its final statement of decision, and on _____, 2015, the court entered judgment. The Plaintiffs will have up to 60 days after they are served with a Notice of Entry of Judgment to file an appeal with the California Court of Appeal. [[REFLECT ANY PUBLIC STATEMENTS MADE BY PLAINTIFF RE: APPEAL]] If the Plaintiffs appeal, the appeal would be heard by the Court of Appeal (or the California Supreme Court) *after* the issuance of the Series 2015 Bonds.

Upon issuance of the Series 2015 Bonds, bond counsel for the Series 2015 Bonds, Orrick, Herrington and Sutcliffe, LLC (“**Bond Counsel**”), will qualify its final opinion with respect to the validity of the Series 2015 Bonds, the Indenture, the Site Lease, and the Project Lease. For the form of the qualified opinion, see Appendix D. **The opinion of Bond Counsel and the opinion of the City Attorney in connection with the issuance of the Series 2015 Bonds are qualified in that they express no opinion as to the effect of the outcome of the Litigation on the Series 2015 Bonds, the Indenture, the Site Lease, and the Project Lease.**

Neither Bond Counsel, nor disclosure counsel for the Series 2015 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation (“**Disclosure Counsel**”), nor the City Attorney is expressing any opinion with respect to the merits of the Litigation. There can be no assurances that the Plaintiffs will not prevail upon appeal, should an appeal be filed. There could be a final non-appealable judgment entered in any appeal of the Litigation that invalidates the Bond Approval. For a discussion of the potential adverse effects on Beneficial Owners of the Series 2015 Bonds if the Plaintiffs prevail upon appeal in the Litigation (which could include a complete loss of investment), see “PENDING LITIGATION CHALLENGING THE SERIES 2015 BONDS.” Potential investors

in the Series 2015 Bonds should seek advice of legal counsel before making any investment decision with respect to the Series 2015 Bonds.

Terms of the Series 2015 Bonds

The Series 2015 Bonds are initially being issued in the Index Floating Rate Period and will initially bear interest at the Index Floating Rate determined by the Calculation Agent from time to time as described herein and set forth in the Indenture. **“Index Floating Rate Period”** means the period commencing on (and including) the date of original issuance of the Series 2015 Bonds and ending on (but excluding) the Fixed Rate Conversion Date. **This Limited Offering Memorandum provides information concerning the Series 2015 Bonds while the Series 2015 Bonds are in the Index Floating Rate Period. There are significant differences in the terms of the Series 2015 Bonds if the Series 2015 Bonds are converted to a Fixed Interest Rate Period. This Limited Offering Memorandum is not intended to provide information concerning the Series 2015 Bonds if the Series 2015 Bonds are converted to a Fixed Interest Rate Period.**

The Series 2015 Bonds will be issued in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Interest on the Series 2015 Bonds is payable on the first Business Day of each January, April, July, and October, commencing October 1, 2015, and on the Fixed Rate Conversion Date (each, an **“Interest Payment Date”**).

The Series 2015 Bonds are subject to mandatory tender on October 2, 2017 (the **“Mandatory Tender Date”**) if the Series 2015 Bonds have not been converted to a Fixed Interest Rate before the Mandatory Tender Date. **There is no source of moneys to pay the purchase price of the Series 2015 Bonds on the Mandatory Tender Date other than proceeds of remarketing or refunding thereof. The City’s failure to purchase all of the Series 2015 Bonds on the Mandatory Tender Date will not constitute an Event of Default, but the Series 2015 Bonds will accrue interest at the Maximum Rate from (and including) the Mandatory Tender Date to (but excluding) the earlier of the Fixed Rate Conversion Date or the Maturity Date.**

During the Index Floating Rate Period, the Series 2015 Bonds are subject to optional, mandatory and extraordinary redemption and to mandatory tender for purchase as described herein.

See “THE SERIES 2015 BONDS.”

Book-Entry Only

The Depository Trust Company, New York, New York (**“DTC”**) will act as the depository of the Series 2015 Bonds and all payments due on the Series 2015 Bonds will be made to DTC or its nominee. Ownership interests in the Series 2015 Bonds may be purchased in book-entry form only. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Transfer Restrictions

Beneficial ownership interests in the Series 2015 Bonds may be transferred only to Qualified Institutional Buyers under Rule 144A (as defined in the Securities Act of 1933, as amended) that have delivered to the Authority, the City, the Trustee, and the transferor an investor letter in the form attached as Appendix G to this Limited Offering Memorandum. See “THE SERIES 2015 BONDS – Transfer Restrictions” and APPENDIX G – “FORM OF INVESTOR LETTER.”

Source of Payment for the Series 2015 Bonds

Under the Site Lease, dated as of August 1, 2015, between the City and the Authority (the “**Site Lease**”), the City will lease to the Authority both the Arena Facility and the approximately seven-acre site on which it is located (the “**Arena Site**,” and together with the Arena Facility, the “**Arena**”). See “THE ARENA.” Concurrently, the City will sublease the Arena from the Authority under a Project Lease, dated as of August 1, 2015, between the Authority and the City (the “**Project Lease**”). Under the Project Lease, subject initially to completion of construction of the Arena and thereafter subject to abatement as provided therein, the City is required to make rental payments (the “**Base Rental Payments**”) from legally available funds for use and occupancy of the Arena in amounts calculated to be sufficient to pay principal, of and interest on, the Series 2015 Bonds when due. The City has covenanted in the Project Lease (a) to take such action as may be necessary to include the Base Rental Payments in each of its annual budgets during the term of the Project Lease, (b) to take such action as may be necessary to include all Rental Payments due under the Project Lease in its annual budgets, and (c) to make necessary annual appropriations for all such Rental Payments. These covenants are duties imposed by law and are to be construed as such so that each City official will have a duty to take such action and do such things as are required by law in the performance of his or her official duty to enable the City to carry out and perform the covenants. The City is not obligated to levy or pledge any form of taxation to make Base Rental Payments under the Project Lease, and the City has not levied or pledged any form of taxation for those payments.

The Series 2015 Bonds are special limited obligations of the Authority payable solely from, and secured solely by, the Lease Revenues pledged therefor under the Indenture, together with amounts on deposit from time to time in the funds and accounts established under the Indenture. As defined in the Indenture, “**Lease Revenues**” means all Base Rental Payments payable by the City under the Project Lease, including any prepayments thereof, any Net Proceeds, and any amounts received by the Trustee as a result of, or in connection with, the Trustee’s pursuit of remedies under the Project Lease upon a Lease Default Event.

The Authority may at any time issue one or more series of additional bonds payable from the Lease Revenues on a parity with the Series 2015 Bonds, subject to satisfaction of certain conditions set forth in the Indenture. See “SECURITY FOR THE SERIES 2015 BONDS – Additional Bonds.” The Series 2015 Bonds and the additional bonds, if any, are referred to herein as “**Bonds**.”

Arena

The City and Sacramento Downtown Arena LLC (“**ArenaCo**”) are parties to an Arena Management, Operations, and Lease Agreement dated as of May 20, 2014 (the “**ArenaCo Lease**”), under which ArenaCo will construct, lease, and operate the Arena. ArenaCo and the Sacramento Kings Limited Partnership (“**TeamCo**”) previously entered into the Team Use Agreement, dated May 20, 2014, under which ArenaCo agreed to, among other things, license the use of the Arena to TeamCo (the “**Team Use Agreement**”). See “SECURITY FOR THE SERIES 2015 BONDS – Subordination Agreement” for a description of the agreement under which ArenaCo, the City, the Authority, TeamCo, and the Trustee will agree as of the date of issuance of the Series 2015 Bonds that the Project Lease and the Site Lease are prior and superior to the ArenaCo Lease and the Team Use Agreement. See “ARENA” herein for a description of the current status of construction of the Arena.

Abatement

Except to the extent of amounts on deposit in the Capitalized Interest Account and Reserve Fund, if for any reason the City does not have use and occupancy of the Arena or any part thereof on October 1, 2017, Base Rental Payments will be abated proportionately (based upon the percentage that the annual fair-rental value of the Arena or the part thereof for which the City does not have use and occupancy bears to the annual fair-rental value of the Arena assuming the City were to have use and occupancy of the entire Arena). In addition, during any period in which, by reason of material damage to, or destruction or condemnation of, the Arena, or any defect in title to the Arena, there is substantial interference with the City's right to use and occupy any portion of the Arena, Base Rental Payments will be abated proportionately (based upon the percentage that the annual fair-rental value of the Arena or the part thereof for which there has been substantial interference bears to the annual fair-rental value of the Arena absent the substantial interference). Abatement will continue for the period commencing with the date of interference resulting from the damage, destruction, condemnation, or title defect and, with respect to damage to or destruction of the Arena, ending with the substantial completion of the work of repair or replacement of the Arena, or the portion thereof so damaged or destroyed. The Project Lease provides that there will be no abatement of Base Rental Payments to the extent proceeds of rental-interruption insurance are available or there are moneys available for the payment of Rental Payments in any of the funds and accounts established under the Indenture. See "SECURITY FOR THE SERIES 2015 BONDS – Abatement" and "RISK FACTORS – Construction Risks."

Reserve Fund

A debt-service reserve fund (the "**Reserve Fund**") will be established and held under the Indenture to secure the payment of principal of, and interest on, the Bonds (including the Series 2015 Bonds) in an amount equal to the Reserve Requirement (as defined herein). A portion of the proceeds of the Series 2015 Bonds will be deposited in the Reserve Fund in an amount equal to the Reserve Requirement as of the date of issuance of the Series 2015 Bonds. See "SECURITY FOR THE SERIES 2015 BONDS – Reserve Fund" and APPENDIX C – "FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION AGREEMENT" for additional information on the Reserve Fund.

The City

The City is a municipal corporation and charter city of the State. See "THE CITY," "CITY FINANCIAL INFORMATION," "CITY FINANCIAL PRESSURES," and APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO."

The Authority

The Authority is a joint-exercise-of-powers entity, created under State law (Government Code section 6500 and following) by agreement between the City and the Housing Authority of the City of Sacramento, dated as of February 25, 2014, and effective April 29, 2014. See "THE AUTHORITY."

Other Participants

As described in “THE ARENA,” the City has entered into a number of agreements with Sacramento Basketball Holdings LLC (“**HoldCo**”), a private entity that owns a controlling interest in the Sacramento Kings National Basketball Association franchise (the “**Sacramento Kings**”) and in affiliated entities, including ArenaCo and TeamCo. These affiliated entities have and will undertake specific activities with respect to the Arena and the Sacramento Kings. ArenaCo is responsible for the construction of the Arena Facility and has leased the Arena from the City. ArenaCo will license the use of the Arena to TeamCo, which will be the owner of the Sacramento Kings. ArenaCo is also responsible for the payment of a substantial portion of the construction costs of the Arena. See “RISK FACTORS” herein.

Continuing Disclosure

The City has covenanted in the Continuing Disclosure Certificate (the “**Continuing Disclosure Certificate**”) to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (the “**EMMA System**”) certain annual financial information and operating data, including but not limited to its audited financial statements and, in a timely manner, notice of certain enumerated events. See “CONTINUING DISCLOSURE” and APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” for a description of the specific nature of the annual report and notices of enumerated events and a summary description of the terms of the Continuing Disclosure Certificate under which the reports and notices are to be made.

Risk Factors

In addition to the Litigation, certain other events could affect the ability of the City to make the Base Rental Payments when due. See “RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2015 Bonds.

Other Information

The descriptions herein of the Indenture, the Project Lease, the Site Lease, and any other agreements relating to the Series 2015 Bonds are qualified in their entirety by reference to those documents, and the descriptions herein of the Series 2015 Bonds are qualified in their entirety by the forms thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX C – “FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION AGREEMENT.”

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Limited Offering Memorandum nor any sale made hereunder nor any future use of this Limited Offering Memorandum, under any circumstances, creates any implication that there has been no change in the affairs of the City or the Authority since the date hereof.

The presentation of information in this Limited Offering Memorandum (including Appendix A) is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City or the Authority. No

representation is made that past experience, as it might be shown by financial and other information, will necessarily continue or be repeated in the future.

SOURCES AND USES OF FUNDS

The sources and uses of funds realized upon the sale of the Series 2015 Bonds are as follows:

Sources:

Principal Amount of Bonds/Total Sources	\$282,040,000.00
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Uses:

Deposit to Project Fund ⁽¹⁾	\$212,500,000.00
Deposit to Capitalized Interest Fund ⁽²⁾	37,916,909.19
Deposit to Reserve Fund ⁽³⁾	20,523,302.00
Deposit to Costs of Issuance Fund ⁽⁴⁾	11,099,788.81
Total Uses	\$282,040,000.00

- ⁽¹⁾ Represents the amount necessary to fund the majority of the City Contribution for Project costs. See “THE ARENA – Arena Funding.”
- ⁽²⁾ Represents capitalized interest on the Series 2015 Bonds through and including October 1, 2017. See “RISK FACTORS – Construction Risks.”
- ⁽³⁾ Represents the Reserve Requirement as of the date of issuance of the Series 2015 Bonds.
- ⁽⁴⁾ Includes but is not limited to the Underwriter’s discount; the fees and expenses of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Trustee, and the rating agencies; costs of printing the Limited Offering Memorandum; and the premium for title insurance and other costs incurred by the Authority and the City in connection with the issuance and delivery of the Series 2015 Bonds. Approximately \$7 million of the amounts payable to the City from the Costs of Issuance Fund will be deposited by the City in the Project Account established under the Arena Funding Agreement as part of the City Contribution. See “THE ARENA – Arena Funding.”

THE SERIES 2015 BONDS

General

The Series 2015 Bonds are initially being issued in the Index Floating Rate Period and will initially bear interest at the Index Floating Rate determined by the Calculation Agent from time to time as described below and set forth in the Indenture.

This Limited Offering Memorandum provides information concerning the Series 2015 Bonds while the Series 2015 Bonds are in the Index Floating Rate Period. There are significant differences in the terms of the Series 2015 Bonds if the Series 2015 Bonds are converted to a Fixed Interest Rate Period. This Limited Offering Memorandum is not intended to provide information concerning the Series 2015 Bonds if the Series 2015 Bonds are converted to a Fixed Interest Rate Period.

The Series 2015 Bonds are being issued in the aggregate principal amount set forth in the cover page of this Limited Offering Memorandum and will mature on the maturity date set forth on the cover page of this Limited Offering Memorandum. The Series 2015 Bonds will be issued in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

Interest on the Series 2015 Bonds is payable on each Interest Payment Date to the Owners of the Series 2015 Bonds shown on the Registration Books as of the Business Day immediately preceding each Interest Payment Date (each, a “**Record Date**”). Except as provided in APPENDIX F – “BOOK-ENTRY ONLY SYSTEM,” interest on the Series 2015 Bonds will be paid by check of the Trustee mailed by first-class mail, postage prepaid, on each Interest Payment Date to the Owners of the Series 2015 Bonds at their addresses shown on the Registration Books as of the close of business on the preceding Record Date, except as follows: for an Owner of \$1,000,000 or more in aggregate principal amount of Series 2015 Bonds, payment of interest will be made by wire transfer of immediately available funds on the following Interest Payment Date if the Owner delivers a written request to the Trustee specifying the account or accounts to which the payment must be made and if the request is received at least 10 days before a Record Date; any such request will remain in effect until the Owner revokes or revises it by an instrument in writing delivered to the Trustee. Principal of and interest and premium (if any) on the Series 2015 Bonds will be payable in lawful money of the United States of America.

The Series 2015 Bonds will be dated as of the date of their delivery (the “**Closing Date**”) and will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) a Series 2015 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from that Interest Payment Date; (b) a Series 2015 Bond is authenticated on or before the first Record Date, in which event interest will be payable from the Closing Date; or (c) interest on any Series 2015 Bond is in default as of the date of authentication thereof, in which event interest will be payable from the date to which interest has previously been paid or duly provided for.

The Series 2015 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC and any successor securities depository will act as the securities depository for the Series 2015 Bonds. Individual purchases of the Series 2015 Bonds will be made in book-entry form. Purchasers will not receive certificates representing their ownership interest in the Series 2015 Bonds. So long as Cede & Co. is the registered owner of the Series 2015 Bonds, as nominee of DTC, references herein to the Owners or registered owners thereof means Cede & Co., and not the Beneficial Owners of the Series 2015 Bonds. So long as Cede & Co. is the registered Owner of the Series 2015 Bonds, principal, of and interest on, the Series 2015 Bonds are payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit those amounts to the Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Index Floating Rate Period

The Series 2015 Bonds will initially bear interest at the Index Floating Rate for the Index Floating Rate Period. The Index Floating Rate Period means the period commencing on, and including, the date of original issuance of the Series 2015 Bonds and ending on, but excluding, the Fixed Rate Conversion Date. “**Index Floating Rate**” means the sum of LIBOR plus the Applicable Spread. The initial interest rate for the Series 2015 Bonds for the period commencing on (and including) the Closing Date and ending on (but excluding) October 1, 2015, will be the Index Floating Rate determined by the Calculation Agent on the Closing Date by using LIBOR as of two Business Days before the Closing Date. Thereafter, the Series 2015 Bonds will bear interest at the Index Floating Rate, which will be determined by the Calculation Agent on each Reset Date after the Closing Date.

Each Index Floating Rate will apply to the period commencing on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date. The Calculation Agent will furnish each Index Floating Rate so determined to the Trustee, the Authority and the City by electronic means no later than the Business Day next succeeding the Reset Date on which the rate is determined. Notwithstanding the foregoing, during the Index Floating Rate Period and before the Mandatory Tender Date, the Series 2015 Bonds will not bear interest in excess of the Capped Rate.

The following definitions are relevant to the definition of the Index Floating Rate:

“**Applicable Spread**” means _____% per annum. From and after the Closing Date, if the Series 2015 Bonds are downgraded by either Fitch Ratings or Standard & Poors Ratings Services LLC (“**S&P**”) so that the lower of the ratings assigned by Fitch Ratings and S&P on the Series 2015 Bonds (the “**Spread Ratings Level**”) is lowered below the lower of the ratings as of the Closing Date, then, effective on the Reset Date immediately following the downgrade, basis points will be added to the Applicable Spread as provided in the following table based on the lower of the ratings assigned to the Series 2015 Bonds by Fitch Ratings and S&P after giving effect to the downgrade. All basis points to be added are incremental (e.g., if the Series 2015 Bonds are downgraded from A- to BB+, the Applicable Spread would increase by 150 basis points).

If, following the downgrade of the Series 2015 Bonds and basis points are added to the Applicable Spread as provided in the immediately preceding paragraph, the Series 2015 Bonds are later upgraded by either Fitch Ratings or S&P such that Spread Ratings Level on the Series 2015 Bonds is raised, then the Applicable Spread will be adjusted on the Reset Date immediately following the upgrade so that the Applicable Spread is equal to the Applicable Spread as of the Closing Date plus the additional basis points indicated by the Spread Ratings Level below; provided, however, that the Applicable Spread shall not be lower than the Applicable Spread as of the Closing Date. For the avoidance of doubt, if the Spread Ratings Level as of the Closing Date is A- and the Spread Ratings Level is lowered to BBB following the Closing Date, then the Applicable Spread after giving effect to the downgrade would be 2.71%; if the Spread Ratings Level later is raised (as a result of an upgrade of the Series 2015 Bonds by S&P or Fitch Ratings or both) to BBB+, then the Applicable Spread after giving effect to the increase in the Spread Ratings Level would be equal to 2.46%.

Spread Ratings Rating⁽¹⁾	Amount Added to Applicable Spread
A or higher	0 bp
A-	+5 bp (0.05%)
BBB+	+15 bp (0.15%)
BBB	+25 bp (0.25%)
BBB-	+25 bp (0.25%)
BB+ or Lower	+ 80 bp (0.80%)

⁽¹⁾ Lower of the ratings assigned to the Series 2015 Bonds by S&P and Fitch Ratings.

“**Calculation Agent**” means the Trustee or an agent appointed by the Trustee to calculate the Index Floating Rate.

“**Capped Rate**” means a per annum rate of interest equal to the rate set forth opposite the lower of the ratings assigned by Fitch Ratings or S&P to the Series 2015 Bonds from time to time during the Index Floating Rate Period, until the Mandatory Tender Date:

Ratings⁽¹⁾	Capped Rate
A or higher	6.16%
A-	6.31%
BBB+	6.56%
BBB	6.81%
BBB-	7.06%
BB+ or Lower	8.50%

(1) Lower of the ratings assigned to the Series 2015 Bonds by S&P and Fitch Ratings.

“**LIBOR**” means the rate for deposits in U.S. dollars with a three-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London Interbank Offered Rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the Reset Date, except that, if such a rate is not available on the Reset Date, then LIBOR means a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on the Reset Date, to prime banks in the London interbank market by three Reference Banks selected by the Calculation Agent. The Calculation Agent will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR will be the arithmetic mean of the quotations. If fewer than two quotations are provided, LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the Reset Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If none of the banks in New York City selected by the Calculation Agent is then quoting rates for such loans, then LIBOR for the ensuing interest period will mean LIBOR as of the immediately preceding Reset Date.

“**Reset Date**” means the first Business Day of each January, April, July, and October.

Interest on the Series 2015 Bonds will be computed on the basis of a 365- or 366-day year, as applicable, and the actual number of days elapsed.

Conversion to Fixed Interest Rate Period

At the option of the City, all but not less than all of the Series 2015 Bonds may be converted from the Index Floating Rate Period to the Fixed Interest Rate Period on any Business Day that is at least 10 days after the Trustee mails notice of the proposed Fixed Rate Conversion Date and mandatory tender of the Series 2015 Bonds to the Owners of the Series 2015 Bonds. Not fewer than 10 days before the proposed Fixed Rate Conversion Date, the Trustee will mail a written notice of conversion and mandatory tender to the Owners of all Series 2015 Bonds. The City may revoke its election to effect a conversion of the Series 2015 Bonds by giving written notice of the revocation to the Trustee at any time before the Business Day immediately preceding the proposed Fixed Rate Conversion Date. No conversion will become effective unless, on or before the Fixed Rate Conversion Date, funds sufficient to pay the Tender Price of the Series 2015 Bonds have been provided to the Trustee through the remarketing of the Series 2015 Bonds and any other funds

provided by the City to the Trustee, in the City's sole discretion, for the purpose of paying the Tender Price.

If on a proposed Fixed Rate Conversion Date, any condition precedent to conversion is not satisfied or if the conversion is revoked by the City, the Trustee will give written notice by first-class mail, postage prepaid, or by facsimile or overnight delivery, as soon as practicable and in any event not later than the next succeeding Business Day to the Owners of the Series 2015 Bonds that the conversion has not occurred or has been revoked, that the Series 2015 Bonds will not be purchased on the proposed Fixed Rate Conversion Date, and that the Series 2015 Bonds will continue to bear interest in the Index Floating Rate Period.

Mandatory Tender for Purchase on Proposed Fixed Rate Conversion Date

The Series 2015 Bonds are subject to mandatory tender for purchase on a proposed Fixed Rate Conversion Date. However, if on a proposed Fixed Rate Conversion Date, any condition precedent to the conversion has not been satisfied or if the conversion has been revoked by the City, then the Series 2015 Bonds will not be purchased on the proposed Fixed Rate Conversion Date, and the Series 2015 Bonds will continue to bear interest in the Index Floating Rate Period. Notwithstanding anything to the contrary in the Indenture or the Project Lease, the City's failure to purchase the Series 2015 Bonds on a proposed Fixed Rate Conversion Date is not an Event of Default or Lease Default Event. The Trustee will give notice of the mandatory tender for purchase on a proposed Fixed Rate Conversion Date not fewer than 10 days before the proposed Fixed Rate Conversion Date.

Mandatory Tender for Purchase on Mandatory Tender Date

The Series 2015 Bonds are subject to mandatory tender on the Mandatory Tender Date if the Series 2015 Bonds have not been converted to a Fixed Interest Rate Period before the Mandatory Tender Date. Notwithstanding the foregoing, the Series 2015 Bonds will not be purchased until the Series 2015 Bonds are successfully converted to a Fixed Interest Rate Period but will instead accrue interest at the Maximum Rate from (and including) the Mandatory Tender Date to (but excluding) the earlier of the Fixed Rate Conversion Date or the Maturity Date. Notwithstanding anything to the contrary in the Indenture or the Project Lease, the failure to purchase the Series 2015 Bonds on the Mandatory Tender Date is not an Event of Default or Lease Default Event.

There is no source of moneys to pay the purchase price of the Series 2015 Bonds on the Mandatory Tender Date other than proceeds of remarketing or refunding thereof. The City's failure to purchase all of the Series 2015 Bonds on the Mandatory Tender Date will not constitute an Event of Default, but the Series 2015 Bonds will accrue interest at the Maximum Rate from (and including) the Mandatory Tender Date to (but excluding) the earlier of the Fixed Rate Conversion Date or the Maturity Date.

Optional Redemption

The Series 2015 Bonds are subject to optional redemption before their stated maturity date, on the first Business Day of each month, in whole or in part, in Authorized Denominations, from any source of available funds, at a redemption price equal to the principal amount of the Series 2015 Bonds to be redeemed, plus accrued interest on the Series 2015 Bonds to be redeemed to the date fixed for redemption, without premium.

Mandatory Redemption

The Series 2015 Bonds are subject to mandatory redemption from mandatory sinking-fund payments on each of the following dates, and in the following principal amounts (except that if any of the Series 2015 Bonds are optionally or extraordinarily redeemed, then the amounts of the remaining mandatory sinking-fund payments for the Series 2015 Bonds will be reduced proportionately by the principal amount of all Series 2015 Bonds so redeemed as specified in writing by the City to the Trustee), at a redemption price equal to the principal amount of the Series 2015 Bonds to be redeemed plus accrued interest on the Series 2015 Bonds to be redeemed to the date fixed for redemption, without premium:

Sinking Fund Payment Date (April 1)	Sinking Fund Payment
2018	\$2,725,000
2019	2,895,000
2020	3,080,000
2021	3,275,000
2022	3,480,000
2023	3,700,000
2024	3,935,000
2025	4,180,000
2026	4,445,000
2027	4,725,000
2028	5,025,000
2029	5,340,000
2030	5,675,000
2031	6,035,000
2032	6,415,000
2033	6,820,000
2034	7,250,000
2035	7,710,000
2036	8,195,000
2037	8,715,000
2038	9,265,000
2039	9,845,000
2040	10,470,000
2041	11,130,000
2042	11,830,000
2043	12,580,000
2044	13,370,000
2045	14,215,000
2046	15,110,000
2047	16,065,000
2048	17,080,000
2049	18,155,000
2050*	19,305,000

* Maturity.

Extraordinary Redemption from Insurance or Condemnation Proceeds

The Series 2015 Bonds are also subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any Net Proceeds (other than Net Proceeds of rental-interruption insurance) received with respect to all or a portion of the Arena and deposited by the Trustee in the Redemption Fund in accordance with the provisions of the Indenture at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

Selection of Bonds for Redemption

If the Series 2015 Bonds are not registered in book-entry-only form, then any redemption of less than all of the Series 2015 Bonds will be effected by the Trustee among Owners on a pro-rata basis subject to Authorized Denominations. For so long as the Series 2015 Bonds are held in book-entry-only form and DTC or a successor securities depository is the sole Owner of the Series 2015 Bonds, if less than all of the Series 2015 Bonds of the same maturity are called for prior redemption, then the Trustee will select, on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, the particular Series 2015 Bonds or portions thereof to be redeemed, subject to the following: so long as the Series 2015 Bonds are held in book-entry-only form, the Trustee will select the Series 2015 Bonds for redemption in accordance with the operational arrangements of DTC then in effect (as of the date of this Limited Offering Memorandum those operational arrangements provide for adjustment of the principal by a factor provided under the operational arrangements). If the Trustee does not provide the necessary information and identify the redemption as on a “Pro Rata Pass-Through Distribution of Principal” basis, then the Series 2015 Bonds will be selected for redemption by lot in accordance with DTC procedures. Redemption allocations made by DTC, by direct or indirect participants in DTC, or by such other intermediaries as may exist between the Authority and the Beneficial Owners are to be made on a “Pro Rata Pass Through Distribution of Principal” basis as described above.

Notice of Redemption

The Trustee on behalf of the Authority will mail (by first-class mail, postage prepaid) notice of any redemption to the Owners of any Series 2015 Bonds designated for redemption at their addresses appearing on the Registration Books, at least 10 but not more than 60 days before the date fixed for redemption.

Neither the failure to receive any notice so mailed, nor any defect in the notice, will affect the validity of the proceedings for the redemption of the Series 2015 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

With respect to any notice of any optional redemption of Series 2015 Bonds, unless, at the time notice is given, the Series 2015 Bonds to be redeemed are deemed to have been paid within the meaning of the Indenture, the notice must state the following: that redemption is conditional upon receipt by the Trustee, on or before the date fixed for redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the redemption price of, and accrued interest on, the Series 2015 Bonds to be redeemed; and that, if those moneys have not been so received, the notice will be of no force and effect, and the Authority will not be required to redeem the Series 2015 Bonds. If a notice of optional redemption of Series 2015 Bonds contains such a condition and the moneys are not so received, then the redemption of Series 2015 Bonds as

described in the conditional notice of redemption will not be made and, within a reasonable time after the date on which redemption was to occur, the Trustee will give notice to the Persons, in the manner in which the notice of redemption was given, that the moneys were not so received and that there will be no redemption of Series 2015 Bonds under that notice of redemption. The failure to optionally redeem the Series 2015 Bonds does not constitute an Event of Default.

The Authority may rescind any notice of optional redemption of Series 2015 Bonds by giving the Trustee notice, in writing or by electronic means, no later than five Business Days before the date specified for redemption. The Trustee will give notice of the rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of the redemption was given.

So long as the book-entry system is used for the Series 2015 Bonds, the Trustee will give any notice of redemption or any other notices required to be given to registered Owners of Series 2015 Bonds only to DTC. Any failure of DTC to advise any Participant, or of any Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2015 Bonds called for redemption or any other action premised on the notice. Beneficial Owners may desire to make arrangements with a Participant so that all notices of redemption or other communications to DTC that affect the Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the Participant. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Effect of Redemption

If notice of redemption has been given as aforesaid, and moneys for the redemption price, and the interest to the applicable date fixed for redemption, have been set aside for the redemption price and the interest to the date fixed for redemption, the Series 2015 Bonds to be redeemed will become due and payable on the redemption date and, upon presentation and surrender of the Series 2015 Bonds to be redeemed at the Office of the Trustee, the Series 2015 Bonds to be redeemed will be paid at the redemption price, together with interest accrued and unpaid to the redemption date.

If, on the date fixed for redemption, moneys for the redemption price of all the Series 2015 Bonds to be redeemed, together with interest to the redemption date, are held by the Trustee so as to be available for redemption on that date, and, if notice of redemption of the Series 2015 Bonds to be redeemed has been mailed and not canceled, then, from and after the date fixed for redemption, interest on the Series 2015 Bonds to be redeemed will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Series 2015 Bonds will be held in trust for the account of the Owners of the Series 2015 Bonds to be redeemed without liability to the Owners for interest on the Series 2015 Bonds to be redeemed.

Transfer Restrictions

Beneficial ownership interests in the Series 2015 Bonds may be transferred only to Qualified Institutional Buyers under Rule 144A (as defined in the Securities Act of 1933, as amended) that have delivered an investor letter in the form attached as Appendix G to this Limited Offering Memorandum to the Authority, the City, the Trustee, and the transferor. See “THE SERIES 2015 BONDS – Transfer Restrictions” and APPENDIX G – “FORM OF INVESTOR LETTER.”

SECURITY FOR THE SERIES 2015 BONDS

Litigation is currently pending that challenges the validity of the Series 2015 Bonds, the Indenture, the Project Lease, the Site Lease and other documents relating to the Series 2015 Bonds and the Arena. The opinions of Bond Counsel and the City Attorney are qualified and express no opinion as to the effect of the outcome of the litigation on the Series 2015 Bonds (and the agreements that are the subject of the opinions). See “RISK FACTORS – Pending Litigation” and “PENDING LITIGATION CHALLENGING THE SERIES 2015 BONDS” for a description of the litigation and certain additional information.

General

The Series 2015 Bonds are special limited obligations of the Authority payable solely from and secured solely by the Lease Revenues pledged therefor under the Indenture, together with amounts on deposit from time to time in the funds and accounts established under the Indenture.

Under the Indenture, the Authority assigns to the Trustee, for the benefit of the Owners from time to time of the Series 2015 Bonds, all of the Lease Revenues and all of the rights of the Authority in the Project Lease (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The Trustee is entitled to collect and receive all of the Lease Revenues, and any Lease Revenues collected or received by the Authority are required to be held, and to have been collected or received, by the Authority as the agent of the Trustee and must be paid by the Authority to the Trustee.

The Series 2015 Bonds are special limited obligations of the Authority payable solely from, and secured solely by, the Lease Revenues and other moneys pledged thereto in the Indenture. The Series 2015 Bonds are not a debt of the Authority, the City, or the State or any of its political subdivisions, and neither the Authority nor the City nor the State or any of its political subdivisions, except the Authority to the extent described herein, is liable thereon. In no event will the Series 2015 Bonds or any interest or redemption premium thereon be payable out of any funds or properties other than those of the Authority as set forth in the Indenture. The Series 2015 Bonds do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The Authority’s directors, the City’s officers and employees, and the persons executing the Series 2015 Bonds are not liable personally on the Series 2015 Bonds by reason of their issuance.

Base Rental Payments and Additional Payments

Under the Site Lease, dated as of August 1, 2015 (the “**Site Lease**”), between the City and the Authority, the City will lease to the Authority certain real property and facilities and improvements located thereon (the “**Arena**”) owned by the City. See “THE ARENA.” Concurrently, the City will sublease the Arena from the Authority under a Project Lease, dated as of August 1, 2015 (the “**Project Lease**”), between the Authority and the City.

The Project Lease requires the City, subject initially to completing construction of the Arena and thereafter subject to abatement as provided therein, to deposit with the Trustee, as assignee of the Authority, on the fifth Business Day next preceding each Interest Payment Date, commencing on October 1, 2015 (the “**Base Rental Deposit Dates**”), an amount equal to the Base Rental Payment coming due and payable on each such Base Rental Deposit Date. The Base Rental Payments payable

in any fiscal year of the City constitute payment for the use and possession of the Arena during the fiscal year. The City will receive a credit towards payment of Base Rental Payments for amounts on deposit in the Payment Fund (including the Interest Account and the Principal Account therein) on each Base Rental Deposit Date. (Base Rental Payments payable on Base Rental Deposit Dates through October 1, 2017, will be made from amounts on deposit in the Capitalized Interest Account established under the Indenture.)

The obligation of the City to make Base Rental Payments under the Project Lease (a) is payable from funds lawfully available therefor (i.e. amounts in City's General Fund); (b) does not constitute a debt of the City or of the State of California or of any of its political subdivisions in contravention of any constitutional or statutory debt limit or restriction; and (c) does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation. Neither the full faith and credit nor the taxing power of the City or of the State or any of its political subdivisions is pledged to make Base Rental Payments under the Project Lease. The Authority has no taxing power. The Base Rental Payments are calculated to be sufficient to pay, when due, the principal of and interest on the Series 2015 Bonds.

In addition to the Base Rental Payments, the City is required to pay when due the following Additional Payments (Base Rental Payments and Additional Payments are referred to herein as the "**Rental Payments**"): (a) all taxes and assessments of any type charged to the Authority or the City or affecting the Arena or the respective interests or estates of the Authority or the City in the Arena; (b) all reasonable administrative costs of the Authority relating to the Arena including but not limited to salaries, wages, fees, and expenses payable by the Authority under the Indenture, fees of auditors, accountants, attorneys, or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Project Lease or to defend the Authority and its members, officers, agents and employees; and (c) insurance premiums for all insurance required under the Project Lease.

The City covenants in the Project Lease to take such action as may be necessary to include all Rental Payments due under the Project Lease in its annual budgets and to make necessary annual appropriations for all those Rental Payments. These covenants are deemed to be, and will be construed to be, duties imposed by law, and it will be the duty of each City official to take such action and do such things as are required by law in the performance of his or her official duty to enable the City to carry out and perform the covenants.

Base Rental Payments made by the City to the Authority are payable from lawful money of the United States of America to, or upon the order of, the Authority at the Principal Office of the Trustee or at such other place or entity as the Authority may designate. Notwithstanding any dispute between the Authority and the City, the City will make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of the dispute. In the event of a determination that the City was not liable for the Rental Payments or any portion thereof, the payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Project Lease or refunded at the time of the determination. The Project Lease and the Indenture require that Base Rental Payments be deposited in the Payment Fund maintained by the Trustee, which fund is held for the benefit of the Owners of the Series 2015 Bonds.

Abatement

Except to the extent of amounts on deposit in the Capitalized Interest Account and Reserve Fund, if for any reason the City does not have use and occupancy of the Arena or any part thereof on October 1, 2017, subsequent Base Rental Payments will be abated proportionately (based upon the percentage that the annual fair-rental value of the Arena or the part thereof for which the City does not have use and occupancy bears to the annual fair-rental value of the Arena assuming the City were to have use and occupancy of the entire Arena). In addition, during any period in which, by reason of material damage to, or destruction or condemnation of, the Arena, or any defect in title to the Arena, there is substantial interference with the City's right to use and occupy any portion of the Arena, Base Rental Payments will be abated proportionately (based upon the percentage that the annual fair-rental value of the Arena or the part thereof for which there has been substantial interference bears to the annual fair-rental value of the Arena absent the substantial interference). Abatement will continue for the period commencing with the date of interference resulting from the damage, destruction, condemnation, or title defect and, with respect to damage to or destruction of the Arena, ending with the substantial completion of the work of repair or replacement of the Arena or the portion thereof so damaged or destroyed. To the extent proceeds of rental-interruption insurance are available or there are moneys available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, the Project Lease provides that there will be no abatement of Base Rental Payments.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from those funds and accounts. See “– Insurance – Rental Interruption Insurance.”

If all of the Arena (or portions thereof such that the remainder is not usable for public purposes by the City) is taken under the power of eminent domain, then the term of the Project Lease will cease as of the day possession is taken. If less than all of the Arena is taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of the taking, then the Project Lease will continue in full force and effect as to the remainder, the parties waive the benefits of any law to the contrary, and Rental Payments will be partially abated in accordance with the Project Lease. So long as any Bonds are Outstanding, and subject to the ArenaCo Lease, any award made in eminent domain for the taking of the Arena, or any portion thereof, and received by the City will be paid to the Trustee and applied to the redemption of Bonds as provided in the Indenture. Any award remaining after all of the Bonds and all other amounts due under the Indenture and the Project Lease have been fully paid will be paid to the City.

Insurance

The following paragraphs describe the provisions of the Indenture requiring the City to maintain specified insurance coverage. As described herein in “THE ARENA – Arena Operations and Maintenance – Insurance Requirements,” ArenaCo is required by the ArenaCo Lease to obtain and maintain insurance coverage relating to construction and operation of the Arena. The City will satisfy its obligation to obtain and maintain insurance under the Project Lease through the insurance relating to construction and operation of the Arena obtained by ArenaCo, and the provision described below would apply only if ArenaCo failed to maintain the coverage required by the ArenaCo Lease.

The City is required under the Project Lease to maintain reasonable and customary liability insurance, a requirement that may be satisfied by self-insurance so long as the self-insurance complies with the provisions of the Project Lease as summarized below.

The City is required to maintain or cause to be maintained casualty insurance (or, during the period of construction of the Arena, builder's risk insurance) insuring the Arena against fire, lightning, and all other risks covered by an extended coverage endorsement (excluding earthquake coverage unless provided at the discretion of the City). At all times, the insurance must be in an amount not less than 100% of the full replacement cost (new without deduction for depreciation) of the Facilities, subject to a \$100,000 loss deductible provision. The casualty insurance may be maintained in whole or in part in the form of self-insurance if the self-insurance complies with the provisions described below.

The Project Lease provides that, during the period of construction of the Arena, the builder's risk insurance must include coverage for consequential loss of revenue and customary soft costs (including the interest components of the Base Rental Payments) for up to 24 months. The Project Lease provides that, commencing with its use and occupancy of the Arena, the City must maintain or cause to be maintained rental-interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Arena as a result of any of the hazards covered by the casualty insurance in an amount not less than an amount sufficient to pay the Base Rental Payments for any 24-month period. The rental-interruption insurance required under the Project Lease may not be maintained in whole or in part in the form of self-insurance.

Any self-insurance maintained by the City under the Project Lease will comply with the following terms: (a) the self-insurance program must be approved in writing by City's Risk Manager; (b) the self-insurance program must include an actuarially sound claims-reserve fund out of which each self-insured claim will be paid, and the adequacy of the claims-reserve fund must be evaluated annually by the City's Risk Manager, with any deficiencies remedied in accordance with the recommendation of the City's Risk Manager; (c) the self-insured claims-reserve fund must be held in a separate trust fund by an independent trustee, which may be the Trustee serving as such under the Indenture; and (d) if the self-insurance program is discontinued, the actuarial soundness of the claims-reserve fund, as determined by the City's Risk Manager, must be maintained.

Title Insurance

The Project Lease requires the City to provide, at its own expense, one or more American Land Title Association owner's title-insurance policies for the Arena, in the aggregate amount of not less than the aggregate principal amount of the Series 2015 Bonds. The policy or policies must insure (a) the Authority's leasehold estate in the Property under the Site Lease and (b) the City's leasehold estate in the Property under the Project Lease, subject only to Permitted Encumbrances. Alternatively, the City may insure either or both of these leasehold estates through endorsements to one or more American Land Title Association owner's title-insurance policies.

The City has obtained a title-insurance policy in the form attached hereto as Appendix J.

Insurance and Condemnation Awards

As described herein in “THE ARENA – Arena Operations and Maintenance – Insurance Requirements,” ArenaCo is required under the ArenaCo Lease to obtain and maintain insurance coverage relating to construction and operation of the Arena, and is generally obligated to use any proceeds from that insurance to repair or restore the Arena. If insurance proceeds are insufficient to repair or restore the Arena, ArenaCo may terminate the ArenaCo Lease, and the Trustee is generally entitled to 50% of the insurance proceeds (which will likely be less than the outstanding principal amount of the Series 2015 Bonds). ArenaCo is also generally entitled to 50% of any condemnation awards relating to the Arena. The following paragraphs describe the provisions of the Indenture addressing the disposition of insurance and condemnation proceeds actually received by the Trustee. The Trustee would only receive insurance and condemnation proceeds in the limited circumstances, as described herein in “THE ARENA – Arena Operations and Maintenance – Insurance Requirements. “See “RISK FACTORS – Risk of Insufficiency of Insurance Proceeds or Condemnation Awards.”

Subject to the terms of the ArenaCo Lease (as described below), the Net Proceeds of any insurance received by the City on account of any damage or destruction of the Arena or a portion thereof (excluding Net Proceeds of rental-interruption insurance but including the proceeds of any self-insurance) must be deposited with the Trustee as soon as possible. The Trustee will hold those Net Proceeds in a special account and, upon receipt of a Written Request of the City together with supporting invoices, will make the Net Proceeds available for, and will apply them to, the cost of repair or replacement of the Arena or the affected portion. Until those proceeds are so applied, the Trustee may invest them, if authorized by a Written Request of the City, in Permitted Investments that mature not later than such times as the proceeds are expected to be needed to pay the costs of repair or replacement. Within 60 days after the occurrence of the event of damage or destruction, the City must notify the Trustee in writing as to whether the City intends to replace or repair or cause to be replaced or repaired the Arena or the portions of the Arena that were damaged or destroyed.

If the damage or destruction were such that it resulted in a substantial interference with the City’s right to the use or occupancy of the Arena, and if an abatement in whole or in part of Rental Payments results from the damage or destruction under the Project Lease, then, subject to the terms of the ArenaCo Lease, the City must do one of the following:

- (a) Apply or cause to be applied sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Arena or the portions thereof that have been damaged to substantially the same condition and annual fair-rental value that existed before the damage or destruction.
- (b) Apply or cause to be applied sufficient funds from the insurance proceeds and other legally available funds to the redemption of (1) all of the Outstanding Bonds or (2) such portion of the Outstanding Bonds as will result in the remaining, non-abated Base Rental Payments being sufficient to pay, as and when due, the principal of, and interest on, the Bonds that will remain Outstanding after the redemption. In addition, the City will direct the Trustee, in a Written Request of the City, to transfer the funds to be applied to the redemption to the Redemption Fund, and the Trustee will transfer the funds to the Redemption Fund.

Subject to the terms of the ArenaCo Lease, the City must deposit in the Reserve Fund any proceeds of any insurance (including self-insurance) remaining after the application of the proceeds

as described in the preceding paragraphs, as evidenced by a Written Certificate of the City if, and to the extent that, the amount in the Reserve Fund is less than the Reserve Requirement. If the City is not required to apply insurance proceeds as described in the preceding paragraph, then the City must deposit the proceeds in the Reserve Fund if, and to the extent that, the amount in the Reserve Fund is less than the Reserve Requirement. Any insurance proceeds not required to be so deposited into the Reserve Fund must be paid to the City, to be used for any lawful purpose, if both of the following apply: (a) the City delivers to the Trustee a Written Certificate of the City to the effect that the annual fair-rental value of the Arena after the damage or destruction and after any repairs or replacements made as a result of the damage or destruction is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Project Lease in the then-current Rental Period or in any subsequent Rental Period; and (b) the fair replacement value of the Arena after the damage or destruction is at least equal to the sum of the then-unpaid principal components of Base Rental Payments.

Subject to the terms of the ArenaCo Lease, the Trustee must deposit in the Redemption Fund the proceeds of any award the City receives in eminent domain and apply those proceeds to the redemption of Bonds under the Indenture.

As described herein in “THE ARENA – Arena Agreements,” ArenaCo is required by the ArenaCo Lease to obtain and maintain insurance coverage relating to construction and operation of the Arena. The City will satisfy its obligation to obtain and maintain insurance under the Project Lease through the insurance obtained by ArenaCo. ArenaCo is generally obligated to use the insurance proceeds to repair or restore the Arena. If the insurance proceeds are insufficient to repair or restore the Arena, ArenaCo may terminate the ArenaCo Lease and is generally entitled to 50% of the insurance proceeds. ArenaCo is also entitled to a portion of any condemnation awards relating to the Arena. There can be no assurances that insurance proceeds actually available to ArenaCo for the repair or restoration of the Arena will be sufficient to repair or replace the Arena. If the Arena is not repaired, there can be no assurances that insurance proceeds actually available to the Authority will be sufficient to provide for payment of the Series 2015 Bonds. See “RISK FACTORS – Risk of Insufficiency of Insurance Proceeds or Condemnation Awards.”

Reserve Fund

The Reserve Fund is established under the Indenture to secure the payment of principal of, and interest on, the Bonds (including the Series 2015 Bonds) in an amount equal to the Reserve Requirement, which as of the date of issuance of the Series 2015 Bonds is estimated to be \$20,523,302. As defined in the Indenture, the term “**Reserve Requirement**” means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service. If on the second Business Day before a date on which the Trustee is to transfer money from the Payment Fund to the Interest Account or to the Principal Account under the Indenture, amounts in the Payment Fund are insufficient for that purpose, then the Trustee must withdraw from the Reserve Fund, to the extent of any funds therein, the amount of the insufficiency and must transfer to the Payment Fund the amount so withdrawn. In addition, the Trustee must withdraw and apply to the final payments of principal of, and interest on, the Bonds any moneys on deposit in the Reserve Fund.

Subordination Agreement

In connection with the issuance of the Series 2015 Bonds, the Authority, the City, ArenaCo, TeamCo, and the Trustee will enter into the Subordination, Nondisturbance, and Attornment Agreement, dated as of August 1, 2015 (the “**Subordination Agreement**”). See APPENDIX C – “FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION AGREEMENT.” The Subordination Agreement includes provisions generally to the following effect:

- (a) The Project Lease and the Site Lease will be prior and superior to the ArenaCo Lease and Team Use Agreement.
- (b) Except where an ArenaCo Default (as defined in the ArenaCo Lease) continues to exist beyond any applicable notice and cure periods—
 - (1) ArenaCo will not be disturbed, and its right to possession of the Arena for the entire term of the ArenaCo Lease will continue in full force and effect even if for any reason the Site Lease or the Project Lease terminates before expiration of the ArenaCo Lease; and
 - (2) TeamCo will not be disturbed in its possession of the Arena, and its right to use the Arena for the entire term of the Team Use Agreement will continue in full force and effect even if for any reason the Site Lease or the Project Lease terminates before expiration of the Team Use Agreement.
- (c) If the ArenaCo Lease terminates because of the City’s exercising any right the City has under the ArenaCo Lease to terminate, because of a rejection in ArenaCo’s bankruptcy, or because of an option of ArenaCo to treat the ArenaCo Lease as terminated under applicable bankruptcy law, then TeamCo will not be disturbed and its right to use the Arena, and the Sacramento Kings’ right to use the Arena for the entire term of the Team Use Agreement will continue in full force and effect for so long as there is no Event of Default that occurs and continues to exist. Upon termination of the ArenaCo Lease, the City or the Authority, as applicable, will enter into a new agreement with ArenaCo or TeamCo, as applicable, to provide for the continued used and occupancy of the Arena by ArenaCo or TeamCo, as applicable (a “**New ArenaCo Lease**”). Any New ArenaCo Lease will be on the same terms and conditions of the initial Arena Co Lease, including the obligation to pay to the City the Annual Arena Payments.

If either the Project Lease or Site Lease were terminated as a result of the City seeking voluntary protection from its creditors for purposes of adjusting its debts under Chapter 9 of the Bankruptcy Code, the City would not be required to make Base Rental Payments, and ArenaCo or TeamCo would be permitted to continue to use the Arena without payment of the Base Rental Payments. See “– Application on Moneys Received by City or Authority Under the Subordination Agreement” and “RISK FACTORS – Bankruptcy.”

Application on Moneys Received by City or Authority Under the Subordination Agreement

Under the Section 5.14 in the Indenture, the Authority must pay to the Trustee for deposit into the Payment Fund, promptly after receipt, all amounts the Authority receives under the ArenaCo Lease or the New ArenaCo Lease in accordance with Section 4 of the Subordination Agreement. In

addition, the City must pay to the Trustee for deposit into the Payment Fund, promptly after receipt, all amounts received by the City under the ArenaCo Lease in accordance with Section 5 of the Subordination Agreement, subject to the following: if the City Council declines to appropriate funds for such a payment, then the City will have no further obligation to make the payment, and the City Council's failure to appropriate funds for the payment will not constitute an Event of Default. The Trustee must apply all such payments in accordance with the Indenture. Neither the Authority nor the City will consent to or permit any amendment of the ArenaCo Lease, the New ArenaCo Lease, or Subordination Agreement in a manner that would materially adversely affect the rights of the City or the Authority described in this paragraph.

Additional Bonds

Under the Indenture, the Authority may at any time issue one or more series of Additional Bonds (in addition to the Series 2015 Bonds) payable from Lease Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture subject to certain conditions precedent including the following:

- (a) The Authority and the City must not be in default under the Indenture, the Project Lease, or the Site Lease.
- (b) The issuance of the Additional Bonds must have been authorized under the Act and the Indenture and must have been provided for by a Supplemental Indenture that specifies the following:
 - (1) The purposes for which the Additional Bonds are to be issued. The proceeds of the sale of Additional Bonds may be applied only for one or more of the following purposes: (A) providing funds to pay costs of any public capital improvements under the Act (including capitalized interest) designated by the City, (B) providing funds to refund any Bonds issued under the Indenture or any other obligations of the City, (C) providing funds to pay Costs of Issuance incurred in connection with the issuance of the Additional Bonds, and (D) providing funds to make any required deposit to the Reserve Fund.
 - (2) The principal amount and designation of the Series of Additional Bonds and the denomination or denominations of the Additional Bonds, which must be Authorized Denominations.
 - (3) That the Additional Bonds will bear interest at fixed rates and be payable as to interest on the Interest Payment Dates, except that the first installment of interest may be payable on either April 1 or October 1.
 - (4) The date, the maturity date or dates, and the dates on which any mandatory sinking-fund redemptions are to be made for the Additional Bonds, subject to the following: (A) the serial Bonds of the Series of Additional Bonds must be payable as to principal annually on April 1 of each year in which principal falls due, and the term Bonds of the Series of Additional Bonds must have annual mandatory sinking-fund redemptions on April 1; (B) all Additional Bonds of a Series of like maturity must be identical in all respects, except as to number or denomination; and (C) serial maturities of serial Bonds or mandatory sinking-fund redemptions for term Bonds, or

any combination of serial Bonds and term Bonds, must be established to provide for the redemption or payment of the Additional Bonds on or before their maturity dates.

- (5) The redemption terms, if any, for the Additional Bonds.
 - (6) The form of the Additional Bonds.
 - (7) The amount, if any, necessary to increase the amount on deposit in the Reserve Fund to the Reserve Requirement upon the issuance of the Additional Bonds.
 - (8) Any other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture.
- (c) Upon the issuance of the Additional Bonds, the amount on deposit in the Reserve Fund must be at least equal to the Reserve Requirement (including any increase in the Reserve Requirement as a result of the issuance of the Additional Bonds).
- (d) The sum of Base Rental Payments (including any increase in the Base Rental Payments as a result of the issuance of the Additional Bonds) plus the estimated Additional Rental Payments becoming due for any Rental Period after the issuance of the Additional Bonds may not exceed the annual fair-rental value of the Property after taking into account the use of the proceeds of the Additional Bonds (evidence of the satisfaction of this condition must be made by a Written Certificate of the City delivered to the Trustee).

See APPENDIX C – “FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION AGREEMENT.”

Substitution and Release of Property Constituting the Arena

The Project Lease provides that the City may release from the Project Lease any portion of the Arena or may substitute alternate real property for all or any portion of the Arena upon compliance with certain conditions specified therein, including the following:

- (a) The City and the Authority must have executed, and the Trustee must have consented to, amendments to the Site Lease and the Project Lease that contain the amended description of the Arena as constituted after the substitution and release, and the City must have caused the amendments to be duly recorded with Sacramento County Clerk/Recorder.
- (b) The City must have filed with the Trustee a Written Certificate of the City certifying that—
 - (1) the sum of Base Rental Payments plus Additional Rental Payments due under the Project Lease in any Rental Period is not in excess of the annual fair-rental value of the Arena as constituted after the substitution or release;
 - (2) the Arena as constituted after the substitution or release has a useful life equal to or greater than the remaining term of the Bonds; and
 - (3) the City has beneficial use and occupancy of the Arena as constituted after the substitution or release.

- (c) The City must have obtained or caused to be obtained a California Land Title Association leasehold-owner's title-insurance policy or policies (or an amendment or endorsement to an existing policy or policies) with respect to the Arena as constituted after the substitution or release, in substantially the same form as required by the Project Lease and in an amount at least equal to the principal amount of the Bonds then Outstanding.
- (d) The City must have filed or caused to be filed with the Trustee an Opinion of Counsel to the effect that the substitution or release will not, in and of itself, cause the interest on Tax-Exempt Bonds to be included in gross income for federal income-tax purposes.

See APPENDIX C – “FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION AGREEMENT.”

Authority Remedies Limited under the Project Lease

Under the Project Lease, in the event of the occurrence and continuance of an Event of Default by the City thereunder, the sole and exclusive remedy of the Authority is to bring a mandamus action or suit in equity to compel the performance by the City of its obligations, and the Authority expressly waives any right to re-enter and re-let the Arena or terminate the Project Lease.

ESTIMATED DEBT SERVICE SCHEDULE

The following table sets forth the estimated debt service due on the Series 2015 Bonds.

Year Ending June 30	Principal	Interest	Total
2016		\$11,221,823.19	\$11,221,823.19
2017		17,796,724.00	17,796,724.00
2018	\$2,725,000	17,796,724.00	20,521,724.00
2019	2,895,000	17,624,776.52	20,519,776.52
2020	3,080,000	17,442,102.00	20,522,102.00
2021	3,275,000	17,247,754.00	20,522,754.00
2022	3,480,000	17,041,101.52	20,521,101.52
2023	3,700,000	16,821,513.52	20,521,513.52
2024	3,935,000	16,588,043.52	20,523,043.52
2025	4,180,000	16,339,745.00	20,519,745.00
2026	4,445,000	16,075,987.00	20,520,987.00
2027	4,725,000	15,795,507.52	20,520,507.52
2028	5,025,000	15,497,360.00	20,522,360.00
2029	5,340,000	15,180,282.52	20,520,282.52
2030	5,675,000	14,843,328.52	20,518,328.52
2031	6,035,000	14,485,236.00	20,520,236.00
2032	6,415,000	14,104,427.52	20,519,427.52
2033	6,820,000	13,699,641.00	20,519,641.00
2034	7,250,000	13,269,299.00	20,519,299.00
2035	7,710,000	12,811,824.00	20,521,824.00
2036	8,195,000	12,325,323.00	20,520,323.00
2037	8,715,000	11,808,218.52	20,523,218.52
2038	9,265,000	11,258,302.00	20,523,302.00
2039	9,845,000	10,673,680.52	20,518,680.52
2040	10,470,000	10,052,461.00	20,522,461.00
2041	11,130,000	9,391,804.00	20,521,804.00
2042	11,830,000	8,689,501.00	20,519,501.00
2043	12,580,000	7,943,028.00	20,523,028.00
2044	13,370,000	7,149,230.00	20,519,230.00
2045	14,215,000	6,305,583.00	20,520,583.00
2046	15,110,000	5,408,616.52	20,518,616.52
2047	16,065,000	4,455,175.52	20,520,175.52
2048	17,080,000	3,441,474.00	20,521,474.00
2049	18,155,000	2,363,726.00	20,518,726.00
2050*	19,305,000	1,218,145.52	20,523,145.52

THE AUTHORITY

The Authority is a public agency duly organized and existing under State law and a Joint Exercise of Powers Agreement (the “**JPA Agreement**”) between the City and the Housing Authority of the City of Sacramento, dated as of February 25, 2014, and effective April 29, 2014. The Authority is governed by a board of directors composed of the members of the City Council. The Authority is authorized by State law (Government Code §§ 6584–6599.3 [the Marks-Roos Local Bond Pooling Act of 1985]) and empowered under the JPA Agreement to issue its bonds for, among other things, the purposes of the plan of financing described herein. To exercise its powers, the Authority is authorized, in its own name, to do all necessary acts, including but not limited to the authority to make and enter into contracts, to employ agents and employees, and to sue or be sued in its own name. The Authority has no employees; all staff work is performed by City staff.

THE CITY

The City is located at the confluence of the Sacramento and American Rivers in the northern part of California’s Central Valley. The City is approximately 75 air miles northeast of San Francisco and benefits from a mild climate, with many days of sunshine each year and with daily average temperatures ranging from 54° F in January to 92° F in July. The average elevation of the City is 25 feet above sea level.

The City was settled in the late 1830s and incorporated in 1849. In 1854, the City became the State capital, a position made permanent by the State’s Constitutional Convention in 1879. Today, State government employees and government-related activities contribute substantially to the City’s economy.

The City operates under a City Charter that currently provides for an elected nine-member City Council including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, the City Attorney, the City Clerk, and the City Treasurer to carry out its adopted policies. The City Council also appoints the City Auditor and the Independent Budget Analyst. The Independent Budget Analyst position is a new position that is funded for the first time in the Proposed Fiscal Year 2015-16 City Budget. The Mayor is chairperson of the City Council, serves a four-year term, and is elected in at-large City elections. The other members of the City Council also serve four-year terms but are elected from one of eight districts.

The City provides a number of municipal services; including administration, police, fire, recreation, parking, public works, and utilities services such as water production and distribution, refuse collection, storm drainage, and maintenance.

CITY FINANCIAL INFORMATION

Certain financial, economic and demographic information regarding the City of Sacramento is contained in APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO” and APPENDIX B – “CITY OF SACRAMENTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014.” Each contains important information concerning the City and should be read in its entirety. In particular, Appendix A describes certain factors that have affected the City’s financial condition in the past and could materially affect its financial condition in future fiscal years, including variations in property-tax growth rates, and retirement and other labor costs. See also “CITY FINANCIAL PRESSURES.”

CITY FINANCIAL PRESSURES

The financial condition of the City has steadily improved in the last few years. The national economic recession that began in 2008 had placed significant stress on the City's financial condition. City revenue sources, including property and sales taxes, declined through Fiscal Year 2011-12. Although certain operating expenses increased (in particular, required retirement contributions for City employees), the City reduced total expenditures during that period. The City also utilized significant reserves in order to meet then-current budget requirements. The City's major revenue sources have improved significantly since Fiscal Year 2011-12, and the City's fund balance has increased. In addition, in 2012 voters in the City approved Measure U, a temporary sales tax. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Financial Information – Prior Fiscal Year Budgets."

The adopted General Fund budget for Fiscal Year 2015-16 is the second consecutive budget since 2008 that does not require reductions in services, programs, or employees. The adopted General Fund budget includes revenues of \$400.6 million, expenditures of \$395.7 million, and one-time costs of \$8.0 million in priority budget initiatives, resulting in a projected \$3.1 million deficit (offset by usage of fund balance). Excluding the one-time costs attributable to priority budget initiatives, Fiscal Year 2015-16 is projected to have a surplus of \$4.9 million. Revenues are projected to exceed ongoing expenditures in Fiscal Year 2015-16, but the changes recently approved by CalPERS relative to actuarial assumptions and methodologies will result in increased costs for CalPERS member agencies. As a result, the City's expenditures are forecast to once again outpace revenues beginning in Fiscal Year 2016-17.

Although the City's financial condition has improved in recent years, significant financial challenges remain. For example, Measure U, which is projected to generate more than \$40 million annually through Fiscal Year 2018-19, will expire in March 2019. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances – Other Taxes – Measure U."

Increasing pension costs and retiree medical-benefit costs place additional pressure on the City. The City expects that required payments from the General Fund relating to employee-retirement plans and other post-employment benefits may increase by approximately \$__ million by Fiscal Year 2020-21. The actual amount of any increases will depend on a variety of factors. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – RETIREMENT AND OPEB OBLIGATIONS."

Because of these and other factors, absent an extension of Measure U or other corrective measures, the City currently projects significant budget deficits commencing in Fiscal Year 2017-18. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Finances – The Six-Year Forecast."

In addition, although the City anticipates that it will ultimately receive increased parking revenues, payments from the Sacramento Kings and its affiliates, and other revenues that will offset a significant portion of Base Rental Payments, those revenues are not pledged to the payment of Base Rental Payments. In addition, there can be no assurances that those revenues will be available in the amounts and at the times expected by the City. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – City Financial Information – Planned Sources for City Payments with Respect to Entertainment and Sports Center."

THE ARENA

General

The Arena consists of (a) approximately seven acres of land located in the downtown area of the City (the “**Arena Site**”) and (b) the Arena Facility, an approximately 732,000-square-foot complex that will serve as the home court of the Sacramento Kings. The Arena Facility will be designed to accommodate up to approximately 17,500 attendees and will include a performance bowl with general and premium seating, suites, indoor standing viewing areas, and outdoor courtyard and terrace areas. The performance venue will be configured for basketball, other sporting events, concerts, conferences and conventions, trade shows, circuses, and family-oriented shows and other performances.

The City will own the Arena and lease it to the Authority under the Site Lease. The Authority will subsequently lease the Arena to the City under the Project Lease. See “SECURITY FOR THE SERIES 2015 BONDS.”

The City and ArenaCo have previously entered into the ArenaCo Lease, which grants ArenaCo an exclusive “Early Use License” during construction of the Arena and a long-term lease when construction is substantially complete. Even though the ArenaCo Lease was executed before the Project Lease, under the Subordination Agreement the parties agree that the Project Lease and the Site Lease will be prior and superior to the ArenaCo Lease.

Background

The Sacramento Kings have been located in Sacramento since 1985 and currently play their home games at the Sleep Train Arena (formerly ARCO Arena) approximately six miles north of the City’s downtown area. In 2013, an investor group, HoldCo, purchased a controlling interest in the Sacramento Kings, and in cooperation with the City made a commitment to the National Basketball Association (the “**NBA**”) to develop a new state of the art arena to serve as the Sacramento Kings’ home court.

HoldCo has established affiliated entities to undertake specific activities with respect to the Arena and the Sacramento Kings, including ArenaCo and TeamCo. ArenaCo is responsible for, among other things, the construction of the Arena Facility, and has leased the Arena from the City. ArenaCo has licensed the use of the Arena to TeamCo, which will be the owner of the Sacramento Kings. HoldCo, ArenaCo, TeamCo, and other affiliated or related entities are collectively referred to herein as the “**Kings Entities**”).

Arena Agreements

The City and the Kings Entities have entered into a number of agreements, described below, providing for the development, design, financing, permitting, construction, and operation of the Arena (the “**Arena Agreements**”). The City Council approved the Arena Agreements on May 20, 2014. As described herein, litigation challenging the validity of the City approvals is currently pending. See “PENDING LITIGATION CHALLENGING THE 2015 BONDS” and “RISK FACTORS – Pending Litigation Challenging the Series 2015 Bonds”

The Comprehensive Project Agreement. Under the Comprehensive Project Agreement for the Sacramento Entertainment and Sports Center, dated as of May 20, 2014, between the City, HoldCo, ArenaCo, and TeamCo (the “**Comprehensive Project Agreement**”), the parties agreed (a) on the basic framework for the ownership, financing, design, development, construction, occupancy, use, maintenance, and operation of the Arena (plus other related matters); and (b) on their respective rights and obligations with respect to the Arena. The Comprehensive Project Agreement also describes a number of additional agreements between the parties that specifically relate to the funding, design, permitting, construction, and operation of the Arena.

The Arena Funding Agreement. Under the Arena Finance and Funding Agreement, dated as of May 20, 2014, between City and ArenaCo (the “**Arena Funding Agreement**”), the City and ArenaCo are obligated to fund their respective shares of the costs to develop and construct the Arena; the City’s share of those costs is \$223,130,100 (the “**City Contribution**”). The Arena Funding Agreement also provides for the establishment of an escrow accounts to be maintained by an escrow agent (the “**Construction Escrow Agent**”) and establishes the manner in which ArenaCo may withdraw moneys from the Escrow Fund to pay eligible costs of the Arena Facility. See “Arena Funding” below.

The Arena Construction Agreement. Under the Arena Design and Construction Agreement, dated as of May 20, 2014, between the City and ArenaCo (the “**Arena Construction Agreement**”), ArenaCo is obligated to design and construct the Arena Facility on behalf of the City. See “Arena Construction” below.

The ArenaCo Lease. Under the ArenaCo Lease, the City grants ArenaCo (a) an “Early Use License” that authorizes ArenaCo to enter the Arena Site and construct the Arena Facility and, when construction is substantially complete, (b) a lease of both the Arena Site and the Arena Facility, which ArenaCo is obligated to operate, maintain, insure, and repair. See “Arena Operation and Maintenance” below.

The Team Use Agreement. Under the Team Use Agreement, ArenaCo is obligated to operate, maintain, and repair the Arena for, and license the Arena to, TeamCo.

Other Agreements. The Kings Entities have entered into a number of related agreements, including an agreement between TeamCo and the City that requires the Sacramento Kings to use the Arena as the exclusive venue for home games and prohibits the relocation of the Sacramento Kings for 35 years.

Arena Funding

General. The Arena Funding Agreement sets forth the terms and conditions upon which the City and ArenaCo will fund Project Costs for the construction of the Arena Facility (as designed by ArenaCo under the Arena Construction Agreement), including (a) the allocation of the costs of the Arena between ArenaCo and the City, and (b) a funding and disbursement procedure for the payments of those costs. See “THE ARENA – Current Cost Estimates and Funding Status” for a description of the current estimate of construction costs and the sources of funding therefor.

The Arena Funding Agreement provides that the City and ArenaCo will direct the Construction Escrow Agent to establish two bank accounts, one identified as the “**City Account**,” and the other identified as the “**ArenaCo Account**.” Generally, the City Account and the ArenaCo

Account must be funded from time to time by the City and ArenaCo to pay disbursement requests submitted by ArenaCo and approved by the City in accordance with the Arena Funding Agreement.

The Arena Funding Agreement provides that with respect to Project Costs to be fully or partially funded by the City under the Arena Funding Agreement, ArenaCo may submit to the City and Escrow Agent from time to time (but no more frequently than once each calendar month) a request for disbursement of funds (a “**Disbursement Request**”) for the payment of Project Costs or that were actually incurred and not previously funded from the City Account, less a 5% retainage (the “**Retainage**”), except that to the extent that a retainage actually withheld under a construction contract (including but not limited to the Contractor Agreement) is not included within a Disbursement Request, that retainage will reduce the Retainage hereunder. Disbursement Requests must include submission of lien waivers and certification by ArenaCo that all amounts included in the Disbursement Request are Project Costs incurred in accordance with the Arena Construction Agreement and that, for all Disbursement Requests other than the final Disbursement Request, the Disbursement Request excludes any Retainage required under the Arena Construction Agreement. Disbursement requests by ArenaCo must also include ArenaCo’s certification that, after payment is made for the Disbursement Request, the sum of the unfunded portion of the City Contribution, *plus* the unfunded portion of the ArenaCo Loan (defined below), *plus* the balance of any equity or other funding held in the ArenaCo Account or in any reserve accounts held by lenders to ArenaCo Lender, if any, *will not be less than* the sum of the Project Costs required to complete the Arena, *plus* the estimated Project Costs for any construction work modifications, other agreed upon changes in the work, and pending change orders from any contractor, including Arena Contractor (defined below in “Arena Contractor Contract”), that have been approved by ArenaCo but have not yet been incorporated into the then current Approved Budget in accordance with the Arena Construction Agreement.

In addition, each Disbursement Request must be accompanied by a certificate of Merritt & Harris, Inc., an engineer retained by the ArenaCo Lender (the “**Independent Engineer**”) to the City, ArenaCo and ArenaCo Lender, stating that the Independent Engineer has—

- (a) inspected the work described in the disbursement request;
- (b) confirmed that the work has been performed (1) to the extent described in the Disbursement Request (on a percentage-of-completion basis), and (2) in accordance with the Arena Construction Agreement;
- (c) confirmed that the Disbursement Request does not include any retainage to the extent set forth in the Arena Funding Agreement; and
- (d) confirmed that, after payment is made for the Disbursement Request, the sum of the unfunded portion of the City Contribution, *plus* the unfunded portion of the ArenaCo Loan, *plus* the balance of any equity or other funds held in the ArenaCo Account or in any reserve accounts held by the ArenaCo Lender, if any, *will not be less than* the sum of the Project Costs required to complete the work as set forth in the then current Approved Budget, *plus* the estimated Project Costs for any construction work modifications, for other agreed upon changes in the work, and for any pending change orders from any contractor, including the Arena Contractor, that have been approved by ArenaCo, but have not yet been incorporated into the then current Approved Budget.

The Arena Funding Agreement provides that failure in performance by the City or ArenaCo due to a Force Majeure Event will not be deemed a breach of the Arena Funding Agreement. In addition, when the Arena Funding Agreement provides a time for the performance of any obligation, the time provided is extended if compliance is not possible due to a Force Majeure Event. The extension time will equal one day for each day that the Force Majeure Event prevents compliance. Under the Arena Funding Agreement, “**Force Majeure Event**” means any act, event, or condition that is beyond the reasonable control of the party asserting the Force Majeure Event, other than unavailability of funds, if it prevents or delays the party from performing any obligation under the Arena Funding Agreement, including but not limited to the following: any act of public enemy, terrorism, blockade, war, insurrection, civil disturbance, explosion, or riot; epidemic; landslide, earthquake, fire, storm, flood, or washout, or other catastrophic weather event; any other act of God; strike, lockout, or other industrial disturbance.

After providing the City Contribution from the proceeds of the Series 2015 Bonds, the City will have no obligation whatsoever to provide any funds for the completion of the Arena if amounts on deposit in the Project Funds established under the Arena Funding Agreement are insufficient. Although ArenaCo is obligated to pay any costs of construction of the Arena in excess of the City Contribution, there can be no assurances that ArenaCo or any other of the Kings Entities will be able to provide funds to complete the Arena Facility if costs of completion exceed anticipated levels, or that the Arena Contractor will meet its obligations under the Arena Contractor Contract. If ArenaCo fails to cause completion of construction of the Arena Facility by October 1, 2017 (the period through which capitalized interest is being funded from the proceeds of the Series 2015 Bonds), the obligation of the City to make Base Rental Payments will be abated during the period of delay, and that circumstance would have a material adverse effect on the ability of the Authority to pay debt service with respect to the Series 2015 Bonds. See “RISK FACTORS – Abatement” and “– Construction Risks.”

City Funding. Under the Arena Funding Agreement, the City has no obligation to pay any costs of the Arena beyond the City Contribution of \$223,130,100. All costs of the Arena in excess of the City Contribution must be paid by the Kings Entities. The City Contribution will be funded primarily from the proceeds of the Series 2015 Bonds (\$212,500,000) with the remainder to be funded from other available amounts (including amounts to be reimbursed to the City from the Costs of Issuance Fund established under the Indenture). See “SOURCES AND USES OF FUNDS.”

ArenaCo Funding. Under the Arena Funding Agreement, costs of the Arena in excess of the City Contribution will be paid by ArenaCo as part of ArenaCo’s obligations under the Arena Construction Agreement.

Before the time of the issuance of the Series 2015 Bonds, ArenaCo, together with its parent company, HoldCo, entered into that certain Credit Agreement dated as of July 30, 2014, as amended by a First Amendment to Credit Agreement dated as of November 25, 2014, a Second Amendment to Credit Agreement dated as of December 16, 2014, and a Third Amendment to Credit Agreement dated as of December 16, 2014 (collectively, the “**ArenaCo Loan**”), with Goldman Sachs Bank USA, as Sole Lead Arranger, Sole Lead Bookrunner, and Syndication Agent, and with Goldman Sachs Bank USA as Administrative Agent and Collateral Agent for various lenders (collectively, the “**ArenaCo Lender**”) in order to satisfy its obligation to provide funding of the cost of the Arena in excess of the City Contribution. In addition to amounts available under the ArenaCo Loan, ArenaCo has paid construction costs of the Arena Facility from equity provided by the owners of ArenaCo.

Under the ArenaCo Loan, the ArenaCo Lender will, subject to the satisfaction of the conditions specified therein, deposit an amount up to \$265,000,000 into the ArenaCo Account established under the Arena Funding Agreement. A portion of the \$265,000,000 is attributable to financings costs and capitalized interest on the ArenaCo Loan. As a result, only approximately \$216.9 million of the ArenaCo Loan is available for costs of the Arena Facility. (See “THE ARENA – Current Cost Estimates and Funding Status” for a description of the current status of funding, including amounts drawn under the ArenaCo Loan as of July 1, 2015.) Conditions to the ArenaCo Lender’s obligation to provide further funds under the ArenaCo Loan include (a) the construction program in effect by ArenaCo must be satisfactory in all respects to ArenaCo Lender; (b) ArenaCo Lender must have received a construction certificate and other satisfactory reports from its construction monitor; (c) ArenaCo Lender must have received a copy of the construction drawdown schedule; (d) ArenaCo Lender must have received any and all progress reports, bills, and invoices delivered under the construction agreement; and (e) ArenaCo Lender must have received a duly executed letter of direction and authorization letter from Borrower for the funding. The ArenaCo Loan requires certain representations, warranties, and covenants to ensure completion of the improvements and provides for a construction monitor to inspect progress and to review and prepare reports for the ArenaCo Lender. Events of Default under the ArenaCo Loan include (a) failing to make payments when due; (b) breaching representations, warranties or covenants; (c) certain bankruptcy events; (d) breaching other material contracts with respect to the construction; (e) abandoning the project; (f) withdrawing or losing affiliation with the NBA; and (g) the Authority’s not issuing the Series 2015 Bonds by September 1, 2015.

See “UNDERWRITING” for a description of certain relationships between the Underwriter and the ArenaCo Lender.

At the time of issuance of the Series 2015 Bonds, ArenaCo does not have sources of funding of costs of construction of the Arena Facility in excess of the ArenaCo Loan. If amounts available to ArenaCo are insufficient to complete the Arena Facility, ArenaCo expects to raise sufficient funds from one or more of the following sources: (a) additional financing at one or more of the Kings Entities, (b) additional equity contributions from the individual investors in the Kings Entities, (c) additional equity contributions from the third parties, or (d) any combination of the foregoing, in each case subject to the receipt of any applicable NBA approvals. Although ArenaCo expects that any additional funds will be timely raised, there can be no assurance that the funds will be raised or that the amount of the funds will be sufficient to complete the Arena Facility. If the additional funding is insufficient to complete the Arena Facility, and if ArenaCo fails to cause completion of construction of the Arena Facility by October 1, 2017 (the period through which capitalized interest is being funded from the proceeds of the Series 2015 Bonds), then the obligation of the City to make Base Rental Payments will be abated during the period of delay, and that circumstance would have a material adverse effect on the ability of the Authority to pay debt service with respect to the Series 2015 Bonds. See “RISK FACTORS – Abatement” and “– Construction Risks.”

Arena Construction

Arena Construction Agreement. The Arena Construction Agreement provides that ArenaCo will procure, be responsible for, and will lead all phases of, the design, development, and construction of the Arena Facility for the City on the Arena Site, together with all infrastructure necessary for the Arena (collectively, the “**Work**”). ArenaCo will be the licensed general contractor for the Work and is required to hire a licensed Arena Contractor under the Arena Construction Agreement. See “Arena Contractor Contract” below for description of Arena Contractor. ArenaCo

has the right to retain such consultants and professionals as ArenaCo deems reasonably necessary in connection with its lead role with respect to the Work. The Arena Construction Contract provides that, as ArenaCo is responsible for timely delivering the Arena and paying for cost overages, ArenaCo is authorized to make all final design, development, and construction decisions regarding the Work so long as the Work adheres to the standards set forth therein.

The Arena Construction Agreement provides that the City is responsible for collaborating with ArenaCo in all phases of the Work all as necessary to complete the Work on schedule. To the extent permitted by applicable law, the City agrees to use commercially reasonable efforts to expedite (and to cause all applicable governmental authorities to expedite and cooperate in) the issuance of all licenses, permits and approvals required by applicable law in connection with the Work. The City has the right to review and comment on the designs and plans prepared by ArenaCo and its contractors and to object to those materials to the extent they do not comply with the standards and other conditions set forth in the Arena Construction Agreement. The Arena Construction Agreement contains provisions that require mediation of any disputes concerning those materials.

The Arena Construction Agreement requires ArenaCo to use commercially reasonable efforts to cause the Substantial Completion Date to occur on or before the Outside Substantial Completion Date, subject to Force Majeure Events, the funding of the City Contribution, and the City's compliance with the Arena Agreements. "**Substantial Completion Date**" means the later of (a) the date on which the City receives from ArenaCo a copy of the certificate of the "**Architect**" (as defined in Section 7 of the Arena Construction Agreement) certifying that all of the Work has been substantially completed in accordance with the Construction Documents and the Arena Contractor Contract (excluding normal punch-list items to be completed under the terms of this Agreement); and (b) the date on which the City issues to ArenaCo the certificate or certificates of occupancy, which may be temporary, providing that the Arena is ready for use and occupancy for its intended purposes in accordance with Applicable Laws. "**Outside Substantial Completion Date**" means October 1, 2017, subject to Force Majeure Events, the funding of the City Contribution, and the City's compliance with its obligations under the Arena Agreements. If at any time ArenaCo reasonably determines that the Outside Substantial Completion Date will not be met, ArenaCo is required to promptly provide written notice thereof to the City. ArenaCo is required to cause the Arena Contractor to complete, or cause to be completed, all reasonable punch-list items by the Outside Final Completion Date subject to Force Majeure Events, the funding of the City Contribution, and the City's compliance with the Arena Agreements. "Outside Final Completion Date" means January 1, 2018 (note: capitalized interest on the Series 2015 Bonds runs out on October 1, 2017). Under the Arena Construction Agreement, "**Force Majeure Event**" means any act, event, or condition that is beyond the reasonable control of the party asserting the Force Majeure Event if it prevents or delays the party from performing any obligation under that agreement, including but not limited to the following: any act of public enemy, terrorism, blockade, war, insurrection, civil disturbance, explosion or riot; epidemic; landslide, earthquake, fire, storm, flood, or washout or other catastrophic weather event; any other act of God; strike, lockout or other industrial disturbance; labor disputes or strikes, title dispute or other litigation.

The final budget for the Work was finalized and approved by ArenaCo and the ArenaCo Lender in connection with the preparation and approval of the other Construction Documents (as so approved, the "**Approved Budget**") by December 31, 2014. Any updates to the Approved Budget, must be consistent with the quality standard and other requirements of the Arena Construction Agreement and reflect that the Work be completed by the Outside Final Completion Date, subject to

Force Majeure Events, the funding of the City Contribution, and the City's compliance with its obligations under the Arena Agreements. Each Approved Budget (and all updates thereto) must be a comprehensive and detailed line-item budget estimate in a form used by ArenaCo and delivered to the ArenaCo Lender. ArenaCo has the right to reallocate amounts in the Approved Budget, including but not limited to (a) any actual cost savings; (b) contingencies based upon percentage of completion; and (c) any reallocations approved by the ArenaCo Lender, subject to the conditions set forth in the Arena Construction Agreement.

Under the Arena Construction Agreement, ArenaCo is required to perform, and to require the Arena Contractor and all other contractors and subcontractors to perform, the Work in a good and workmanlike manner, in accordance with the Approved Budget, the Arena Schedule and the Arena Construction Agreement. In the prosecution of the Work, ArenaCo is required to comply, and to require the Arena Contractor and all other contractors and subcontractors to comply, with all applicable laws affecting the Work, including all applicable State, City, and federal occupational, safety, and health acts and regulations.

The Arena Construction Agreement includes provisions under which either the City or ArenaCo may request modifications to the Construction Documents and the scope of the Work from time to time (each modification, a "**Construction Work Modification**"). If ArenaCo desires to implement a Construction Work Modification, it must submit written notice thereof to the City, together with an estimate of any additional Project Costs attributable thereto and other materials specified in the Arena Construction Agreement. The Arena Construction Agreement contains provisions to address any disputes relating to Construction Work Modifications and provides that ArenaCo may implement certain changes in certain specified circumstances. If ArenaCo estimates the Project Costs attributable to any such Construction Work Modification, including any and all associated architectural, engineering, and contractors and subcontractors' fees, are more than \$5,000,000 in excess of the total Project Costs as set forth in the Approved Budget (including any amounts for contingency included in the Approved Budgets), ArenaCo is not permitted to implement the Construction Work Modification unless and until it has demonstrated to the City, to the City's reasonable satisfaction, that it has the funds necessary to implement the Construction Work Modification or has deposited an amount equal to its estimate of the excess Project Costs either (a) in the ArenaCo Account or (b) in an account established with the ArenaCo Lender or other lender or equity provider.

The Arena Construction Agreement provides that the City may also request a Construction Work Modification in writing and that, if the City does so, ArenaCo must promptly consider the request and discuss it with the City in good faith. If, at its discretion, ArenaCo is willing to implement any City-requested Construction Work Modification, ArenaCo must provide an estimate of the cost of the City's requested Construction Work Modification. If ArenaCo agrees to implement a Construction Work Modification, the City is required to deposit into the City Account established under the Arena Funding Agreement an amount equal to the estimated cost thereof.

Arena Contractor Contract. Under the Arena Construction Agreement, ArenaCo selected, and the City approved, Turner Construction Company as the contractor for the Arena (the "**Arena Contractor**"). The Arena Contractor has over 100 years of experience and has worked on large-scale sports facilities nationally. Recent relevant experience includes Amway Event Center in Orlando, Florida; Nationwide Arena in Columbus, Ohio; and Levi Stadium in San Jose, California. Under the agreement between ArenaCo and the Arena Contractor (the "**Arena Contractor Contract**"), the Arena Contractor is obligated to use its best efforts to do and cause to be done all acts

necessary to diligently and continuously perform the work to achieve substantial completion of the Arena by October 2016 (subject to extension in certain circumstances, including the occurrence of force majeure events). If construction of the Arena Facility is not substantially completed by October 2016 (a date that may be extended in accordance with the Arena Contractor Contract), the Arena Contractor is obligated to pay liquidated damages in an amount specified in the Arena Contractor Contract. Liquidated damages payable under the Arena Contractor Contract are not pledged to, or otherwise available for, the payment of Base Rental Payments.) The Arena Construction Agreement requires ArenaCo to supervise and provide for the complete acquisition and construction of the Arena within the time set forth in the Arena Construction Agreement and to require the Arena Contractor to obtain and maintain certain assurances of performance, including performance bonds and labor-and-materials payment bonds. The Arena Contractor has obtained a performance bond in an amount equal to \$ _____, which is the “**Guaranteed Maximum Price**” identified in the Arena Contractor Contract. The Guaranteed Maximum Price is subject to adjustment and is subject to increase in certain circumstances, including the occurrence of force majeure events as set forth in the Arena Contractor Contract. The proceeds of any payment and performance bonds are not pledged to, or otherwise available for, the payment of Base Rental Payments.

Project Schedule. The current Project Schedule prepared under the Arena Construction Agreement contains the following major milestones:

<i>Milestone</i>	<i>Completion Date & Projected Completion Date</i>
Begin Site Demolition	August 13, 2014 (Complete)
Begin Mass Excavation	October 28, 2014 (Complete)
Begin Foundation Piles	December 1, 2014 (Complete)
Begin Mat Slab Foundations	January 5, 2015 (Complete)
Begin Structural Steel	March 4, 2015 (Ongoing)
Begin Interior Wall Framing	June 2015 (Ongoing)
Begin Precast Stadia	June 2015 (Ongoing)
Begin Exterior Walls / Facade	July 2015 (Ongoing)
Begin High Roof Steel	July 2015 (Ongoing)
Roof Complete & Dried-In	November 2015
Permanent Power to Building (Energized)	November 2015
Begin Interior Finishes	November 2015
Begin Seating Installation	April 2016
Mechanical Start-up & Commissioning	June 2016
Substantial Completion	September 2016

Completion of the Arena Facility involves many risks common to large construction projects, any of which could give rise to significant delays or cost overruns. As described herein, the obligation of the City to make Base Rental Payments does not commence until the Arena Facility is completed and available for the City’s beneficial use and occupancy. If ArenaCo fails to cause completion of construction of the Arena Facility by October 1, 2017 (the period through which capitalized interest is being funded from the proceeds of the Series 2015 Bonds), the obligation of the City to make Base Rental Payments will be abated during the period of delay, and that circumstance would have a material adverse effect on the ability of the Authority to pay debt service with respect to the Series 2015 Bonds. See “RISK FACTORS – Construction Risks.”

Current Cost Estimates and Funding Status

The original estimated cost of construction of the Arena Facility was approximately \$477,000,000. Following the inclusion of various change orders as are customary on a construction project of this nature, as well as discretionary change orders directed by ArenaCo, the estimated cost of construction as of July 1, 2015, is approximately \$507 million.

A breakdown of the estimated construction cost and the sources of funding is set forth in the table below, which was provided by ArenaCo and is based on the construction budget as of July 1, 2015.

Estimated Construction Costs of the Arena Facility as of July 1, 2015 (\$ in millions)

<u>Costs</u>	
Construction	335.5
Systems & Equipment	48.3
Land Acquisition & Site Development	34.9
Contingency	21.7
Design/Professional Services	20.4
Permits, Testing, Fees & Special Taxes	14.7
Insurance, Financing & Transaction Costs	11.3
Project Administration	10.4
Legal & Governmental Services	6.3
Sales & Marketing	3.0
Start-up Expenses	\$0.6
	<hr/>
Total Costs	<u><u>\$507.1</u></u>
 <u>Funding Sources:</u>	
ArenaCo Loan ⁽¹⁾	\$216.9
City Contribution ⁽²⁾	223.1
Kings Entities ⁽³⁾	67.1
	<hr/>
Total Sources	<u><u>\$507.1</u></u>

(1) See “– Arena Funding – ArenaCo Funding.” As of July 1, 2015, approximately \$176.6 million available under the ArenaCo Loan has been disbursed into the ArenaCo Account established under the Arena Funding Agreement and used for the construction of the Arena Facility.

(2) See “– Arena Funding – City Funding.”

(3) The equity from ArenaCo and the other Kings Entities was deposited into the ArenaCo Account before any disbursement from the ArenaCo Loan and used for construction costs.

Source: ArenaCo

As of July 1, 2015, approximately \$216.6 million of the estimated \$507.1 million has been expended on costs of the Arena Facility, funded from the Kings Entities and from draws on the ArenaCo Loan. The remaining \$290.5 million will be paid from the City Contribution and from

additional draws under the ArenaCo Loan. The Guaranteed Maximum Price payable under the Arena Contractor Contract (\$333.8 million) is included within the \$507.1 million cost estimate described above. As of July 1, 2015, approximately \$124.9 million of the \$333.8 million has been paid to the Arena Contractor.

The cost estimate set forth above includes approximately \$13 million of costs relating to the construction of the plaza immediately adjacent to the Arena Facility (the “**Plaza**”). The Plaza provides access to the Arena Facility for emergency vehicles, and the City will not have beneficial use and occupancy of the Arena Facility until the Plaza is completed. In order to construct the Plaza, certain improvements to adjacent underground parking garages (not located on the Arena Site) must be constructed. According to ArenaCo, the estimated construction cost of the improvements necessary to construct the Plaza are approximately \$8 million, to be funded from equity provided by the Kings Entities (in addition to the equity identified in the cost estimate above). ArenaCo expects that the adjacent underground parking garages will be completed by _____, which is consistent with the currently estimated Arena Facility completion date of September 2016.

Governmental Permits and Approvals

On May 20, 2014, the City Council certified the Environmental Impact Report for the Arena (Resolution 2014-0127). In addition, the City Council granted ArenaCo all the necessary discretionary entitlements and governmental approvals for the Arena (Resolutions 2014-0128 and 2014-0129). All the remaining permits and approvals are ministerial, which means that City staff must issue them so long as they comply with the City building code and meet the City’s design and other requirements. ArenaCo has procured the majority of the necessary ministerial governmental permits and approvals, including almost all of the building permits needed for the Arena Facility with the exception of the stairs, elevators, and off-site improvements. In addition, ArenaCo must still procure certain permits relating to the Plaza and landscaping. Those permit approvals are anticipated within the next few months. The Plaza must be completed before issuance of the certificate or certificates of occupancy for the Arena Facility. See “RISK FACTORS – Governmental Permit and Approvals.”

Arena Operations and Maintenance

Under the ArenaCo Lease, the City has leased the Arena to ArenaCo commencing on the Leasehold Commencement Date for a term of 35 years (subject to extension for up to two additional five-year terms at the option of ArenaCo). “**Leasehold Commencement Date**” means the “Substantial Completion Date” as defined in the Arena Construction Agreement (i.e., the later of the date on which work on the Arena Facility is substantially completed and the date on which the City issues a certificate or certificates of occupancy for the Arena Facility). Under the ArenaCo Lease, the City also grants to ArenaCo an exclusive “Early Use License” to enter upon and cross the Arena Site before the Leasehold Commencement Date solely for performing and engaging in the Work, for conducting pre-opening activities relating to the Arena, and for all other ancillary uses in connection therewith.

In consideration for ArenaCo’s rights under the ArenaCo Lease, including the lease and use of the Arena, ArenaCo is obligated to pay to the City an annual fee (the “**Annual Fee**”) that is initially \$6,500,000 and increases annually according to a specified escalator commencing in the sixth year of operations of the Arena Facility. The ArenaCo Lease provides for a reduction in the Annual Fee if the Arena Facility is not available because of a Force Majeure Event.

General Provisions. Except as otherwise expressly provided in the ArenaCo Lease and the other Arena Agreements, (a) the City is not required to pay any costs or expenses or provide any services whatsoever in connection with the Arena, and (b) ArenaCo is solely responsible for paying, throughout the term of the ArenaCo Lease, all costs (including capital costs) necessary to design, construct, manage, and operate the Arena, including but not limited to all costs of maintenance, repairs, replacements, renovation, remodeling, removal, alterations, improvements, insurance, taxes, and all other costs, charges, expenses, and obligations of any kind now or at any time imposed upon, or with respect to, the Arena or the Arena Site.

The ArenaCo Lease provides that ArenaCo is solely responsible for, and must timely make with reasonable diligence, all additions and capital repairs required to (a) ensure that the level of amenities and technology at the Arena Facility is above the median level (i.e., in the top half) of the other arenas in the United States that serve as home arenas for NBA teams and (b) otherwise comply with the maintenance and repair standards set forth in the ArenaCo Lease. ArenaCo is also permitted to make, at its discretion, such other additions and capital repairs as it believes are appropriate.

ArenaCo is required to replace (and not repair) an item if it (a) is substantially worn out, (b) has reached the end of its useful life and is either obsolete or uneconomical to maintain and fails to perform to original specifications, (c) is not functioning correctly and cannot be repaired or cannot be economically repaired or operated, or (d) is no longer deemed safe. All replacements must be of at least a quality and functionality consistent with the item being replaced and otherwise comply with the maintenance and repair standards set forth in the ArenaCo Lease. ArenaCo is obligated to maintain a separate “Capital Fund” for additions and capital repairs, which it is required to fund from a \$1.00 per ticket “Capital Fund Ticket Fee.” If the Capital Fund is insufficient to cover the costs and expenses for additions and capital repairs, ArenaCo must pay when due to the applicable third party all amounts required to cover those costs and expenses that exceed the amount of the funds in the Capital Fund.

Under the ArenaCo Lease, ArenaCo is required (a) to perform its obligations under the Team Use Agreement, by which ArenaCo has granted TeamCo a license to use the Arena; and (b) to use its commercially reasonable efforts to enforce all obligations of TeamCo under the Team Use Agreement and all related agreements between ArenaCo and TeamCo. ArenaCo may not terminate the Team Use Agreement or approve or permit any amendment to any provision of the Team Use Agreement so as to adversely affect the City’s rights or obligations under the ArenaCo Lease or under any of the other Arena Agreements or to adversely affect ArenaCo’s ability to perform its obligations under the ArenaCo Lease (including the obligation to pay the Annual Fee), in each case without the City’s prior written consent of the City, which may be withheld, conditioned, or delayed in the City’s sole discretion. An amendment of the Team Use Agreement will not be deemed to adversely affect ArenaCo’s ability to perform its obligations to pay the Annual Fee if ArenaCo’s projections, prepared in good faith with reasonable assumptions and in accordance with industry standards, show that ArenaCo will be able to satisfy those obligations after the amendment.

ArenaCo has the exclusive right to sell “naming rights” associated with the Arena and to retain any revenues from the sale of naming rights.

Insurance Requirements. Under the ArenaCo Lease, ArenaCo is obligated to provide certain levels of insurance with respect to the Arena, including (a) builder’s risk insurance during the construction phase of the Arena and (b) property insurance upon completion of construction of the Arena and thereafter for the remainder of the term of the ArenaCo Lease. Unless otherwise agreed

by the City in writing, ArenaCo is required under the ArenaCo Lease to procure and maintain, at its sole expense, the builder's risk insurance and property insurance in an amount not less than, at any given time, 100% of the full replacement cost (without deduction for depreciation) of the Arena Facility. Full replacement cost of the Arena Facility is expected to be less than the principal amount of the Outstanding Series 2015 Bonds and the principal amount of ArenaCo's financings for the Arena. To the extent that ArenaCo obtains this insurance, the City's obligations under the Project Lease with respect to property insurance will be satisfied, and the City will not be obligated to obtain additional property insurance for the Arena.

Under the ArenaCo Lease, unless otherwise expressly agreed by the City in writing, ArenaCo must, at its sole expense, procure and maintain (or cause to be procured and maintained by appropriate contractors or vendors) in full force and effect insurance coverages appropriate for each phase of the Work, occupancy of the Arena after Substantial Completion, and for future additions and capital repairs made from time to time during the term of the ArenaCo Lease. These insurance coverages include the following:

- (a) Upon completion of construction and thereafter for the remainder of the term of the ArenaCo Lease, property insurance for the Arena covering real property, personal property, business income, and extra expense for all risks of physical loss or damage written on the broadest available Cause of Loss Form acceptable to the City in an amount not less than the Minimum Property Insurance Coverage with no coinsurance penalty provisions. "**Minimum Property Insurance Coverage**" means, at any given time, 100% of the full replacement cost (new without deduction for depreciation) of the Arena Facility. The property coverage must include earthquake, earthquake sprinkler leakage, and flood coverage. The earthquake coverage must have a limit equal to (or greater than) the Minimum Property Insurance Coverage if that limit is available at commercially reasonable rates (failing which the earthquake coverage must have reasonable limits or sub-limits that are determined by "Probable Maximum Loss" calculations acceptable to the City). The earthquake sprinkler leakage and flood coverage must have reasonable limits or sub-limits that are determined by "Probable Maximum Loss" calculations acceptable to the City. The property insurance must also include boiler and machinery coverage. Business-income and extra-expense coverage must contain limits sufficient to cover all direct and indirect loss of income and additional expenses for Arena business operations for the appropriate period of time necessary to complete repairs of all real and personal property. Business-income coverage must include an extended period of indemnity of at least 12 months. Any deductibles or self-insured retentions must be declared and approved by the City (with approval not to be unreasonably withheld, conditioned, or delayed), the aggregate amount of deductibles or self-insured retentions must not exceed \$100,000, and the amount of coverage, after taking into account any such deductibles or self-insured retentions, must not be less than the Minimum Property Insurance Coverage.
- (b) At all times during the term of the ArenaCo Lease, commercial general-liability insurance written on an "occurrence" policy form and covering liability for death, bodily injury, personal injury, and property damage with limits of \$10,000,000 per occurrence relating, directly or indirectly, to ArenaCo's business operations, conduct, or use or occupancy of the Arena. Any deductibles or self-insured retentions must be declared and approved by the City (with approval not to be unreasonably withheld, conditioned, or delayed).

- (c) At all times during the term of the ArenaCo Lease, automobile-liability insurance covering death, bodily injury, and property damage for the operation of all owned, non-owned, leased, and hired vehicles, with limits of \$5,000,000 per accident.
- (d) At all times during the term of the ArenaCo Lease, workers' compensation insurance as required by the State with statutory limits and employers' liability insurance with a limit of not less than \$3,000,000 per accident for bodily injury or disease.
- (e) At all times during the term of the ArenaCo Lease, pollution insurance for the benefit of ArenaCo and the City covering first- and third-party claims with limits of \$5,000,000 each occurrence or claim and \$10,000,000 policy annual aggregate. Any deductibles or self-insured retentions must be declared and approved by the City (with approval not to be unreasonably withheld, conditioned, or delayed).
- (f) During any construction phase, builder's risk insurance covering real property, personal property, consequential loss of revenue (rents and earnings) and customary "soft costs" for up to 24 months, including interest costs (including the interest component of Base Rental Payments payable by the City under the Project Lease) or expenses because of delay of start-up due to an insured loss. Coverage must be for all risks of physical loss or damage written on the broadest available Cause of Loss Form acceptable to the City for the Minimum Property Insurance Coverage with no coinsurance penalty provisions. Coverage must include earthquake, earthquake sprinkler leakage, and flood with reasonable limits or sub-limits that are determined by "Probable Maximum Loss" calculations acceptable to the City. ArenaCo must require all of its contractors, subcontractors, vendors, agents, and representatives involved in work or operations on site at the Arena to provide a "Property Installation Floater" covering damage to real property, personal property, machinery, or equipment impaired, broken, or destroyed, including transit to the construction site or while awaiting installation or testing at the construction site. Any deductibles or self-insured retentions must be declared and approved by the City (with approval not to be unreasonably withheld, conditioned, or delayed).
- (g) During any construction phase, professional-liability insurance covering design errors and omissions with limits no less than \$5,000,000 each occurrence or claim and \$10,000,000 Policy Annual Aggregate. ArenaCo must also require Arena Contractor and all other contractors, subcontractors, vendors, agents, and representatives involved in any design work related to the Arena or the Arena Site to maintain specified insurance. Any deductibles or self-insured retentions must be declared and approved by the City (with approval not to be unreasonably withheld, conditioned, or delayed).

In addition to the insurance specified above, the ArenaCo Lease requires ArenaCo to procure and maintain any and all rental-interruption insurance required by the Project Lease (collectively, the "**City Rental-Interruption Insurance**"). ArenaCo must maintain the City Rental-Interruption Insurance in full force and effect at all times that the insurance is so required and with the minimum coverages so required. The City will be solely responsible for the premiums for the City Rental-Interruption Insurance, except that for each "Operating Year" (as defined in the ArenaCo Lease) ArenaCo will be responsible for an amount equal to the product of (a) the total premiums of the City Rental-Interruption Insurance for the Operating Year, multiplied by (b) a fraction, the numerator of which is the Annual Fee payable for the Operating Year, and the denominator of which is the total

payments payable by the City during the Operating Year with respect to the “City Financing” under the “City Financing Documents” (as those terms are defined in the ArenaCo Lease).

Under the ArenaCo Lease, the City has agreed to allow ArenaCo to determine whether the Arena Facility will be repaired and restored in the event of damage or destruction or partial condemnation of the Arena. In addition, the City and ArenaCo have agreed in the ArenaCo Lease to the following allocation of any insurance proceeds or condemnation award received with respect to the Arena if the ArenaCo Lease is terminated because ArenaCo elects not to repair and restore the Arena:

- 50% to the Trustee to pay the outstanding amount of the Series 2015 Bonds; and
- 50% to the ArenaCo lenders to pay the aggregate outstanding amounts of ArenaCo’s financings for the Arena.

The 50/50 distributions will continue until the earlier to occur of (a) the earlier to occur of the full repayment of the outstanding amount of the Series 2015 Bonds or the distributions made to the Trustee equal \$325,000,000 or (b) the full repayment of the aggregate outstanding amounts of ArenaCo’s financings for the Arena.

As described in “SECURITY FOR THE SERIES 2015 BONDS – Insurance,” the City will satisfy its obligation to obtain and maintain insurance relating to construction and operation of the Arena under the Project Lease through the insurance obtained by ArenaCo under the ArenaCo Lease. As described in “SECURITY FOR THE SERIES 2015 BONDS – Insurance and Condemnation Awards,” ArenaCo is generally obligated to use the insurance proceeds to repair or restore the Arena. If the insurance proceeds are insufficient to repair or restore the Arena, ArenaCo may terminate the ArenaCo Lease, and the Trustee is generally entitled to 50% of the insurance proceeds. ArenaCo is also generally entitled to 50% of any condemnation awards relating to the Arena. There can be no assurances that insurance proceeds actually available to ArenaCo for the repair or restoration of the Arena will be sufficient to repair or replace the Arena. If the Arena is not repaired, there can be no assurances that insurance proceeds actually available to the Trustee will be sufficient to provide for payment of the Series 2015 Bonds. See “RISK FACTORS – Risk of Insufficiency of Insurance Proceeds or Condemnation Awards.”

Leasehold Mortgages. The ArenaCo Lease provides that ArenaCo has the right, without the City’s consent, to execute and deliver one or more leasehold mortgages encumbering ArenaCo’s interest in the ArenaCo Lease or the direct or indirect ownership interests in ArenaCo (each, a “**Leasehold Mortgage**”) at any time and from time to time provided that (a) no such Leasehold Mortgage may encumber the City’s fee-ownership interest or the leasehold interests set forth in the Site Lease or the Project Lease; (b) the proceeds from the debt secured by the Leasehold Mortgage may not be used for purposes other than the negotiation of all Arena Agreements; the design, development, construction, financing, management, maintenance, repair, replacement, leasing, or operation of the Arena; or the acquisition of the Arena Site and the refinancing of mortgage loans related thereto; and (c) each Leasehold Mortgagee must be an institutional lender. The City is not required to join in or subordinate the fee estate or the leasehold interests set forth in the Site Lease or the Project Lease to any Leasehold Mortgage, and no Leasehold Mortgage may extend to or affect the fee estate. Each Leasehold Mortgage must require that the Leasehold Mortgagee send to the City copies of all notices of default sent to ArenaCo in connection with the Leasehold Mortgage or the

debt secured thereby, but the failure to provide notice will not affect the validity of the notice as against ArenaCo.

The ArenaCo Lease contains detailed provisions relating to Leasehold Mortgages and the rights of Leasehold Mortgagees, including the right (but not the obligation) of Leasehold Mortgagees to perform any obligation of ArenaCo under the ArenaCo Lease and to remedy any default by ArenaCo. In addition, any Leasehold Mortgagee will be entitled to institute proceedings to obtain possession of the Arena as mortgagee (including possession by a receiver) or to acquire directly, or cause its assignee, nominee, or designee to acquire, ArenaCo's rights under the Arena Lease and to cause the City to enter into a replacement agreement with a qualified operator selected by the Leasehold Mortgagees.

ArenaCo and certain of the other Kings Entities have granted a Leasehold Mortgage to the ArenaCo Lender to secure the ArenaCo Loan. See "THE ARENA – Arena Funding – ArenaCo Funding." Under the Subordination Agreement, the Project Lease and the Site Lease are prior and superior to the ArenaCo Lease and Team Use Agreement.

PENDING LITIGATION CHALLENGING THE SERIES 2015 BONDS

On May 14, 2013, the Plaintiffs filed the Litigation in the Sacramento Superior Court against the Sacramento Entities and all interested parties (*Gonzalez v. Johnson*, Case No. 34-2013-80001489). The Plaintiffs sought a court order—

- invalidating the Bond Resolution;
- invalidating the Definitive Agreements; and
- prohibiting the Sacramento Entities from taking any of the actions contemplated by the Bond Resolution and Definitive Agreements and from expending any public money or assets to implement the Bond Resolution and Definitive Agreements.

In general, the Plaintiffs alleged that the Bond Resolution and Definitive Agreements were illegal and invalid because the City did not publicly disclose the "true value" of three components of the deal struck between the City and the investors who proposed to buy the Sacramento Kings and build the Arena; as a result, according to the Plaintiffs, the deal "secretly subsidized" the investors' purchase of the Sacramento Kings and was an illegal expenditure and a waste of public funds. The Plaintiffs also alleged that a statutory prerequisite for issuance of the Series 2015 Bonds had not been satisfied because the Arena will not provide "significant public benefits." A copy of the revised third amended complaint filed by the Plaintiffs in the Litigation is attached hereto as Appendix H.

The Sacramento Entities answered the revised third amended complaint by denying all of the Plaintiffs' claims and asking the court to dismiss the complaint "with prejudice." From June 22 to July 8, 2015, the Superior Court tried Plaintiffs' claims without a jury, taking the matter under submission at the conclusion of the trial. On July 24, 2015, the Superior Court issued its proposed statement of decision, ruling in favor of the Sacramento Entities; a copy of the proposed statement of decision is attached hereto as Appendix I. On _____, 2015, the Superior Court filed its final statement of decision, and on _____, 2015, the Superior Court entered judgment. The Plaintiffs will have up to 60 days after they are served with a notice of entry of judgment to file an appeal with

the California Court of Appeal. [[REFLECT ANY PUBLIC STATEMENTS MADE BY PLAINTIFF RE: APPEAL]]

Were the Plaintiffs to file an appeal, the Court of Appeal (or, subsequently, the California Supreme Court) might reverse the judgment and send the case back to the Superior Court for further proceedings in accordance with the Court of Appeal's (or the Supreme Court's) decision—proceedings that could be as involved as a new trial. For its part, if the Court of Appeal reversed the judgment, the City would have the right to petition the California Supreme Court for review of the Court of Appeal's decision. If the California Supreme Court were then to grant the petition for review and rule in the Plaintiffs' favor, or if it were to deny the Sacramento Entities' petition for review, or if the Sacramento Entities did not petition for review, then the Series 2015 Bonds (as well as the Indenture, Site Lease, and Project Lease related to the Series 2015 Bonds) and the Definitive Agreements might be invalidated. The possible consequences of such an adverse result, whether from the Court of Appeal or the Supreme Court, include but are not limited to the following:

- The Authority would not be obligated to make, and might be precluded from making, principal and interest payments on the Series 2015 Bonds.
- The City would not be obligated to make, and might be precluded from making, Base Rental Payments under the Project Lease.
- Even if the outcome on appeal did not preclude the Authority from making payments on the Series 2015 Bonds, the failure of the Trustee to receive Base Rental Payments as scheduled under the Project Lease would result in the Trustee not having sufficient money to pay debt service on the Series 2015 Bonds, and the holders of the Series 2015 Bonds could suffer a complete loss of their investment.
- Interest previously paid to Beneficial Owners of the Series 2015 Bonds might not be exempt from State personal-income taxes.
- The Beneficial Owners might be required to repay to the Authority any previous payments of principal and interest made on the Series 2015 Bonds.

Importantly, any appeal would be heard by the Court of Appeal (or the Supreme Court) *after* the issuance of the Series 2015 Bonds. No guarantee can be given as to the outcome of an appeal, and neither Bond Counsel, nor Disclosure Counsel, nor the City Attorney offers any opinion regarding the merits of an appeal.

It is not clear what remedies, if any, the Owners and Beneficial Owners of the Series 2015 Bonds would have if the Series 2015 Bonds, the Indenture, the Site Lease, and the Project Lease were invalidated. **Prospective investors are advised to consult with the legal counsel before deciding to invest in the Series 2015 Bonds, as there ultimately could be a final non-appealable judgment entered in the Litigation that invalidates the Bond Resolution and the Series 2015 Bonds and result in a total loss of any investment in the Series 2015 Bonds. Accordingly, before deciding to purchase the Series 2015 Bonds, prospective investors and their legal counsel should thoroughly review the revised third amended complaint in the Litigation and the Superior Court's proposed statement of decision attached hereto as Appendices H and I, respectively.**

Upon issuance of the Series 2015 Bonds, Bond Counsel proposes to render its final approving opinion with respect to the validity of the Series 2015 Bonds, the Indenture, the Site Lease, and the Project Lease substantially in the form attached hereto as Appendix D. **The opinion of Bond Counsel will be qualified and will express no opinion as to the effect of the outcome of the Litigation on the Series 2015 Bonds, the Indenture, the Site Lease, and the Project Lease.**

See “RISK FACTORS – Pending Litigation.”

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Following is a description of certain constitutional limitations on taxes and appropriations applicable to the City which affect many sources of funds for the City’s General Fund and therefore may affect the City’s obligation to make Base Rental Payments under the Project Lease. For a description of other factors relating to the revenues of the City, see APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO.”

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters before June 1, 1978, or (b) any bonded indebtedness for the acquisition or improvement of real property approved on or after June 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or the full cash value 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.

The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (a) real property between spouses or (b) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, does not constitute a “purchase” or “change of ownership” triggering reassessment under Article XIII A. This amendment could serve to reduce the property-tax revenues of the City which are deposited to the City’s General Fund and a source of payment for the Base Rental Payments under the Project Lease. Other amendments permitted the State Legislature to allow persons over 55 or “severely disabled homeowners” who sell their residences and buy or build another of equal or lesser value within two years in the same county to transfer the old residence’s assessed value to the new residence.

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

Article XIII A has also been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction, or other factors, provided that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – CITY FINANCES – Property Taxation Within the City.”

Article XIII B of the State Constitution

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, special district, authority, or other political subdivision of the State to the appropriations limit for the prior fiscal year, as adjusted for changes in the cost of living, population, and services for which the fiscal responsibility is shifted to or from the governmental entity. The “base year” for establishing this appropriations limit is the Fiscal Year 1978-79. The appropriations limit may also be adjusted in emergency circumstances, subject to limitations.

Appropriations of an entity of local government subject to Article XIII B generally include authorizations to expend during a Fiscal Year the “proceeds of taxes” levied by or for the entity, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment-insurance, and disability-insurance funds. “Proceeds of taxes” include but are not limited to, all tax revenues; certain State subventions received by the local governmental entity; and the proceeds to the local governmental entity from (a) regulatory licenses, user charges, and user fees (to the extent that the proceeds exceed the cost of providing the service or regulation) and (b) the investment of tax revenues. Article XIII B provides that if a governmental entity’s revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

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

The City’s appropriation limit for Fiscal Year 2015-16 is estimated to be \$734,680,000, for which expenditures subject to the appropriation limitation are \$397,402,000.

Articles XIIC and XIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, and property-related fees and charges. The interpretation and application of Proposition 218 has been and will continue to be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such a determination.

Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City’s General Fund, require a two-thirds vote. Further, any general-purpose tax the City imposed, extended, or increased without voter approval after December 31, 1994, may continue to be imposed only if approved by a majority vote in an election that must be held before November 6, 1998. The voter-approval requirements of Article XIIC reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend, or increase taxes in the future to meet increased expenditure needs.

The City currently imposes the following general taxes: temporary sales tax, business-operations tax, utility-users tax, real-property-transfer tax and transient-occupancy tax. Since all of these taxes (except the temporary sales tax and the utility-users tax, as described below) were imposed before January 1, 1995, and have not been extended or increased since that date, these taxes should be exempt from the requirements of Article XIIC. Any future increases in these taxes, however, would be subject to the voter requirement of Article XIIC. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – Other Taxes – Utility Users Tax” for a discussion of Measure O, approved by the voters in November 2008, which reduced the utility user tax on telephonic services from 7.50% to 7.00% and expanded the scope of the tax to include new communication technologies. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO – Other Taxes – Measure U” for a discussion of Measure U, approved by the voters in November 2012, which enacted a temporary one-half-cent sales tax that expires in March 2019 unless renewed.

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

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution by expanding the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (a) a charge

imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged and does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged and does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, for performing investigations, inspections, and audits, for enforcing agricultural-marketing orders, and for the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local-government property, or the purchase, rental, or lease of local-government property; (e) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax; that the amount is no more than necessary to cover the reasonable costs of the governmental activity; and that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. As of the date of this Limited Offering Memorandum, the City is unaware of any fees that would have to be reduced or eliminated because of Proposition 26.

The City currently levies assessments for more than 36 service districts, maintenance districts, and property and business improvement districts. The revenues from these assessments were in excess of \$35.6 million for Fiscal Year 2014-15, including \$2.3 million from two-capital acquisition, pay-as-you-go districts. The City believes that each of these assessments and districts complies with, or is exempt from, the requirements of Article XIID. Subsequent increases of these levies, if any, would be required to comply.

The City also levies assessments for 13 improvement districts under the State improvement-district acts. The revenues from these assessments were approximately \$12.6 million in Fiscal Year 2014-15. Each of these assessments secures bonded indebtedness that is payable solely from the assessments and has no claim on the City's General Fund.

Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, and property-related fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives that reduce or repeal local taxes, assessments, or property-related fees or charges currently composing a substantial part of the City's General Fund. If a repeal or reduction occurs, the City's ability to make Base Rental Payments under the Project Lease could be adversely affected.

Statutory Spending Limitations

At the November 4, 1986, general election, the voters of the State approved Proposition 62, a statutory initiative (a) requiring that any tax imposed by local governmental entities for general governmental purposes 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; (b) requiring 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; (c) restricting the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed; (d) prohibiting the imposition of ad valorem taxes on

real property by local governmental entities, except as permitted by Article XIII A; (e) prohibiting the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requiring that any tax imposed by a local governmental entity on or after August 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 State Supreme Court, in *Santa Clara City Local Transportation Authority v. Guardino* (1995) 11 Cal.4th 220, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote 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 *Guardino* decision did not address whether it should be applied retroactively.

In response to *Guardino*, the State Legislature adopted Assembly Bill No. 1362, which provided that *Guardino* should apply only prospectively to any tax that was imposed or increased by an ordinance or resolution adopted after December 14, 1995. Assembly Bill No. 1362 was vetoed by the Governor; hence the application of the *Guardino* decision on a retroactive basis remains unclear.

The *Guardino* decision also did not decide the question of the applicability of Proposition 62 to charter cities such as the City. Two cases decided by the State Courts of Appeals in 1993, *Fielder v. City of Los Angeles* (1993) 14 Cal.App.4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda* (1993) 20 Cal.App.4th 120 (rev. den. Feb. 24, 1994), 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 those taxes under Article XI, Section 5, of the State Constitution relating to municipal affairs.

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative. It 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. See “ – Articles XIIC and XIID of the State Constitution.”

The City does not believe that it imposes any tax or fee that is subject to Proposition 62.

Proposition 1A

On November 2, 2004, State voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local-government revenue sources. Under Proposition 1A, the State may not (a) reduce local sales-tax rates or alter the method of allocating the revenue generated by those taxes, (b) shift property taxes from local governments to schools or community colleges, (c) change how property-tax revenues are allocated among local governments without two-third approval of both houses of the State Legislature, or (d) decrease revenues from Vehicle License Fees without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales-tax and property-tax revenues among local governments within a county.

Proposition 22

On November 2, 2010, the voters of the State approved Proposition 22, known as “The Local Taxpayer, Public Safety, and Transportation Protection Act” (“**Proposition 22**”). Among other things, Proposition 22 broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate or borrow local property-tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the State Constitution to prohibit the State from appropriating or borrowing local property-tax revenues under any circumstances. The State can no longer borrow local property-tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government’s purposes. Furthermore, Proposition 22 restricts the State’s ability to redirect redevelopment agency property-tax revenues to school districts and other local governments and limits uses of certain other funds. Proposition 22 is intended to stabilize local-government revenue sources by restricting the State government’s control over local revenues.

Future Initiatives

Articles XIII A, XIII B, XIII C, and XIII D and Propositions 62, 1A, 22, and 26 were each adopted as measures that qualified for the ballot under the State’s initiative process. From time to time, other initiative measures could be adopted that further affect the City’s revenues (including revenues available to make Base Rental Payments) or the City’s ability to expend revenues.

RISK FACTORS

This section provides a general overview of certain risk factors that should be considered, in addition to the other matters set forth in this Limited Offering Memorandum, in evaluating an investment in the Series 2015 Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2015 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2015 Bonds are advised to consider the following factors, among others, and to review this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value or the marketability of the Series 2015 Bonds, or both. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Pending Litigation

The Sacramento Entities are defendants in the Litigation, a pending lawsuit that challenges the validity of the Series 2015 Bonds and the Definitive Agreements. Because of the Litigation, the purchase and ownership of the Series 2015 Bonds involve significant investment risk and the Series 2015 Bonds are not a suitable investment for all investors.

An adverse final ruling in any appeal in the Litigation could result in the loss of a Beneficial Owner’s entire investment in the Series 2015 Bonds.

The Litigation is described in “PENDING LITIGATION CHALLENGING THE 2015 BONDS.”

Were the Plaintiffs to file an appeal, the Court of Appeal (or, subsequently, the California Supreme Court) might reverse the judgment and send the case back to the Superior Court for further proceedings in accordance with the Court of Appeal's (or the Supreme Court's) decision—proceedings that could be as involved as a new trial. For its part, the City would have the right to petition the California Supreme Court for review of the Court of Appeal's decision. If the California Supreme Court were then to grant the petition for review and rule in the Plaintiffs' favor, or if it were to deny the Sacramento Entities' petition for review, or if the Sacramento Entities did not petition for review, then the Series 2015 Bonds (as well as the Indenture, Site Lease, and Project Lease related to the Series 2015 Bonds) and the Definitive Agreements might be invalidated. The possible consequences of such an adverse result, whether from the Court of Appeal or the Supreme Court, include but are not limited to the following:

- The Authority would not be obligated to make, and might be precluded from making, principal and interest payments on the Series 2015 Bonds.
- The City would not be obligated to make, and might be precluded from making, Base Rental Payments under the Project Lease.
- Even if the outcome on appeal did not preclude the Authority from making payments on the Series 2015 Bonds, the failure of the Trustee to receive Base Rental Payments as scheduled under the Project Lease would result in the Trustee not having sufficient money to pay debt service on the Series 2015 Bonds, and the holders of the Series 2015 Bonds could suffer a complete loss of their investment.
- Interest previously paid to Beneficial Owners of the Series 2015 Bonds might not be exempt from State personal-income taxes.
- The Beneficial Owners might be required to repay to the Authority any previous payments of principal and interest made on the Series 2015 Bonds.

Importantly, any appeal would be heard by the Court of Appeal (or the Supreme Court) *after* the issuance of the Series 2015 Bonds. No guarantee can be given as to the outcome of an appeal, and neither Bond Counsel, nor Disclosure Counsel, nor the City Attorney offers any opinion regarding the merits of an appeal.

It is not clear what remedies, if any, the Owners and Beneficial Owners of the Series 2015 Bonds would have if the Series 2015 Bonds, the Indenture, the Site Lease, and the Project Lease were invalidated. **Prospective investors are advised that there ultimately could be a final non-appealable judgment entered in the Litigation that invalidates the Bond Resolution and the Series 2015 Bonds and results in a total loss of any investment in the Series 2015 Bonds.**

Base Rental Payments Are Not Debt

The City's obligation to make the Base Rental Payments under the Project Lease does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Series 2015 Bonds and the City's obligation to make Base Rental Payments do not constitute a debt of the City or the State or any of the State's political subdivisions (other than the Authority) within the meaning of any constitutional or statutory debt limitation or restriction.

The Series 2015 Bonds are not general obligations of the Authority; they are limited obligations payable solely from, and secured solely by, a pledge of Lease Revenues and amounts held in the funds and accounts created under the Indenture, consisting primarily of Base Rental Payments. The Authority has no taxing power.

Although the Project Lease does not create a pledge, lien, or encumbrance upon the funds of the City, the City is obligated under the Project Lease to pay the Base Rental Payments from any source of legally available funds, and the City has covenanted in the Project Lease that, for so long as the Arena Facility is available for its use, it will make the necessary annual appropriations within its budget for the Base Rental Payments. The City is currently liable on, and may become liable on, other obligations payable from its general revenues. Some of those obligations could have priority over the Base Rental Payments; in addition, the City in its discretion might determine to pay some of those obligations first rather than pay the Base Rental Payments.

The City has the capacity to enter into other obligations payable from the City's General Fund, without the consent of, or prior notice to, the Owners of the Series 2015 Bonds. To the extent that the City incurs additional obligations, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Base Rental Payments. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations, however, have never exceeded the limitations on appropriations under Article XIII B of the State Constitution. For information on the City's current limitations on appropriations, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS – Article XIII B of the State Constitution."

Valid and Binding Covenant to Budget and Appropriate

Under the Project Lease, the City covenants to take such action as may be necessary to include Base Rental Payments due in its annual budgets and to make necessary appropriations for all the Base Rental Payments. These covenants are deemed to be duties imposed by law, and it is the duty of the public officials of the City to take such action and do such things as are required by law in the performance of their official duties to enable the City to carry out and perform these covenants. A court, however, in its discretion may decline to enforce these covenants.

ArenaCo May Not Satisfy Its Obligation to Provide Funds to Complete the Arena Facility

Under the Arena Construction Agreement and the ArenaCo Lease, ArenaCo is obligated to pay all costs of constructing the Arena Facility in excess of the City Contribution. In addition, as described in "THE ARENA – Current Cost Estimates and Funding Status," ArenaCo is responsible for the payment of certain costs relating to the Plaza, completion of which is necessary for the City to have beneficial use and occupancy of the Arena Facility. ArenaCo has entered into arrangements to provide these funds. If the actual costs of completing the Arena Facility exceed the projected cost for which ArenaCo has financing arrangements, ArenaCo expects to raise sufficient funds from one or more of the following sources as described above in "THE ARENA – Arena Funding." Although ArenaCo expects that the necessary funds will be timely raised, there can be no assurance that the funds will be raised or that the amount of the funds will be sufficient to make the full payment of the cost of completing the Arena Facility. If ArenaCo fails to cause completion of construction of the Arena Facility by October 1, 2017 (the period through which capitalized interest is being funded

from the proceeds of the Series 2015 Bonds), the City's obligation to make Base Rental Payments will be abated during the period of delay, and that circumstance would have a material adverse effect on the Authority's ability to pay debt service with respect to the Series 2015 Bonds. See "RISK FACTORS – Construction Risks" and "Abatement."

Construction Risks

As described herein, the City's obligation to make Base Rental Payments does not commence until the Arena Facility is completed and available for the City's beneficial use and occupancy. If ArenaCo fails to cause completion of construction of the Arena Facility by October 1, 2017 (the period through which capitalized interest is being funded from the proceeds of the Series 2015 Bonds), the City's obligation to make Base Rental Payments will be abated during the period of delay, and that circumstance would have a material adverse effect on the Authority's ability of the to pay debt service with respect to the Series 2015 Bonds. This section describes certain risks specifically relating to construction of the Arena Facility but does not constitute an exhaustive list of all construction-related risks.

General Construction Risks for Arena Facility. Completion of the Arena Facility involves many risks common to large construction projects such as shortages of materials and labor, work stoppages, labor disputes, litigation, environmental law compliance, errors and omissions by architects, engineers and contractors, substantial increases in material costs for steel, lumber, and other key commodities, weather interferences, terrorism, construction accidents, contractor or subcontractor defaults, defective workmanship, unforeseen engineering, geotechnical or environmental problems, land-use permitting problems, and unanticipated cost increases, any of which could give rise to substantial delays or cost overruns. In addition, in recent years, these problems have been particularly substantial in the construction of large sports stadiums and arenas, many of which have encountered substantial delays and cost overruns. No assurance can be given that the factors mentioned above will not cause substantial delays and cost overruns. Any delays and overruns may materially and adversely affect the construction budget, possibly requiring ArenaCo to provide additional funds under the Arena Construction Agreement in respect of the construction-completion-shortfall amount or to value-engineer out of the Arena Facility otherwise desirable features or amenities.

Any and all aspects of construction, including but not limited to labor and materials, could be subject to material increases in cost. Although ArenaCo believes that its estimates of costs of the Arena Facility and the adequacy of the contingencies are reasonable, it is possible that the ArenaCo's judgments and assumptions are materially mistaken and that the actual costs of the Arena Facility will vary materially from the estimates thereof, including those set forth in this Limited Offering Memorandum. It is also possible that the aggregate costs of the Arena Facility, whether included or excluded from the Arena Contractor Contract and any other contracts applicable to the Arena Facility, will exceed the sum of the price of the Arena Contractor Contract (and the other contracts), *plus* ArenaCo's estimate of the costs of the Arena excluded from the Arena Contractor Contract (and the other contracts) *plus* the aggregate contingencies budgeted to pay for excess costs, so that ArenaCo will require substantial additional funds in order to complete the work.

Nonperformance by Design-Builder. The Arena Contractor Contract limits the Arena Contractor's ability to make claims for increases in the price specified in the Arena Contractor Contract or for extensions of the completion deadlines specified therein. The Arena Contractor Contract also imposes liquidated damages for failure to meet certain completion deadlines and

obligates the Arena Contractor to assume full risk and responsibility with respect to design of the Arena Facility. If the Arena Contractor finds it uneconomic to perform the obligations under the Arena Contractor Contract, or otherwise becomes unwilling or unable to perform, there is a risk that the Arena Contractor may abandon the Arena Facility and breach its obligations under the Arena Contractor Contract. Although the Arena Contractor Contract includes provisions to secure contractor performance, including performance-bond and payment-bond requirements and retention of Contractor payments, there can be no assurance that these provisions will ensure the Arena Contractor's full performance of its obligations under the Arena Contractor Contract. The Arena Contractor's nonperformance may lead to substantial cost increases and delays in completion of the Arena Facility.

Failure of Providers of Performance and Payment Bonds. A potential purchaser of the Series 2015 Bonds can have no assurance that any surety or property insurer will be willing to meet, or be capable of meeting, its responsibilities in connection with the Arena Facility. Nor can there be any assurance that the issuer of any performance bond, payment bond, or property-insurance policy will honor or be able to honor a claim in a timely manner.

There can be no assurance that the performance and payment bonds provided by the Arena Contractor will be sufficient to satisfy the ArenaCo's performance and payment obligations under the Arena Contractor Contract. Not all events are covered under the performance and payment bonds. The issuer of performance and payment bonds is not guaranteeing performance and payment under all circumstances, and the issuer of the bonds may assert any defenses it or the Arena Contractor may have for performance and payment. Moreover, if a default occurs under the Arena Contractor Contract, there is a possibility of litigation between ArenaCo and the Arena Contractor, or between ArenaCo and the providers of the performance bonds or payment bonds, that could further delay the construction and opening of the Arena Facility. In addition, there can be no assurance that the ArenaCo or the City could recover any amounts under any performance bonds or payment bonds.

Proceeds of payment or performance bonds are not available for payment of the Series 2015 Bonds.

Governmental Permits and Approvals

The Arena Facility and related infrastructure require numerous discretionary state and local governmental permits or approvals. See "THE ARENA – Governmental Permits and Approvals." The City and ArenaCo are not aware of any engineering or technical circumstances that would prevent ArenaCo from obtaining, in the ordinary course and in a timely manner, the remaining permits and approvals required for completion of the Arena Facility and related infrastructure. Those permits and approvals that have been obtained contain conditions, and those that have not yet been obtained are expected to contain conditions when they are issued. In addition, the state and local statutory and regulatory requirements (including requirements to obtain additional permits or approvals) applicable to the Arena Facility and related infrastructure are subject to change. No assurance can be given that ArenaCo will be able to comply with the changes or that the changes will not materially increase the cost of the Arena Facility and related infrastructure or cause delays. Completion of the Arena Facility could be delayed or prevented by, and additional costs could result from, delays in obtaining any approval or permit, or any failure to obtain and maintain in full force and effect any approval or permit, or delays in or any failure to satisfy any conditions or other applicable requirements.

Third Party Contract Risk

Completion of the Arena Facility depends on the performance by third parties (such as the Kings Entities, the Arena Contractor, and the Architect) of their obligations under their contracts for the design and construction of the Arena Facility, including obligations with respect to the coordination of construction. If these parties do not perform their obligations, if construction and design are not adequately coordinated, if disputes arise between parties, or if third parties are excused from performing their obligations because of nonperformance by ArenaCo or the Arena Contractor or because of force majeure events, then ArenaCo may not be able to acquire substitute services on substantially the same terms and conditions (if at all) or may be required to incur greater construction costs, and ArenaCo's ability to complete the Arena Facility may be adversely affected.

This Limited Offering Memorandum contains no financial information regarding the Kings Entities. As a result, in making an investment decision with respect to the Series 2015 Bonds, a purchaser can have no assurance, based on the information contained herein, that the Kings Entities or any third party will have the ability to meet its obligations under the agreements to which it is a party.

Abatement

In the event of loss or substantial interference in the use and possession by the City of all or any portion of the Arena caused by material damage, title defect, destruction to or condemnation of the Arena, Base Rental Payments will be subject to abatement. If that component of the Arena, when damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, or if that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of the component of the Arena or prepayment of the Series 2015 Bonds, there could be insufficient funds to make payments to Owners in full. See "THE ARENA – Arena Operations and Maintenance." Reduction in Base Rental Payments due to abatement as provided in the Project Lease does not constitute a default thereunder.

As described in "SECURITY FOR THE SERIES 2015 BONDS – Insurance and Condemnation Awards," the City will satisfy its obligation to obtain and maintain insurance relating to the construction and operation of the Arena under the Project Lease through the insurance obtained by ArenaCo under the ArenaCo Lease. As described herein, ArenaCo is generally obligated to use insurance proceeds to repair or restore the Arena. There can be no assurances that insurance proceeds actually available to ArenaCo for the repair or restoration of the Arena will be sufficient to repair or replace the Arena. If insurance proceeds are insufficient to repair or restore the Arena, ArenaCo may terminate the ArenaCo Lease, and the Trustee is generally entitled to 50% of insurance proceeds. ArenaCo is also generally entitled to 50% of any condemnation awards relating to the Arena. If the Arena is not repaired, there can be no assurances that insurance proceeds actually available to the Trustee will be sufficient to provide for payment of the Series 2015 Bonds. See "– Risk of Uninsured Loss."

It is not possible to predict the circumstances under which an abatement of rental might occur. In addition, there is no statute, case, or other law specifying how an abatement of rental should be measured. For example, it is not clear whether fair-rental value is established as of commencement of the Project Lease or at the time of the abatement. If the latter, the value of the Arena might be substantially higher or lower than its value at the time of issuance of the Series 2015

Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for, and payment of, the Series 2015 Bonds.

Risk of Uninsured Loss

The City covenants under the Project Lease to maintain insurance on the Arena. See “SECURITY FOR THE SERIES 2015 BONDS – Insurance.” These insurance policies do not cover all types of risk, and the insurance required under the Project Lease may be maintained in whole or in part in the form of self-insurance if the self-insurance complies with the terms thereof. The Arena could be damaged or destroyed due to earthquake or other casualty for which the Arena is uninsured. Additionally, as described below under “– Eminent Domain,” the Arena could be the subject of an eminent-domain proceeding. Under these circumstances, an abatement of Base Rental Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City’s liability insurance and rental-interruption insurance will in all events be able or willing to make payments under the policies for a loss should a claim be made under the policies. There also can be no assurances that amounts received as proceeds from insurance or from condemnation of the Arena will be sufficient to redeem the Series 2015 Bonds.

The Project Lease provides that the City’s obligation to maintain insurance may be satisfied by the insurance required to be maintained by ArenaCo under the ArenaCo Lease. The City might not be aware of a failure by ArenaCo to obtain or maintain the required insurance policies.

The City is not obligated under the Project Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Arena. The City currently carries earthquake insurance on the Arena, although the Project Lease does not require it to do so. The City plans to continue to purchase earthquake insurance on the Arena so long as this insurance can be obtained on the open market at reasonable rates. Depending on its severity, an earthquake could result in abatement of Base Rental Payments under the Project Lease. See “– Abatement.”

Risk of Insufficiency of Insurance Proceeds or Condemnation Awards

As described under “Risk of Uninsured Loss” and “Eminent Domain,” no assurances can be given that insurance proceeds or condemnation awards relating to the Arena will be sufficient to repair and restore the Arena and avoid an abatement of Base Rental Payments securing the Series 2015 Bonds. In addition, the City and ArenaCo have agreed in the ArenaCo Lease that if ArenaCo decides not to repair and restore the Arena, then any insurance proceeds or condemnation awards are to be allocated 50% to the Trustee to pay the outstanding amount of the Series 2015 Bonds and 50% to the ArenaCo lenders to pay the aggregate outstanding amounts of ArenaCo’s financings for the Arena. As a result, there may not be sufficient insurance proceeds or condemnation awards to repay or redeem the Series 2015 Bonds. See “ARENA – Arena Operations and Maintenance – Insurance Requirements.” Investors should note that the builder’s risk insurance during the construction phase of the Arena Facility and property insurance upon completion of construction of the Arena Facility and thereafter is only being obtained in an amount not less than, at any given time, 100% of the full replacement cost (without deduction for depreciation) of the Arena Facility, which will likely be less than the outstanding amount of the Series 2015 Bonds and the outstanding amount of the ArenaCo financings. Accordingly, there can be no assurances that insurance proceeds or condemnation awards actually available to the Trustee will be sufficient for the payment of the Series 2015 Bonds.

Eminent Domain

If the Arena is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Project Lease will cease as of the day possession is taken. If less than all of the Arena is taken permanently, or if the Arena or any part thereof is taken temporarily, under the power of eminent domain, then (a) the Project Lease will continue in full force and effect and will not be terminated by virtue of the taking, and (b) there will be a partial abatement of Base Rental Payments as a result of the application of net proceeds of any eminent-domain award to the prepayment of the Base Rental Payments, in an amount to be agreed upon by the City and the Authority so that the resulting Base Rental Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Arena.

As described in “SECURITY FOR THE SERIES 2015 BONDS – Insurance and Condemnation Awards,” ArenaCo is generally entitled to 50% of any condemnation awards relating to the Arena. There can be no assurances that condemnation proceeds actually available to the Trustee will be sufficient to provide for payment of the Series 2015 Bonds.

Hazardous Substances

The existence or discovery of hazardous materials may limit the beneficial use of the Arena. In general, the owners and lessees of the Arena may be required by law to remedy conditions relating to the release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well known and widely applicable of these laws, but State laws with regard to hazardous substances are similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous-substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

It is also possible that the beneficial use of the Arena may be limited in the future because of the current existence on the Arena Site of a substance currently classified as hazardous but which has not been released or the release of which is not currently threatened, or because of the current existence on the Arena of a substance not currently classified as hazardous but which might in the future be so classified. Furthermore, liability might arise not only from the existence of a hazardous substance but also from the method in which it is handled. All of these possibilities could substantially limit the City’s or the Authority’s beneficial use of the Arena.

The City is unaware of the existence of hazardous substances on the Arena Site that would materially interfere with the City’s beneficial use thereof.

Flood

The Federal Emergency Management Agency produces Flood Insurance Rate Maps that show which portions of the City are in the 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1-in-100 probability of occurrence in any year.

According to the City, the Arena Site is currently outside the 100-year floodplain. However, there can be no assurances that a significant flooding event would not materially adversely affect the use of the Arena. If the Arena is not available for the use and occupancy by the City as a result of

flooding, Base Rental Payments would be subject to abatement. See “RISK FACTORS – Abatement” herein.

Earthquake

Under the Project Lease, the City is not obligated to procure and maintain, or cause to be procured or maintained, earthquake insurance on the Arena. Depending on its severity, an earthquake could result in abatement of Base Rental Payments under the Project Lease. See “RISK FACTORS – Abatement” herein.

Unavailability of Funds to Pay Purchase Price on Mandatory Tender Date

The Series 2015 Bonds are subject to mandatory tender on the Mandatory Tender Date if the Series 2015 Bonds have not been converted to a Fixed Interest Rate before the Mandatory Tender Date. **There is no source of moneys to pay the purchase price of the Series 2015 Bonds on the Mandatory Tender Date other than proceeds of remarketing or refunding thereof. The City’s failure to purchase all of the Series 2015 Bonds on the Mandatory Tender Date will not constitute an Event of Default, but the Series 2015 Bonds will accrue interest at the Maximum Rate from (and including) the Mandatory Tender Date to (but excluding) the earlier of the Fixed Rate Conversion Date or the Maturity Date.**

Bankruptcy

In addition to the limitation in the Indenture and the Project Lease on remedies, the rights and remedies provided in the Indenture and the Project Lease may be limited by, and are subject to, federal bankruptcy laws and other laws or equitable principles that may affect the enforcement of creditors’ rights. The City is not subject to the involuntary procedures of the United States Bankruptcy Code (title 11 of the United State Code; the “**Bankruptcy Code**”). However, under Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. If the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code that apply in a Chapter 9 proceeding. Among the adverse effects of bankruptcy might be (a) the application of the automatic-stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (b) the avoidance of “preferential transfers” occurring during the relevant period before the filing of a bankruptcy petition; (c) the existence of unsecured or court-approved secured debt that might have a priority of payment superior to that of Owners of Series 2015 Bonds; and (d) the possibility of the adoption of a plan for the adjustment of the City’s debt (a “**Plan**”) without the consent of the Trustee or all of the Owners of Series 2015 Bonds, which Plan may restructure, delay, compromise, or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

While an involuntary bankruptcy petition cannot be filed against the City or the Authority, the City and the Authority are each authorized to file for bankruptcy under certain circumstances. Should the City or the Authority file for bankruptcy, there could be adverse effects on the Owners of the Series 2015 Bonds.

If the City is in bankruptcy, the parties (including the Trustee and the Owners of the Series 2015 Bonds) may be prohibited from taking any action to collect any amount from the City or to

enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the Owners of the Series 2015 Bonds from funds in the Trustee's possession.

The Series 2015 Bonds are not secured by any material property of the City other than the funds that the City has actually deposited with the Trustee, and the City is not obligated to make Base Rental Payments to the Trustee until the third Business Day before the applicable bond payment debt.

The City may be able to repudiate the Project Lease with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the Project Lease were repudiated, the claims of the Authority (and thus the Trustee and the Owners of the Series 2015 Bonds) may be capped at an amount that is no more than three years' rent under the Project Lease and could be substantially less, and the capped claim may not be paid in full. If the Project Lease were repudiated, the City as sublessee under the Project Lease might no longer be able to use the Arena, but the City as owner, ArenaCo, TeamCo, and the Authority may still be able to use the Arena. Under those circumstances, the Owners of the Series 2015 Bonds could suffer substantial losses.

The City may be able to assign the Project Lease with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the Project Lease were assigned, the assignee would replace the City as sublessee under the Project Lease, the City would no longer be obligated to make any payments (including Base Rental Payments) under the Project Lease, and the assignee would become obligated to make all payments (including Base Rental Payments) under the Project Lease. Any assignee might be a less desirable sublessee and might expose the Owners of the Series 2015 Bonds to additional or different risks, including risks of non-payment.

The City may be able to repudiate the Site Lease with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the Site Lease were repudiated, the Authority would have the option either to treat the Site Lease as terminated or to remain in possession. If the Authority treats the Site Lease as terminated, then the Project Lease would likely terminate. If the Project Lease terminates, the City would no longer be obligated to make any payments (including Base Rental Payments) under the Project Lease, but the City as owner may still be able to use the Arena. It is not clear whether ArenaCo and TeamCo would still be able to use the Arena. Any pre-bankruptcy agreement by the Authority not to treat the Site Lease as terminated may or may not be enforceable. Under those circumstances, there could be delays or reductions in payments on the Series 2015 Bonds.

The City may be able to sell the Arena Site and the Arena Facility with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the Arena Site and the Arena were sold, it is not clear whether or not the Site Lease and the Project Lease would automatically terminate. If the Site Lease or the Project Lease does terminate, the City would no longer be obligated to make any payments (including Base Rental Payments) under the Project Lease, and ArenaCo and TeamCo may no longer be able to use the Arena. Although the Authority

may have claims against the City, those claims may be capped as described above, and the City may not be required to pay any claim in full. Under those circumstances, the Owners of the Series 2015 Bonds could suffer substantial losses.

The City may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants, and other terms or provisions of the Project Lease, the Indenture, the Series 2015 Bonds, and other transaction documents without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds as long as the bankruptcy court determines that the alterations are fair and equitable.

The City could threaten to take any of the actions described above as part of negotiations to alter its obligations under the Site Lease, the Project Lease, or other transaction documents. If the Authority is in bankruptcy, the parties (including the Trustee and the Owners of the Series 2015 Bonds) may be prohibited from taking any action to collect any amount from the Authority or to enforce any obligation of the Authority unless the permission of the bankruptcy court is obtained. These restrictions might also prevent the Trustee from making payments to the Owners of the Series 2015 Bonds from funds in the Trustee's possession.

The Series 2015 Bonds are not secured by any material property of the Authority, other than the Project Lease.

The Authority may be able to repudiate the Site Lease with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the Site Lease were repudiated, then the Project Lease may terminate. If the Project Lease terminates, the City would no longer be obligated to make any payments (including Base Rental Payments) under the Project Lease, and the City as sublessee might no longer be able to use the Arena, but the City as owner, ArenaCo, and TeamCo may be able to use the Arena. Under those circumstances, the Owners of the Series 2015 Bonds could suffer substantial losses.

The Authority may be able to repudiate the Project Lease with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the Project Lease were repudiated, the City would have the option either to treat the Project Lease as terminated or to remain in possession. If the City treats the Project Lease as terminated, the City would no longer be obligated to make any payments (including Base Rental Payments) under the Project Lease, but the City as owner, ArenaCo, and TeamCo may still be able to use the Arena. Any pre-bankruptcy agreement by the City not to treat the Project Lease as terminated might or might not be enforceable. Under those circumstances, the Owners of the Series 2015 Bonds could suffer substantial losses.

The Authority may be able to sell or assign its leasehold estate in the Arena with the approval of the bankruptcy court but without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds, and without complying with the terms of the transaction documents. If the leasehold estate in the Arena is sold or assigned, it is not clear whether or not the Project Lease would automatically terminate. If the Project Lease does terminate, the City would no longer be obligated to make any payments (including Base Rental Payments) under the Project Lease. It is not clear whether ArenaCo or TeamCo would still be able to use the Arena. Under those circumstances, the Owners of the Series 2015 Bonds could suffer substantial losses.

The Authority may be able to borrow additional money that is secured by a lien on any of its property (including the Lease Revenues). Such a lien could have priority over the lien of the Indenture as long as the bankruptcy court determines that the rights of the Trustee and the Owners of the Series 2015 Bonds will be adequately protected. The Authority may be able to cause some of the Lease Revenues to be released to it, free and clear of the lien of the Indenture, as long as the bankruptcy court determines that the rights of the Trustee and the Owners of the Series 2015 Bonds will be adequately protected.

The Authority may be able to alter the priority, interest rate, principal, payment terms, maturity dates, payment sources, covenants, and other terms or provisions of the Indenture and the Series 2015 Bonds without the consent and over the objection of the Trustee and the Owners of the Series 2015 Bonds as long as the bankruptcy court determines that the alterations are fair and equitable.

The Authority could threaten to take any of the actions described above as part of negotiations to alter its obligations under the Site Lease, the Project Lease, the Indenture, or other transaction documents.

There may be delays in payments on the Series 2015 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City or the Authority that could result in delays or reductions in payments on the Series 2015 Bonds or result in losses to the Owners of the Series 2015 Bonds. Regardless of any specific adverse determinations in a City or Authority bankruptcy proceeding, the fact of a City or Authority bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2015 Bonds.

HoldCo, ArenaCo, and TeamCo are obligated to make substantial payments to the City, so if one or more of these entities goes into bankruptcy, the City could suffer financial stress.

City Financial Pressures

See “CITY FINANCIAL PRESSURES” for a discussion of certain factors that potentially could negatively affect the City’s financial condition and its ability to make Base Rental Payments.

No Acceleration; No Right to Relet Arena

The Series 2015 Bonds are not subject to acceleration under the Indenture. In addition, Base Rental Payments are not subject to acceleration upon the occurrence of an Event of Default under the Project Lease. The sole remedy of the Trustee if the City fails to make Base Rental Payments or otherwise defaults under its obligations under the Project Lease is to bring an action against the City annually to enforce payment of Base Rental Payments as they become due or to seek specific performance of any other defaulted obligation under the Project Lease, and the Authority expressly waives any right to re-enter and re-let the Arena or terminate the Project Lease.

Limitations on Remedies

The rights of the Owners of Series 2015 Bonds are subject (a) to the limitations on legal remedies against cities in the State, including applicable bankruptcy, insolvency, reorganization,

moratorium, and similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect; and (b) to the application of general principles of equity, including concepts of materiality, reasonableness, and good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law. See “– Bankruptcy.”

No Liability of Authority to the Owners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2015 Bonds with respect to the payment when due of the Base Rental Payments by the City, with respect to the City's performance of other agreements and covenants required to be performed by it contained in the Project Lease or the Indenture, or with respect to the performance by the Trustee of any right or obligation in the Indenture required to be performed by it.

Purchases and Transfers of Series 2015 Bonds Restricted to Qualified Institutional Buyers; No Secondary Market

As described “THE SERIES 2015 BONDS – Transfer Restrictions,” beneficial-ownership interests in the Series 2015 Bonds are to be sold (including in secondary-market transactions) only to Qualified Institutional Buyers that execute an Investor Letter in the form attached to this Limited Offering Memorandum as Appendix G. The Indenture contains provisions limiting transfers of beneficial-ownership interests in the Series 2015 Bonds to Qualified Institutional Buyers. The face of each Bond will contain a legend to the effect that beneficial-ownership interests in a Series 2015 Bond can only be transferred to, and owned by, Qualified Institutional Buyers. The Series 2015 Bonds will be issued in minimum denominations consisting of Authorized Denominations. In light of these restrictions, purchasers should not expect that there will be an active secondary market for the Series 2015 Bonds.

As a result of the matters described herein, including the pendency of the Litigation described in “PENDING LITIGATION CHALLENGING THE 2015 BONDS,” there is no public market for the Series 2015 Bonds, and none is expected to develop in the future.

Therefore, investors should be aware that they might be required to bear the financial risks of investment in the Series 2015 Bonds for an indefinite period of time and that, to the extent there is a secondary market for the Series 2015 Bonds, the secondary market price of the Series 2015 Bonds may be affected as a result of the restrictions.

If a trading market for the Series 2015 Bonds develops, future trading prices of the Series 2015 Bonds will depend on many factors, including, among other things, prevailing interest rates and the market for similar instruments. Depending upon those and other factors, the Series 2015 Bonds may trade at a discount from their principal amount.

Changes in Law

Articles XIII A, XIII B, XIII C, and XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot under the State's initiative process. From time to time, other initiative measures could be adopted that further affect the City's revenues, its ability to make Base Rental Payments, or its ability to expend revenues.

TAX MATTERS

In the opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal-income taxes. Bond Counsel observes that interest on the Bonds is not excluded from gross income for federal income-tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix D hereto.

If the Authority defeases any Bond, the Bond may be deemed to be retired and “reissued” for federal income-tax purposes as a result of the defeasance. In that event, in general, the beneficial owner of the Bond will recognize taxable gain or loss equal to the difference between (a) the amount realized from the deemed sale, exchange, or retirement (less any accrued qualified stated interest that will be taxable as such) and (b) the beneficial owner’s adjusted tax basis in the Bond. See “Description of the Bonds – Defeasance.”

Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership, and disposition of Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

CERTAIN LEGAL MATTERS

The validity of the Series 2015 Bonds and certain other legal matters are subject to the qualified approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. See “PENDING LITIGATION CHALLENGING THE 2015 BONDS.” A complete copy of the proposed form of the qualified Bond Counsel opinion is contained in Appendix D to this Limited Offering Memorandum. Certain legal matters will be passed upon for the City and the Authority by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel. The opinion of the City Attorney and the opinion of Bond Counsel in connection with the issuance of the Series 2015 Bonds are qualified in that they express no opinion as to the effect of the outcome of the Litigation on the Series 2015 Bonds or on the agreements that are the subject of their opinions. Certain legal matters will be passed on for the Underwriter by Nixon Peabody LLP. Bond Counsel, Disclosure Counsel, the City Attorney, and Underwriter’s counsel undertake no responsibility for the accuracy, completeness, or fairness of this Limited Offering Memorandum.

FINANCIAL STATEMENTS

The City’s financial statements for the fiscal year ended June 30, 2014, included in APPENDIX B – “CITY OF SACRAMENTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014,” have been audited by Vavrinek, Trine, Day & Company, LLP, Rancho Cucamonga, California, as stated in the report appearing in Appendix B. Vavrinek, Trine, Day & Company, LLP has not undertaken to update its audit or to take any action intended or likely to elicit information concerning the accuracy, completeness, or fairness of the statements made in this Limited Offering Memorandum, and no opinion is expressed by Vavrinek, Trine, Day & Company, LLP with respect to any event subsequent to the report appearing in Appendix B.

LITIGATION

As described in “PENDING LITIGATION CHALLENGING THE 2015 BONDS,” the Litigation, which challenges the validity of the Series 2015 Bonds and related agreements, is currently pending. To the actual knowledge of the Authority and the City as of the date of this Limited Offering Memorandum, neither the Authority nor the City has been served with process in, or overtly threatened with, any other litigation (a) concerning the validity of the Series 2015 Bonds or the pledge of the Lease Revenues; or (b) challenging any action taken by the Authority or the City in connection with the authorization of the Indenture, the Site Lease, the Project Lease, or any other document relating to the Series 2015 Bonds or the performance by the Authority or the City of any of their obligations under any of the foregoing.

RATINGS

Fitch Ratings has assigned its rating of “A” to the Series 2015 Bonds. This rating reflects only the view of Fitch Ratings, and any desired explanation of the significance of the ratings should be obtained from Fitch Ratings. There is no assurance the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Fitch Ratings, circumstances so warrant. Any downward revision or withdrawal of the rating might have an adverse effect on the market price of the Series 2015 Bonds.

In addition, the City has applied for a rating from S&P. The rating from S&P rating has not been issued as of the date hereof. If and when issued, the S&P rating will be posted on EMMA. There can be no assurances that S&P will assign a rating to the Series 2015 or, if a rating is assigned, what rating will be assigned. The rating assigned by S&P could materially affect the value of the Series 2015 Bonds.

FINANCIAL ADVISOR

The City has retained First Southwest Company, LLC (“**FirstSouthwest**”), as financial advisor in connection with the issuance and sale of the Series 2015 Bonds. Although FirstSouthwest has assisted in the preparation of the Limited Offering Memorandum, FirstSouthwest is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Limited Offering Memorandum or any of the other legal documents. Furthermore, FirstSouthwest does not assume any responsibility for the information, covenants, and representations with respect to the federal income-tax status of the Series 2015 Bonds or the possible effect of any current, pending, or future actions taken by any legislative or judicial bodies or rating agencies.

UNDERWRITING

Goldman, Sachs & Co. (the “**Underwriter**”) has agreed to purchase the Series 2015 Bonds at a price of 100% of the par amount. The Series 2015 Bonds are being purchased under a Forward Bond Purchase Agreement (“**FBPA**”) that was entered into by the City, the Authority, and the Underwriter in July 2014. Under the terms of the FBPA, the City paid the Underwriter upfront fees and commitment fees in connection with the Underwriter’s undertakings under the FBPA.

The Underwriter is a full-service financial institution engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment

management, investment research, principal investment, hedging, market making, and brokerage and other financial and non-financial activities and services. The Underwriter and its affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City for which the Underwriter and its affiliates received or will receive customary fees and expenses.

Goldman Sachs Bank USA, which is an affiliate of the Underwriter, also serves as the lead lender under the credit agreement entered into by ArenaCo and related entities to finance a portion of the costs to construct the Arena. See “THE ARENA – Background – Arena Funding – ArenaCo Funding.”

In the ordinary course of their various business activities, the Underwriter and its affiliates, officers, directors, and employees may purchase, sell, or hold a broad array of investments and may actively trade securities, derivatives, loans, commodities, currencies, credit default swaps, and other financial instruments for their own account and for the accounts of their customers. These investment and trading activities may involve or relate to assets, securities, or instruments of the Authority or the City (directly, as collateral securing other obligations, or otherwise) or to persons and entities with relationships with the Authority or the City. The Underwriter and its affiliates may also communicate independent investment recommendations, market color, or trading ideas and publish or express independent research views in respect of assets, securities, or instruments of the Authority or the City and may at any time hold, or recommend to clients that they should acquire, long or short positions in those assets, securities, and instruments.

CONTINUING DISCLOSURE

The City has agreed, in a Continuing Disclosure Certificate executed by the City in connection with the issuance of the Series 2015 Bonds, to provide certain financial information and operating data by April 1 following the end of the City’s Fiscal Year (currently its Fiscal Year ends on June 30) (the “**Annual Report**”), commencing with the report for Fiscal Year ending June 30, 2015, and to provide notices of the occurrence of specified “**Material Events**” to the Municipal Securities Rulemaking Board through its EMMA system. The Continuing Disclosure Certificate also requires periodic updates of certain information relating to the construction of the Arena Facility. See APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The City has previously entered into a number of continuing-disclosure undertakings under the Rule in connection with the issuance of long-term obligations, and has provided annual financial information and event notices in accordance with those undertakings. During the past five years, the City substantially complied with the requirements of its continuing-disclosure undertakings, but with certain minor or technical exceptions. For example, in certain continuing-disclosure filings, the City provided links to the City’s website where documents could be downloaded rather than submit the documents as part of the filing itself; with respect to certain bonds of the Sacramento City Financing Authority (“**SCFA**”) involving the Sacramento Housing and Redevelopment Agency (“**SHRA**”), and also with respect to bonds of SHRA itself, the posting of the SHRA’s audited financial statements occurred after the due date; and certain filings related to the SCFA’s bonds and SHRA’s bonds did not expressly include all the required information (including, in one instance, unaudited financial statements). In addition, certain filings were made after the required filing date. On one occasion, the City inadvertently failed to file a notice of an insurer-related rating change.

The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

ADDITIONAL INFORMATION

Summaries and explanations of the Series 2015 Bonds and documents contained in this Limited Offering Memorandum do not purport to be complete, and reference is made to those documents for full and complete statements of their provisions.

The preparation and distribution of this Limited Offering Memorandum have been authorized by the Authority and the City.

SACRAMENTO PUBLIC FINANCING AUTHORITY

By: _____
Russell T. Fehr, Authority Treasurer

CITY OF SACRAMENTO

By: _____
Russell T. Fehr, City Treasurer

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO

APPENDIX B

**CITY OF SACRAMENTO COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

APPENDIX C

**FORMS OF THE INDENTURE, PROJECT LEASE, SITE LEASE, AND SUBORDINATION
AGREEMENT**

APPENDIX D

PROPOSED FORM OF QUALIFIED BOND COUNSEL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “**Certificate**”), dated as of [_____] 1], 2015, is executed and delivered by the CITY OF SACRAMENTO (the “**City**”) in connection with the issuance of the Lease Revenue Bonds, Series 2015 (Golden 1 Center) (the “**Bonds**”) by the Sacramento Public Financing Authority (the “**Authority**”). The Bonds are being issued under an Indenture dated as of [_____] 1], 2015 (the “**2015 Indenture**”) between the Authority, the City, and Wells Fargo Bank, National Association, as Trustee (the “**Trustee**”). The City hereby covenants as follows:

1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section 1, the following capitalized terms have the following meanings:

- “**Annual Report**” means any Annual Report the City provides in accordance with Sections 2 and 3 below.
- “**Beneficial Owner**” means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository, or other intermediary) or (b) is treated as the owner of any Bond for federal income-tax purposes.
- “**Business Day**” means any day the City’s offices at 915 I Street, Sacramento, California, are open to the public
- “**Dissemination Agent**” initially means the City, and thereafter it means any successor Dissemination Agent the City appoints in writing.
- “**EMMA**” means the Electronic Municipal Market Access System of the MSRB (which can be found at www.emma.msrb.org) or any other repository of disclosure information the Securities and Exchange Commission may designate in the future.
- “**Listed Events**” means any of the events listed in Section 5(a) below.
- “**Limited Offering Memorandum**” means the limited offering memorandum with respect to the Bonds, dated [_____] 1], 2015.
- “**MSRB**” means the Municipal Securities Rulemaking Board.
- “**Participating Underwriter**” means the underwriter listed on the cover page of the Limited Offering Memorandum.
- “**Rule**” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

2. Provision of Annual Reports.

- (a) Beginning with the fiscal year ending June 30, 2015, the City shall provide to EMMA, or shall cause the Dissemination Agent to provide to EMMA, not later than the last day of the ninth month after the end of the City's fiscal year (which, as of the date of this Certificate, ends on June 30), an Annual Report that is consistent with the requirements of Section 3 below. If the Dissemination Agent is other than the City, then the City shall provide the Annual Report to the Dissemination Agent (in a form suitable for filing with EMMA) not later than 15 Business Days before the date referred to in the prior sentence. The Annual Report may be submitted as a single document or as separate documents composing a package and may include by reference other information as provided in Section 3 below, except that the City's audited financial statements may be submitted separately from, and later than, the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.
- (b) If the Dissemination Agent is an entity other than the City, then the provisions of this Section 2(b) will apply. The City shall provide the Annual Report to the Dissemination Agent not later than 15 Business Days before the date specified in Section 2(a) for providing the Annual Report. If the Dissemination Agent has not received a copy of the Annual Report by the 15th Business Day before the due date for the Annual Report, then the Dissemination Agent shall contact the City to determine whether the City will be filing the Annual Report in compliance with Section 2(a). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that the Annual Report constitutes the Annual Report the City must furnish under this Certificate. The Dissemination Agent may conclusively rely upon the City's certification and will have no duty or obligation to review the Annual Report.
- (c) If the Annual Report has not been provided to EMMA by the date required in Section 2(a), the Dissemination Agent shall send a notice to EMMA, in the form required by EMMA.
- (d) If the Dissemination Agent is other than the City, then, after receipt of the Annual Report, the Dissemination Agent shall promptly file a report with the City certifying that the Annual Report has been provided to EMMA and the date it was provided.
- (e) Notwithstanding any other provision of this Certificate, all filings must be made in accordance with the EMMA system or in another manner approved under the Rule.

3. Content of Annual Reports. The Annual Report must contain or include by reference all of the following:

- (a) The City's audited financial statements for the City's most recent fiscal year then ended. If audited financial statements are not available by the time the Annual Report is required to be filed by Section 2 above, the Annual Report must contain unaudited financial statements, and the audited financial statements must be filed in the same manner as the Annual Report when they become available.
- (b) The City's Annual Budget for the then-current fiscal year.

- (c) To the extent it is not included in the documents described in Sections 5(a) and 5(b) above, an update of the information in the tables of Appendix A to the Limited Offering Memorandum that are titled "STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE," "GROSS ASSESSED VALUES FOR ALL TAXABLE PROPERTY," "CITY OF SACRAMENTO LARGEST LOCAL SECURED TAXPAYERS," and "GENERAL FUND OBLIGATION DEBT SERVICE." The updated information must reflect the most recently completed fiscal year and must be substantially in the form of the corresponding tables in Appendix A.
- (d) Any or all of the items listed in Section 5(a) or 5(b) above may be included by specific reference to other documents (including official statements of debt issues of the City or related public entities) that have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available through EMMA.

4. Construction Updates. [To come.]

5. Reporting of Significant Events.

- (a) The City shall give or cause the Dissemination Agent to give notice to the MSRB, through EMMA, not less than 10 Business Days after the occurrence of any of the following events with respect to the Bonds:
 - (1) Principal and interest payment delinquencies.
 - (2) Unscheduled draws on debt-service reserves reflecting financial difficulties.
 - (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
 - (4) Substitution of credit or liquidity providers, or their failure to perform.
 - (5) Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds.
 - (6) Defeasances.
 - (7) Tender offers.
 - (8) Bankruptcy, insolvency, receivership, or similar proceedings.
 - (9) Ratings changes.
- (b) Additionally, the City shall give or cause the Dissemination Agent to give notice to the Municipal Securities Rulemaking Board, through EMMA, not less than 10 Business Days after occurrence of any of the following events with respect to the Bonds, if material:

- (1) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business; the entry into a definitive agreement to undertake such an action; or the termination of a definitive agreement relating to any such actions, other than under its terms.
 - (2) Appointment of a successor or additional fiscal agent or the change of the name of a fiscal agent.
 - (3) Nonpayment-related defaults.
 - (4) Modifications to the rights of Bondholders.
 - (5) Notices of prepayment.
 - (6) Release, substitution, or sale of property securing repayment of the Bonds.
- (c) If the City's fiscal year changes, then the City shall report the change, or shall instruct the Dissemination Agent to report the change, in the same manner and to the same parties as a Listed Event would be reported under this Section 5.
- (d) The undertakings set forth in this Certificate are the City's responsibility, and the Dissemination Agent, if other than the City, is not responsible for determining whether the City's instructions to the Dissemination Agent under this Section 5 comply with the Rule.

6. Termination of Reporting Obligation. The obligations of the City and the Dissemination Agent under this Certificate terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. If termination occurs before the final maturity of the Bonds, then the City shall give notice of the termination in the same manner as for a Listed Event under Section 5 above.

7. Dissemination Agent. The City may, from time to time, appoint a Dissemination Agent to assist it in carrying out its obligations under this Certificate and may discharge any Dissemination Agent without appointing a successor Dissemination Agent. The City will be the initial Dissemination Agent. The Dissemination Agent may resign by providing 30-days' written notice to the City, with the resignation effective upon appointment of a new Dissemination Agent.

8. Amendment.

- (a) The City may amend this Certificate without the consent of the Owners, and any provision of this Certificate may be waived, if all of the following conditions are satisfied:
- (1) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature, or status of the City or the type of business the City conducts;
 - (2) in the opinion of a nationally recognized bond counsel, the undertakings in this Certificate as so amended or waived would have complied with the Rule as of the

date of this Certificate, after taking into account any amendments or interpretations of the Rule as well as any change in circumstances; and

- (3) the amendment or waiver either (A) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners or (B) does not, in the City's determination, materially impair the interests of the Owners or Beneficial Owners of the Bonds.
- (b) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided under this Certificate, the first Annual Report provided after the amendment must include a narrative explanation of the reasons for the amendment and the effect of the change in the type of operating data or financial information being provided.
 - (c) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made must present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

9. Additional Information. This Certificate does not prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or from including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that required by this 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 specifically required by this Certificate, then the City will have no obligation under this Certificate to update the information or include it in any future Annual Report or notice of occurrence of a Listed Event.

10. Default. If the City or the Dissemination Agent fails to comply with any provision of this Certificate, then any Owner or Beneficial Owner of the Bonds may take any necessary and appropriate actions, including seeking mandate or specific performance by court order, to cause the City and the Dissemination Agent to comply with their obligations under this Certificate. A default under this Certificate will not be an Event of Default under the Indenture, and the sole remedy under this Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Certificate is an action to compel performance.

11. Duties, Immunities, and Liabilities of Dissemination Agent. Where an entity other than the City is acting as the Dissemination Agent, the Dissemination Agent will have only the duties specifically set forth in this Certificate, and the City shall indemnify and save the Dissemination Agent and its officers, directors, employees, and agents harmless against all losses, expenses, and liabilities they may incur that arise out of, or in the exercise or performance of, their powers and duties under this Certificate, including the costs and expenses (including reasonable attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The City shall pay any Dissemination Agent (a) compensation for its services provided under this Certificate in accordance with an agreed-upon schedule of fees; and (b) all expenses, reasonable legal fees, and advances made or incurred by the Dissemination Agent in the performance of its duties under this Certificate. The Dissemination Agent will have no duty or

obligation to review any information the City provides to it under this Certificate. The City's obligations under this Section 11 will survive the Dissemination Agent's resignation or removal and the payment of the Bonds. No person has any right to commence any action against the Dissemination Agent for any remedy other than specific performance of this Certificate. The Dissemination Agent is not liable under any circumstances for monetary damages to any person for any breach under this Certificate.

12. Beneficiaries. This Certificate inures solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters, and the Owners and Beneficial Owners from time to time of the Bonds, and it creates no rights in any other person or entity.

13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business will be the successor Dissemination Agent without the filing of any paper or any further act.

This Certificate is executed as of the date and year first set forth above.

CITY OF SACRAMENTO

By: _____
Russell T. Fehr, City Treasurer

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and neither the takes no responsibility for the completeness or accuracy thereof. The Authority and the City cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2015 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2015 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2015 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2015 Bonds. The Series 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2015 Series 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2015 Bond (“**Beneficial Owner**”) is

in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015 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 Series 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2015 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 Series 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 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 Series 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2015 Bond documents. For example, Beneficial Owners of Series 2015 Bonds may wish to ascertain that the nominee holding the Series 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2015 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any), and interest payments on the Series 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with

securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the Series 2015 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2015 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2015 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the Series 2015 Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

APPENDIX G

FORM OF INVESTOR LETTER

Sacramento Public Financing Authority
Sacramento, California

City of Sacramento
Sacramento, California

Goldman, Sachs & Co.
Los Angeles, California

Re: Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015
(Golden 1 Center) (Federally Taxable)

Ladies and Gentlemen:

The undersigned (the “**Investor**”) hereby acknowledges receipt, as Beneficial owner thereof, of \$_____ principal amount of Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015 (Golden 1 Center) (Federally Taxable) (the “**Series 2015 Bonds**”), issued under an indenture, dated as of _____ 1, 2015 (the “**Indenture**”), between the Sacramento Public Financing Authority (the “**Authority**”), the City of Sacramento (the “**City**”), and Wells Fargo Bank, National Association (the “**Trustee**”). Capitalized terms not otherwise defined herein have the meanings given them in the Indenture. In connection with the sale of the Series 2015 Bonds to the Investor, the Investor hereby makes the following representations upon which you may rely:

1. The Investor has authority to purchase the Series 2015 Bonds and to execute this letter and any other instruments and documents required to be executed by the Investor in connection with the purchase of the Series 2015 Bonds.
2. The Investor is a Qualified Institutional Buyer under Rule 144(a) of the Securities Act of 1933 and has sufficient knowledge and experience in financial and business matters, including the purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Series 2015 Bonds.
3. The Investor acknowledges and agrees that it will solely transfer its beneficial interest in the Series 2015 Bonds in compliance with Section __ of the Indenture. Specifically, the Investor acknowledges that beneficial-ownership interests in the Series 2015 Bonds may only be purchased by or transferred to Qualified Institutional Buyers that have delivered an investor letter in the form attached as Appendix G to the Limited Offering Memorandum with respect to the Series 2015 Bonds to the Authority, the City, the Trustee, and the transferor.
4. The Series 2015 Bonds are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Series 2015 Bonds, and the Investor intends to hold the Series 2015 Bonds for its own account and does not intend at this time to dispose of all or any part of the Series 2015 Bonds. The Investor understands that it

may need to bear the risks of this investment for an indefinite time because any sale before maturity might not be possible.

5. The Investor understands that the Series 2015 Bonds are not registered under the Securities Act of 1933 and that registration under that act is not legally required as of the date hereof. The Investor further understands that the Series 2015 Bonds (a) are not being registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, and (c) will be delivered in a form that might not be readily marketable.
6. The Investor acknowledges that the purchase and holding of the Series 2015 Bonds involve risks that might not be appropriate for certain investors. In particular, the Investor acknowledges that (a) litigation is now pending challenging the validity of the Series 2015 Bonds and related documents; (b) the opinions of Bond Counsel and the City Attorney relating to the Series 2015 Bonds are qualified and express no opinion as to the effect of the outcome of the litigation on the Series 2015 Bonds and the agreements that are the subject of the opinions; and (c) Bond Counsel, the City Attorney, and any other counsel representing the City express no opinions as to the merits of the litigation. **The Investor acknowledges that the City is not providing any assurances that the plaintiffs in the litigation will not prevail upon appeal. If the plaintiffs appeal in the litigation and prevail, the Investor acknowledges it may suffer a complete loss of its investment. Investors should seek advice of their own legal counsel before making any investment decision with respect to the Series 2015 Bonds.**
7. The Investor acknowledges that the obligations of the Authority under the Indenture are special, limited obligations payable solely from Lease Revenues under the terms of the Indenture and that neither the Authority nor the City is not directly or indirectly or contingently or morally obligated to use any other moneys or assets of the Authority or the City for amounts due under the Indenture.
8. The Investor has made its own inquiry and analysis with respect to the Bonds and the security therefor and other material factors affecting the security and payment of the Bonds.

Dated: _____, 20__

Very truly yours,

By: _____
Title: Authorized Officer

APPENDIX H
COMPLAINT IN SERIES 2015 BONDS LITIGATION

APPENDIX I

TENTATIVE DECISION AND JUDGMENT IN SERIES 2015 BONDS LITIGATION

APPENDIX J
FORM OF TITLE INSURANCE POLICY

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF SACRAMENTO

Introduction

The City of Sacramento (the “**City**”) is located at the confluence of the Sacramento and American Rivers in the northern part of California’s Central Valley. The City is approximately 75 air miles northeast of San Francisco and benefits from a mild climate, with many days of sunshine each year and daily average temperatures ranging from 54° F in January to 92° F in July. The average elevation of the City is 25 feet above sea level.

The City was settled in the late 1830s and incorporated in 1849. In 1854, the City became the capital of the State of California (the “**State**”), a position made permanent by the State’s Constitutional Convention in 1879. Today, State government employees and government-related activities contribute substantially to the City’s economy.

Government

The City operates under a City Charter that currently provides for an elected nine-member City Council including an elected Mayor. There are no other elected City officials. The City Council appoints the City Manager, the City Attorney, the City Treasurer, and the City Clerk to carry out its adopted policies. The City Council also appoints the City Auditor and the Independent Budget Analyst. The Independent Budget Analyst position is a new position that is funded for the first time in the Adopted Fiscal Year 2015/16 City Budget. The Mayor is chairperson of the City Council, serves a four-year term, and is elected in at-large City elections. The other members of the City Council also serve four-year terms but are elected from one of eight districts.

The City provides a number of municipal services, including administration, police, fire, library, recreation, parking, public works, and utilities services such as water production and distribution, refuse collection, storm drainage, and maintenance.

Key Personnel

John F. Shirey, City Manager. Mr. Shirey has over 35 years of experience from a variety of government positions. Most recently, Mr. Shirey was the Executive Director of the California Redevelopment Association. Mr. Shirey has also served in senior executive positions as City Manager of Cincinnati, Assistant City Manager of Long Beach, California, and Assistant Chief Administrative Officer of Los Angeles County. Mr. Shirey holds a Bachelor of Science in industrial engineering from Purdue University and a Master of Public Administration from the University of Southern California.

James Sanchez, City Attorney. In October 2012, James Sanchez was appointed City Attorney effective December 2012. Mr. Sanchez has practiced municipal law for over 25 years. His prior positions include City Attorney for the City of Fresno, Chief Assistant City Attorney for the City of Fresno, City Attorney for the City of Salinas, and Deputy County Counsel for the County of Fresno. He received a Bachelor of Arts from Pepperdine University in 1981, graduating Magna Cum Laude (High Honors), and a law degree from the University of California Hastings College of Law in 1984.

Russell T. Fehr, City Treasurer. Mr. Fehr was appointed City Treasurer in May 2008. As Treasurer, he is responsible for investing City funds, banking, and debt management. Before being appointed City Treasurer, Mr. Fehr was the City's Finance Director. Before joining the City, Mr. Fehr was the Budget and Debt Officer in the Sacramento County Executive's Office for 19 years. During his career, Mr. Fehr has managed and participated in a wide variety of debt financings, including facility issues, revenue-anticipation notes, redevelopment issues, and a tobacco-settlement securitization. The facilities financed include a Triple-A baseball park, a musical theater in the round, libraries, parks, an art museum, a golf course, a jail, a juvenile courthouse, health clinics, and office buildings. Mr. Fehr holds a Bachelor of Arts in classics from Dartmouth College and a Master of Arts in anthropology from the University of Arizona.

Shirley Concolino, City Clerk. Ms. Concolino was appointed City Clerk in December 2003. Before that appointment, she was the Mayor-and-Council Operations Manager for the Sacramento City Council from 1990 to 2003. Before her positions with the City, Ms. Concolino was the Administrative Assistant to the County Executive Officer in Solano County from 1985 to 1990, and before that she was Assistant to the City Manager in Davis, California.

Leyne Milstein, Director of Finance. Ms. Milstein was appointed Finance Director in October 2008, bringing over 14 years of experience in government management, policy, and finance at the state and local level. Before becoming the Finance Director, Ms. Milstein was the Manager of the Budget, Policy, and Strategic Planning Division. Before joining the City, Ms. Milstein worked for the State of California as Director of the Information Technology and Support Management Division for the California Commission on Teacher Credentialing; as an analyst at the California Department of Finance; and as staff to the State Public Works Board. Ms. Milstein holds a Bachelor of Arts in political science from the University of California at Davis and a Master of Public Administration from California State University Hayward.

Employee Relations

Under the Meyers-Milias-Brown Act (California Government Code section 3500 *et seq.*), the City is required to meet and confer with its employees on all matters concerning wages, hours, and working conditions.

City employees are represented in 16 bargaining units by nine labor organizations. The Stationary Engineers, Local 39 of the International Union of Operating Engineers, is the largest labor organization, representing approximately 32% of all City employees in a variety of classifications. The most recent recognized employee organization, the Sacramento City Exempt Employee Association ("SCXEA"), was formed in 2011 and is the recognized employee organization of employees in the Exempt Management Unit, the Exempt Management Support Unit, and the Confidential/Administrative Unit. These three units represent approximately 15% of the City's labor force.

There have been no major work stoppages by City employees since 1970. Approximately 98% of all City employees are covered under negotiated agreements. Salary and benefits for all units are defined until the agreements expire.

The City is in negotiations with two of the City's labor organizations. Negotiations are in progress with SCXEA and the Western Council of Engineers ("WCE"). The most-recent agreement

with WCE expired on June 26, 2015; the most-recent agreement with SCXEA expired in December 2014.

There are three unrepresented employee units: Executive Management, Mayor/Council Support, and non-career employees. Remaining employees not currently represented include the City Manager (and key staff), the City Attorney, the City Treasurer, and the City Clerk; the Fire Chief and Fire Deputy Chiefs; the Police Chief and Police Deputy Chiefs; department heads; and a few employees who deal directly with negotiations, such as the Budget Manager and the Labor Relations Manager.

The City provides defined-benefit retirement benefits through the State of California's Public Employees' Retirement System ("CalPERS") and the Sacramento City Employees' Retirement System ("SCERS"). CalPERS is a multiple employer public-employee defined-benefit pension plan while SCERS is a single-employer defined-benefit pension plan. See "RETIREMENT AND OPEB OBLIGATIONS."

CITY FINANCES

City Budget

The City Council annually adopts an operating and capital budget for a single fiscal year beginning July 1 and ending June 30 in the subsequent calendar year.

To establish the annual budget, department fund managers, in coordination with the Budget Division of the Finance Department, review actual revenue receipts, economic and revenue forecasts from an outside consultant, and internal revenue forecasts developed by the Finance Department from estimates of tax revenues and other discretionary revenues to determine what resources will be available to support operating requirements; departments are then tasked with developing a plan for expenditure of projected available resources for the coming fiscal year. Similarly, capital-improvement program priorities are matched with available funds from multiple funding sources. Labor costs are updated to reflect salary and benefit changes required under the negotiated agreements and estimates for any unrepresented employees are also updated.

A base budget reflecting the estimated costs of providing programs and services in the new budget year is then prepared. This base budget also includes the estimates of revenues and other financing sources and the operating and capital budgets that are prepared and transmitted to the Mayor and City Council by the City Manager, as required by City Charter, at least 60 days before the start of the fiscal year. The Mayor and Council review the proposed operating and capital-improvement budgets in public hearings held in May or June.

Following the public hearing process, changes from the Mayor and City Council are incorporated into an amended budget. The budget is then formally adopted by the vote of the City Council on or before June 30 of each year. The budget for Fiscal Year 2015-16 was adopted on June 9, 2015. The final adopted budget will be available on the City's website at portal.cityofsacramento.org/Finance/Budget in fall 2015.

Adopted Fiscal Year 2015-16 Budget

The Adopted General Fund budget for Fiscal Year 2015-16 is the second consecutive budget that does not require reductions in services, programs, or employees. The Amended General Fund budget includes revenues and other sources of \$400.5 million and expenditures of \$404.2 million, including one-time costs of \$8.0 million in priority budget initiatives, resulting in a projected \$3.7 million deficit (offset by usage of fund balance). Excluding the one-time costs attributable to priority budget initiatives, Fiscal Year 2015-16 is projected to have a surplus of \$4.3 million. While revenues are projected to exceed ongoing expenditures in Fiscal Year 2015-16, the changes recently approved by CalPERS relative to actuarial assumptions and methodologies will result in increased costs for CalPERS member agencies. As a result, the City's expenditures are forecast to once again outpace revenues beginning in Fiscal Year 2016-17.

The General Fund budget funds the delivery of the most common programs and services to the community. Because the primary function of the City is to provide services, the largest portion of the budget is tied to the cost of City employees. Currently, 71.4 % of the General Fund budget is projected to be used to fund employee services. Aside from the outright elimination of funded positions and employee layoffs, the City has a very limited ability to reduce the cost of labor absent the cooperation of the City's employee unions.

In addition, there are several areas of expense that have pre-determined payment schedules and that Council is highly unlikely to reduce, including debt service, payments for taxes and services to the County of Sacramento (the "**County**"), and contributions to CalPERS and SCERS. These expenditures effectively limit the discretionary portion of the budget.

Further budget adjustments may be necessary depending on the outcome of the County budget process.

The following table shows the adopted budget for Fiscal Year 2014-15 and the adopted budget for Fiscal Year 2015-16.

CITY OF SACRAMENTO - GENERAL FUND BUDGET
(\$ in Thousands)

	Fiscal Year 2014-15 Amended	Fiscal Year 2015-16 Adopted
AVAILABLE FUNDS:		
Property Taxes	\$125,103	\$131,612
Sales and Use Taxes	72,504	75,358
Utility Users Tax	58,982	59,572
Other Taxes	17,618	17,815
Licenses and Permits	13,887	14,916
Fines, Forfeitures and Penalties	11,811	12,037
Use of Money	714	714
Intergovernmental Revenue	11,046	11,532
Charges, Fees and Services	44,525	45,788
Other Revenues	3,224	124
Transfers from Other Funds	<u>29,200</u>	<u>29,742</u>
Total Resources:	388,616	399,209
REQUIREMENTS:		
Current Operations:		
Employee Services	364,453	388,758
Other Services and Supplies	98,257	98,693
Equipment	6,989	6,929
Debt Service	24,024	23,984
Transfers	(583)	(605)
Labor/Supply Offset	(118,509)	(127,072)
Use of Contingency	1,000	1,000
Operating Transfers	<u>2,407</u>	<u>2,459</u>
Subtotal Current Operations:	378,038	394,146
Capital Improvements:		
General Government	2,204	1,976
Public Safety	2,900	8,028
Subtotal Capital Improvement:	<u>5,104</u>	<u>10,004</u>
Total Requirements:	383,142	404,150
Other Financing Sources:		
Beginning Undesignated Fund Balance:	--	11,234
Other	<u>105</u>	<u>1,242</u>
Total Other Sources:	<u>105</u>	<u>12,476</u>
Total Surplus (Deficit)	<u>5,579</u>	<u>(3,699)</u>
Ending Undesignated Fund Balance:	<u>1</u>	<u>7,535</u>

Source: City of Sacramento.

General Fund Financial Summary

The information contained in the table on the following page is summarized from the City's audited financial statements for Fiscal Years 2010-11 through 2013-14.

**STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
(\$ in Thousands)**

	Actual 2009-10	Actual 2010-11	Actual 2011-12	Actual 2012-13	Actual 2013-14
REVENUES:					
Property Taxes	\$ 140,013	\$ 133,099	\$ 130,287	\$ 129,370	\$ 138,225
Sales and Use Taxes	45,670	47,680	50,683	52,301	56,575
Utilities Use Tax	58,700	58,887	58,787	59,066	59,613
Other Taxes	15,937	14,461	16,386	17,633	20,318
Licenses and Permits	12,709	13,582	12,124	12,688	12,997
Fines, Forfeitures and Penalties	11,131	10,134	11,020	9,165	10,567
Interest, Rents and Concessions	(88)	1,927	1,702	1,788	2,206
Intergovernmental Revenues	15,294	15,516	12,021	11,108	9,300
Charges, Fees and Services	41,737	41,486	38,157	47,392	51,323
Other Revenues	142	411	2,090	3,440	379
Total Revenues:	<u>\$ 341,245</u>	<u>\$ 337,183</u>	<u>\$ 333,257</u>	<u>\$ 343,951</u>	<u>\$ 361,503</u>
EXPENDITURES:					
General Government	\$ 24,009	\$ 22,453	\$ 21,250	\$ 19,073	\$22,623
Public Safety	230,225	218,984	210,124	216,760	218,911
Public Works	19,425	15,204	16,082	16,353	15,301
Parks & Rec, Comm. Develop, CCS	56,493	51,499	46,334	48,350	48,447
Non-Departmental	26,330	32,247	31,957	32,945	36,965
Capital Improvements	4,918	6,068	2,151	5,755	9,672
Debt Service	1,189	1,970	1,839	2,187	3,140
Total Expenditures:	<u>\$ 362,589</u>	<u>\$ 348,425</u>	<u>\$ 329,737</u>	<u>\$ 341,423</u>	<u>\$ 355,059</u>
Excess of Revenues over Expenditures	<u>\$ (21,344)</u>	<u>\$ (11,242)</u>	<u>\$ 3,520</u>	<u>\$ 2,528</u>	<u>\$ 6,444</u>
OTHER FINANCING SOURCES (USES):					
Transfers from Other Funds	\$ 23,948	\$ 31,937	\$ 28,679	\$ 28,541	\$ 29,924
Transfers to Other Funds	(24,136)	(22,878)	(24,055)	(23,530)	(23,418)
Proceeds from Long-Term Debt	4,551	-	-	2,818	5,998
Proceeds from Sale of Property	-	-	-	-	-
Special Items	-	-	-	8,534	-
Total Other Financing Sources (Uses):	<u>\$ 4,363</u>	<u>\$ 9,059</u>	<u>\$ 4,624</u>	<u>\$ 16,363</u>	<u>\$ 12,504</u>
Net Change In Fund Balance	(16,981)	(2,183)	8,144	18,891	18,948
Fund Balance, beginning of year	\$ 72,088	\$ 55,107	\$ 52,924	\$ 61,068	\$ 79,959
Fund Balance, end of year	<u>\$ 55,107</u>	<u>\$ 52,924</u>	<u>\$ 61,068</u>	<u>\$ 79,959</u>	<u>\$ 98,907</u>
Less Reserves and Commitments:					
Reserved / Nonspendable	\$ 7,119	\$ 308	\$ 94	\$ 72	\$ 66
Restricted	-	86	64	40	3,422
Designated / Committed:					
Economic Uncertainty	10,540	14,340	20,263	27,765	33,714
Capital Projects	24,157	19,612	21,542	21,789	21,728
Balanced Budget	3,800	-	-	-	-
Community Center Theater renovation	-	-	-	8,500	8,500
OPEB trust fund	-	-	-	2,000	-
Other Programs	9,491	12,468	9,349	9,347	13,909
Assigned:					
Next Year's Budget	-	5,138	9,354	10,446	-
Unrealized Investment Gains	-	972	402	-	173
Fund Balance Available for Appropriation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,395</u>

Certain amounts in years before Fiscal Year 2010-11 have been reclassified for presentation in order to be consistent with the GASB Statement No. 54 presentation.

Source: City of Sacramento.

Financial Schedules

A copy of the City's Comprehensive Annual Financial Report (the "CAFR") for the Fiscal Year ended June 30, 2014, is attached as Appendix B to this Official Statement. Prospective investors are encouraged to read the CAFR, including the Management's Discussion and Analysis, the Financial Statements, and the Notes to the Financial Statements, because it includes important information concerning the City and its financial condition.

Audited financial statements for prior years are available upon request from the City's Finance Department or may be obtained from the City's website at <http://portal.cityofsacramento.org/Finance/Accounting/Reporting>. Information on the City's website is not incorporated into this Official Statement. Vavrinek, Trine, Day & Co., LLP, performed the financial statement audit for the City for the fiscal year ended June 30, 2014.

Property Taxation within the City

Property taxes make up the largest source of City discretionary revenue. The City lost the ability to set a property-tax rate with the adoption of Proposition 13 in 1978, which added Article XIII A to the State Constitution.

As a result, beginning with Fiscal Year 1981-82, property has been assessed at 100% of cash value, and the maximum property-tax rate is \$1.00 per \$100 of taxable value. See the forepart of the Official Statement under the caption "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution" for a discussion of the constitutional limitations on the City's ability to issue general-obligation debt payable from an increase in the tax rate.

Additionally, the taxable value reflects homeowners and business-inventory exemptions. Tax revenues lost as a result of each homeowner's exemption are reimbursed by the State based on the total taxes that would be due on the taxable value of the property qualifying for that exemption, without allowance for delinquencies. If a homeowner files for the exemption, the exemption is \$7,000 of the taxable value of an owner-occupied dwelling, corresponding to \$70 in taxes.

For purposes of assessment and collection, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed real property and property on which the taxes are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Personal property is assessed on the "unsecured roll."

The following table summarizes assessed valuations in the City for Fiscal Years 2001-02 through 2013-14.

**GROSS ASSESSED VALUES
FOR ALL TAXABLE PROPERTY⁽¹⁾
(\$ in Thousands)**

Fiscal Year	Secured Roll	Unsecured Roll	Public Utility	Total
2001-02	\$ 19,718,191	\$ 1,717,368	\$ 57,292	\$ 21,492,851
2002-03	21,855,519	1,157,123	66,428	23,079,070
2003-04	23,859,347	1,168,917	60,909	25,089,173
2004-05	27,010,976	1,343,104	57,800	28,411,880
2005-06	31,112,448	1,374,566	56,950	32,543,964
2006-07	35,687,712	1,441,042	54,611	37,183,365
2007-08	39,286,839	1,548,914	15,371 ⁽²⁾	40,851,124
2008-09	40,360,550	1,691,096	11,948	42,063,594
2009-10	37,446,222	1,819,726	11,937	39,277,885
2010-11	36,388,660	1,742,828	11,977	38,143,465
2011-12	35,267,406	1,711,462	12,132	36,991,000
2012-13	34,332,037	1,626,943	13,157	35,972,137
2013-14	35,829,529	1,546,891	12,381	37,388,801
2014-15	37,918,666	1,585,876	18,173	39,522,715

(1) Derived from Equalized Assessed Valuation Report.

(2) The decrease in public utility assessed value is primarily due to the transfer of the downtown railyards to a private developer and the City.

Source: County of Sacramento, Office of Auditor/Controller.

The City receives only a portion of the property taxes collected within the City, sharing the revenue with school districts, successors to redevelopment agencies, special districts, and the County. The sharing of property-tax revenue is based on formulae set in State law and regulations, and annual changes in tax revenue are proportional to changes in the tax-roll values within the City. Property taxes are billed, collected, and allocated by the County. The table below summarizes property-tax revenues derived from the Secured Rolls from Fiscal Year 2001-02 to Fiscal Year 2014-15.

**PROPERTY TAX REVENUES
RECEIVED BY THE CITY**

<u>Fiscal Year</u>	<u>Property Tax Revenues Current Secured</u>
2001-02	\$47,856,588
2002-03	49,975,253
2003-04	56,252,512
2004-05	59,130,256
2005-06	67,732,223
2006-07	80,513,714
2007-08	86,512,564
2008-09	88,326,770
2009-10	82,698,410
2010-11	78,787,724
2011-12	80,731,000
2012-13	78,309,000
2013-14	79,853,763
2014-15*	84,687,225

Source: City of Sacramento Revenue Division.
*Includes second installment of FY 2014-15
collections through April 10, 2015, received by
the City on May 15, 2015

Until the economic downturn that began in 2008, which was particularly acute in the Sacramento area and its housing market, the assessed values in the City had grown each year from Fiscal Year 2000-01 through Fiscal Year 2008-09. Notices of default and foreclosures of property within the City significantly increased beginning in Fiscal Year 2006-07 before declining in recent years. The table below shows the historical data of the notices of default and foreclosures of property within the City.

**NOTICES OF DEFAULT
AND FORECLOSURES OF PROPERTY
WITHIN THE CITY**

Fiscal Year	Number of Notices
2001-02	217
2002-03	130
2003-04	78
2004-05	57
2005-06	516
2006-07	2,852
2007-08	6,968
2008-09	4,833
2009-10	4,339
2010-11	3,838
2011-12	2,395
2012-13	867
2013-14	332

Source: County of Sacramento, Office of the Assessor.

In addition, the assessed values of a large number of properties in the City have been reduced under Proposition 8, which generally provides for reductions in assessed valuations of properties to reflect current market values. The table below shows the recent historical impact of those reductions.

**PROPOSITIONS 8 REDUCTIONS
WITHIN THE CITY**

Fiscal Year	Number of Parcels	Aggregate Amount of Revaluations (\$ in million)
2010-11	51,331	\$ 774
2011-12	59,945	1,270
2012-13	71,243	1,270
2013-14	40,781	573
2014-15	24,512	944

Source: County of Sacramento, Office of the Assessor.

**HISTORICAL ASSESSED VALUATIONS
WITHIN THE CITY**

Fiscal Year	Assessed Valuation (change from prior Fiscal Year)
2009-10	(5.6%)
2010-11	(2.4)
2011-12	(5.0)
2012-13	(0.2)
2013-14	3.2
2014-15	5.9

Source: County of Sacramento, Office of the Assessor 2014 Annual Report.

The following table lists the City’s largest local secured taxpayers for the fiscal year ending June 30, 2012. Many of the largest taxpayers own commercial office space in downtown Sacramento.

**CITY OF SACRAMENTO
LARGEST LOCAL SECURED TAXPAYERS
AS OF JUNE 30, 2014
(\$ in Thousands)**

Property Owner	Assessed Valuation	Rank	% of Total
Hines VAF II Sacramento	\$ 442,978	1	1.20%
CIM Sacramento LLC	230,772	2	0.62
Arden Fair Associates	137,159	3	0.37
Verizon Wireless	132,738	4	0.36
621 Capitol Mall LLC	124,810	5	0.34
300 Capitol Association NF LP	109,000	6	0.30
HP Hood LLC	84,287	7	0.23
Target Corp	81,423	8	0.22
500 Capitol Mall LLC	79,119	9	0.21
Capitol Regency LLC	74,784	10	0.20
Net Assessed Value Total:	\$1,497,070		4.05%
Net Assessed Value Total:	\$36,925,255		100.00%

Source: The City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

Other Taxes

Sales and Use Tax. In 1956, the City adopted a Bradley-Burns Sales Tax Ordinance that allows the City to be allocated a percentage of the overall sales tax imposed in the City. The level of that sales tax has been set at 1% since April 1, 1969. The State Board of Equalization collects and distributes sales-and-use tax for the State, cities, counties, and other entities receiving sales-tax revenue.

Proposition 172 was approved by voters to permanently extend an additional 0.5% sales tax beyond December 31, 1993. The legislation requires that this sales tax continue to be deposited in the Public Safety Augmentation Trust Fund for distribution to counties and cities based on sales-tax-allocation percentages previously calculated. The City receives approximately 4% of this Proposition 172 sales-tax revenue allocated to jurisdictions within the County.

In November 2004, voters approved Measure A to extend the sales-and-use tax rate in Sacramento County by 0.5% to 2039. The proceeds of this Measure A tax are administered by the Sacramento Transportation Authority and are used to fund a comprehensive program of roadway and transit improvements, including highway, street, and road construction; highway, street, and road maintenance; bus and light-rail capital and operations; improved transportation services for elderly and handicapped persons; and transportation-related air-quality programs.

As part of the Fiscal Year 2003-04 budget for the State that was signed by Governor Schwarzenegger on July 31, 2004, and of the State's economic-recovery plan, a bond initiative formally known as the "California Economic Recovery Act" was approved by the voters on March 2, 2004. This act authorized the issuance of \$15 billion in economic-recovery bonds that were to be used to finance the State's Fiscal Year 2002-03 and Fiscal Year 2003-04 budget deficits, and are payable from a fund established by the redirection to the State of 25% of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdictions, commencing on July 1, 2004.

As a result, the portion of the sales-and-use tax amounts that otherwise would have been allocated to local governments, including to the City, would have decreased from 1% to 0.75%. However, beginning in Fiscal Year 2004-05, the local governments' share of local property-tax revenues was restored by an amount equal to the 25% reduction in the 1% share of the local sales-and-use tax, creating a revenue-neutral effect on local governments tax revenues for Fiscal Year 2004-05 and subsequent fiscal years. This system will remain in effect until the State's economic-recovery bonds have been retired. See also "Effect of State Budget on City" below.

In calendar year 2014, the City's sales-tax revenues increased 2.7% as compared to calendar year 2013. Statewide sales-tax revenues increased by 4.5% during the same period. During the final quarter of calendar year 2014 (October through December 2014), the City saw its highest level of sales-tax receipts compared to the previous eight quarters across several economic segments including restaurants, miscellaneous retail, food markets, and apparel stores. Growth in the construction sector, which was negatively affected by the economic downturn that began in 2008, is expected to pick up with the lifting of the building moratorium in North Natomas in June 2015. (New housing construction will be limited to 1,000 single family homes and 500-multi-family units during the first 12 months.) The Entertainment and Sports Center currently under construction in the downtown area of the City ("ESC") will also increase growth in the construction sector in Fiscal Year 2015-16, and the City anticipates continued growth in sales-tax revenues related to other sectors in Fiscal Year 2016-17 and beyond. Based on the most recent information from the City's sales-tax consultant, sales-tax growth projections are currently estimated at 4% in Fiscal Year 2015-16 and 3% annually from Fiscal Year 2016-17 through Fiscal Year 2019-20.

Utility Users Tax. On November 8, 1988, the voters approved Measure C, an advisory measure asking this question: "Should the utility users tax rate be maintained at 7.50% in order to provide additional General Fund revenues to augment City services such as public safety?" On November 4, 2008, Measure O was approved by voters, reducing the utility users tax ("UUT") on

telephonic services from 7.50% to 7.00% and expanding the scope of the tax to include new communication technologies. All other UUT rates remained unchanged at 7.50%.

There are some possible upcoming challenges to the UUT revenue stream. Changes to the taxation and franchise-fee structure for telecommunications and cable television are being proposed at the federal level, and legislation related to those changes was recently approved at the State level. Some of the proposed changes, if and when implemented, could reduce the UUT imposed on telephone and cable television use. The five components of UUT revenue have seen minimal growth over the past five years as industry trends and regulations have changed. Based on actual revenues collected over the past five years, UUT is projected to be \$59.6 million in Fiscal Year 2015-16, and the growth from Fiscal Year 2016-17 to Fiscal Year 2019-20 is forecast at 1% annually.

Transient Occupancy Tax. Since 1990, the City has imposed a transient-occupancy tax (“TOT”), the level of which is currently set at 12%. The revenues from the TOT are currently designated for the City’s Community Center Fund (10%) and the General Fund (2%).

The General Fund component of the TOT is projected to increase by approximately \$500,000, when comparing expected Fiscal Year 2014-15 receipts of \$3.4 million to projected receipts of \$3.9 million in the Adopted Fiscal Year 2015-16 Budget.

Measure U. On November 6, 2012, the voters of the City passed Measure U, authorizing a temporary \$0.005 sales tax to restore and protect City services. The tax became effective on April 1, 2013, and terminates on March 31, 2019, unless renewed.

MuniServices, the City’s sales-tax consultant, is continuing to evaluate Measure U tax receipts and is working with the State Board of Equalization (“BOE”) to reconcile and correct the over/under payments received by the City. The following provides a summary of the variances affecting the City’s collections that are currently under review: (1) the City is erroneously receiving collections from businesses located within the County but not within the City; and (2) businesses with multiple locations appear to be remitting Measure U taxes for non-City locations. Additionally, the taxability of internet transactions, “business-to-business” sales, and “business-to-government” sales is being reviewed, as these purchases do not follow a cyclical pattern.

Based on only three quarters of sales-tax data, the Fiscal Year 2014-15 revenue budget for Measure U is projected to be \$41.5 million. Staff will continue to provide updates on Measure U collections and updated projections as information becomes available. The revenue forecast for this tax assumes 1.3% growth in Fiscal Year 2015-16 revenue over projected Fiscal Year 2014-15 revenue, and 4% growth in subsequent years, with Fiscal Year 2018-19 reflecting the expiration of the tax in March 2019. Staff continues to work with the City Council to identify high-priority projects to be funded by Measure U revenues in the Adopted Fiscal Year 2015-16 Budget.

Although Measure U funds provide resources to protect and restore vital services, the use of temporary resources will create an enormous burden when the tax expires in 2019 unless contingency planning is done. Consistent with City Council’s adopted policies relative to Measure U, a reserve has been established that will provide resources through the end of Fiscal Year 2018-19 and cover a portion of the costs related to Measure U restorations in Fiscal Year 2019-20.

The Adopted Budget for Measure U reflects the annual cost of programs and services the City Council has previously approved. As originally proposed in the restoration plan, the Police Department will be adding 15 new sworn positions and the costs associated with the retention

of positions for the new COPS Hiring Program approved in Fiscal Year 2013-14, which funded 10 additional positions.

The City Council has begun a public discussion of Measure U renewal options. A permanent renewal of the sales tax, rather than a temporary term has been advocated. One concept discussed is using a portion of a renewed tax, beginning in Fiscal Year 2020, for capital rather than operational needs.

The Measure U restoration plan as shown on the following chart is based on the information below:

MEASURE U REVENUES AND EXPENDITURES
(in 000s)

	Total FTE	FY16	FY17	FY18	FY19	FY20	FY21
Beginning Fund Balance		\$32,746	\$25,859	\$28,023	\$29,225	\$18,139	\$-
REVENUES		\$42,046	\$43,798	\$45,610	\$35,619	-	-
Fire Department	110.00	16,232	13,429	13,774	14,130	14,499	14,879
Police Department	205.50	18,592	19,066	21,228	22,890	23,404	23,932
Parks Department	127.80	13,086	8,451	8,714	8,986	9,266	9,554
Miscellaneous	2.00	1,023	687	693	698	704	710
Total Measure U Restorations		\$445.30	\$48,933	\$41,634	\$44,408	\$46,705	\$47,873
Annual Change in Fund Balance		(6,887)	2,164	1,202	(11,086)	(47,873)	(49,076)
Cumulative Reserve⁽²⁾		\$25,859	\$28,023	\$29,225	\$18,139	(\$29,734)	\$(49,076)

(1) Amounts for Fiscal Year 2015-16 are included in the Fiscal Year 2015-16 adopted budgeted. Amounts for Fiscal Years 2016-17 through 2020-21 are projected, assuming 4% annual revenue growth (through March 2019 only) and projected labor growth.

(2) The forecast assumes Measure U is not renewed. The projected negative cumulative reserve balances in the forecast will be addressed during budget development as the City is required to adopt a balanced budget.

Source: City of Sacramento

Prior Fiscal Year Budgets

The City began to experience financial pressure in Fiscal Year 2006-07, due primarily to increasing labor costs and, later, exacerbated by the effect of the recession on revenues. The “structural budget deficit” resulted as revenue growth was insufficient to keep pace with compounding expenditure growth caused by increasing service demands, escalating personnel costs, and the ongoing operation and maintenance of aging infrastructure. Each fiscal year since then, until Fiscal Year 2014-15, a projected budget deficit had to be closed before a budget could be adopted. As shown in the table below, the strategy for closing that budget deficit shifted from the sole use of

one-time resources in Fiscal Year 2006-07, to a blend of position reductions and structural improvements, to eliminating the use of one-time resources in Fiscal Year 2012-13. As time progressed, the labor reductions shifted increasingly from the elimination of vacation positions to layoffs.

Reduction Strategy		FY	FY	FY	FY	FY	FY	FY	Total
		2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
Projected	General	\$29,000	\$58,000	\$50,000	\$43,000	\$38,900	\$15,700	\$8,900	\$243,500
Fund Deficit									
(\$ in 000s)									
One-Time Funding		\$29,543	\$19,000	\$8,300	\$17,511	\$4,600	-	-	\$78,954
New-Increased Revenues		-	3,700	5,100	1,000	2,400	-	-	12,200
Labor Reductions		-	30,200	28,900	12,367	27,100	15,700	4,700	118,967
Other Reductions-Reimbursements		-	5,100	7,700	12,400	4,800	-	4,200	34,200
Budget Reductions		\$29,543	\$58,000	\$50,000	\$43,278	\$38,900	\$15,700	\$8,900	\$244,321
FTE Reductions		-	359.01	360.26	207.50	302.70	41.70	40.0	1,311.17

The Six-Year Forecast

The General Fund forecast provides a multi-year review of revenues and expenditures, allowing an assessment of the fiscal consequences of both prior and current funding decisions in the context of forecasted revenues and expenditures. Given the City Council’s sustainable-budget policy, proposed fiscal actions are evaluated in a long-term rather than a short-term context. The General Fund forecast is developed consistent with the City Council’s adopted budget guidelines, which limit new revenues from being counted or spent until realized. The Fiscal Year 2015-16 Adopted Budget for the General Fund was adopted within the context of a six-year forecast in order to understand the effect on the City when Measure U funding expires in March 2019.

The following table projects a structural gap between revenues and expenditures in the General Fund that is expected to develop again in Fiscal Year 2016-17 in the absence of further policy initiatives. The primary driver of the projected structural gap is that the increasing pension costs approved by CalPERS exceed projected revenue growth. Actual results will depend on a variety of factors, including local economic conditions, and there can be no assurances actual results will not materially differ from the projections.

Rental payments relating to the Golden 1 Center, which are expected to be in the range of \$17-21 million commencing in Fiscal Year 2017-18 have not been included in the Budget Forecast. As described below in “ - Planned Sources for City Payments with Respect to the Golden 1 Center,” the City expects that Golden 1 Center rental payments can be paid from increased parking revenues, hotel taxes, property taxes (from Golden 1 Center -related development in the downtown area), and payments from the primary tenant of the Golden 1 Center, the Sacramento Kings of the National Basketball Association (the “Kings”). However, there can be no assurances that these increased revenues will be available in the amounts and at the time expected by the City. If the increased revenues are not available, that circumstance could materially adversely affect the City’s financial condition.

GENERAL FUND REVENUES AND EXPENSES
6-YEAR FORECAST
(\$ in Thousands)

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Beginning Fund Balance	11,234	8,194	2,001			
Total Revenue	400,451	407,846	415,678	424,003	432,578	441,415
Total Expenditures	394,146	414,039	425,704	432,137	438,110	441,598
Revenues less Expenditures	\$6,305	\$(6,193)	\$(10,026)	\$(8,134)	\$(5,532)	\$(183)
Priority Budget Initiatives (one-time costs)	8,038	-	-	-	-	-
Loss of Measure U Revenues	-	-	-	-	(29,734)	(49,076)
Ending Fund Balance (w- Loss of Measure U)⁽¹⁾	\$8,194	\$2,001	\$(8,025)	\$(8,134)	\$(35,266)	\$(49,259)

⁽¹⁾ The forecast assumes that a projected negative Ending Fund Balance will be addressed each year during budget development since the City is required to adopt a balanced budget.

Source: City of Sacramento

The six-year forecast is based on a set of point-in-time assumptions. Revenue assumptions include: 3.7% growth in Fiscal Year 2015-16 (as compared to Fiscal Year 2014-15), and 2% average growth annually in each year from Fiscal Year 2016-17 through Fiscal Year 2019-20. Expense assumptions include known effects of current labor agreements and anticipated effects related to required pension related payment. The City believes that the projected expenditure growth assumptions are reasonable, particularly through the term of the current labor contracts. A projection of the effect of recent changes in CalPERS policies are reflected in these estimates. See “RETIREMENT AND OPEB OBLIGATIONS.”

The Golden 1 Center project has spurred development projects and property sales in the immediate vicinity in downtown Sacramento. The property sales have resulted in increases in assessed values on the secured tax roll (a portion of which are included in the revenue projections set forth above in the Budget Forecast). However, net revenues resulting from development projects related to ESC, such as hotels, office buildings, and additional retail space, are not included in the Budget Forecast and will not be included until the projects are actually under construction. The hotel-tax forecast, outside the General Fund, does include revenue from an additional 250 hotel rooms associated with Golden 1 Center development.

There can be no assurances that actual results will not materially adversely differ from the forecast.

Budget sustainability and the fiscal capacity to address longer-term fiscal issues require that annual base operating cost increases be held to a level below annual revenue growth. The fiscal reality is that given the lack of significant revenue growth beyond that of expenditures in the forecast and the expiration of Measure U revenues in March of 2019, current expenditure commitments are unsustainable. As a result, the City will need to continue to reduce expenditures or implement long-term revenue growth strategies in order to account for anticipated expenditure growth not supported by revenues.

Planned Sources for City Payments with Respect to Golden 1 Center

The City has entered into a number of agreements with a private developer relating to the construction of the Golden 1 Center in the downtown area of the City that will serve as the home arena for the Kings. In addition, the City expects to enter into a lease agreement (the “**Golden 1 Center Lease**”) and related agreements with the Sacramento Public Financing Authority (“**SPFA**”) in connection with the issuance by SPFA of up to \$300 million in lease-revenue bonds to finance the City’s required contribution to the Golden 1 Center. Annual rental payable by the City under the Golden 1 Center Lease is currently projected to be in the range of \$17 million to \$21 million. Actual rental will depend on market conditions at the time the revenue bonds are issued by SPFA and other factors.

The obligation of the City to pay rental to SPFA under the Golden 1 Center Lease when due is an obligation payable from the City’s General Fund. To mitigate the effect on the General Fund from this obligation, the City currently plans to pay the obligation from rental payments the City receives from the private developer of the Golden 1 Center (which will lease the Golden 1 Center from the City) and from growth in parking revenues.

The rental payments from the Golden 1 Center developer are expected to begin in full in Fiscal Year 2017-18 in the amount of \$6.5 million. The payments escalate with annual CPI adjustments between 3% and 5% and are projected to grow to \$18.3 million in Fiscal Year 2051-52.

Net parking revenues for Fiscal Year 2014-15 were \$15.4 million. These revenues are projected to increase to \$26.7 million in Fiscal Year 2016-17. In addition to this projected growth of more than \$11 million, the City also plans to use certain existing parking revenues currently devoted to paying debt service on facilities and equipment. (Debt-service payments will begin to decrease in Fiscal Year 2019-20 as the debt is redeemed.) In connection with the development of the parking-revenue projections, the City engaged a parking study prepared by a feasibility consultant. The parking revenues utilized by the City are consistent with the parking study. [[However, the study also contained sensitivity analyses that contained both lower and higher revenue projections depending on changes in capital and operating costs relating to the City’s parking systems, parking demand, and other factors.]] There can be no assurances parking revenues will be generated at the projected levels.

Coupled with the City’s share of property taxes on the Golden 1 Center, the City [expects] that these revenue sources will, in the aggregate, provide the General Fund with the capacity to pay all or a significant portion or all of the payments due under the Golden 1 Center Lease without affecting other services or programs funded from the General Fund. In order to provide for the availability of sufficient available funds in the early years of operation of the Golden 1 Center, the City has established and currently intends to maintain a liquidity reserve in which it would set aside certain of these revenues prior to completion of the Golden 1 Center and the commencement of rental payments under the Golden 1 Center Lease. As of July 1, 2015, \$5.3 million has been set aside in the liquidity reserve from hotel taxes and parking revenues. Notwithstanding the City’s plans to use these revenues to make rental payments under the Golden 1 Center Lease, the obligation of the City to make those payments is not conditioned on the availability of revenues in the amounts expected by the City.

The City has not included the payments under Golden 1 Center Lease in the Budget Forecast; in the five-year horizon, however, no net effect on the General Fund is projected. Future growth provides capacity for rental payments and has not been included in the Budget Forecast, nor have

lease payments from the Kings, property taxes on the Golden 1 Center itself, or any releases from the liquidity reserve.

Limitations on Taxes; Proposition 218 Matters

As described in the forepart of the Official Statement under the caption “CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS,” the State Constitution limits the City’s ability to raise taxes without a vote of the electorate.

In addition, Proposition 218, which added Articles XIII C and XIII D to the State Constitution in 1996, imposes significant limitations relating to the imposition of rates, fees, and charges for various enterprises of the City

Similarly, Proposition 26, which amended Articles XIII A and XIII C of the State Constitution in 2010, extends some of the limitations of Proposition 218 to additional charges, fees, and fines.

Effect of State Budget on City

In recent years, the State experienced significant financial stress, with budget shortfalls in the billions of dollars. State revenues declined significantly as a result of recent economic conditions and other factors. While the State is not a significant source of City revenues, and the City does not anticipate that the State’s financial condition will materially adversely affect the financial condition of the City, there can be no assurances that State financial pressures will not adversely affect the City.

State Budgets. Information about the State budget is available through various State-maintained websites. Historical State budgets can be found at http://www.dof.ca.gov/budget/historical_ebudgets, while the proposed budget can be found at <http://www.ebudget.ca.gov>. Additionally, budget analyses are regularly posted at www.lao.ca.gov.

The information referred to above is prepared by the State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or the accuracy, completeness, or timeliness of information posted there. Information on these websites is **not** incorporated by reference into this Official Statement.

Amendments to Funding Mechanism for Redevelopment Agencies

As described in the footnotes of the table below detailing the City’s General Fund obligations, the City receives significant funding from other sources that it uses to make payments with respect to several financings that otherwise would be payable from the City’s General Fund. One such source of funding was the Redevelopment Agency of the City (the “**City RDA**”), which, as described herein, has been dissolved. The City entered into a number of agreements with the City RDA, under which the City RDA was obligated to make payments to the City from tax-increment revenue from several redevelopment-project areas (the “**RDA Agreements**”). (The RDA Agreements do not include bonds issued directly by the City RDA, which are not payable from the City’s General Fund.) The aggregate amount of the payments payable to the City under the RDA Agreements is approximately \$5.5 million annually through 2018, declining afterwards to average annual payments of \$2.56 million through 2037.

As described in “PLAN OF REFUNDING” in the forepart of this Official Statement, the City currently plans to issue Tax Allocation secured solely by the tax-allocation revenues and other amounts pledged therefor under the indenture pursuant to which the Tax Allocation Bonds will be

issued. The Tax Allocation Bonds will **not** be secured by payments required to be made by the City from the General Fund.

Under Assembly Bill No. 1x 26 (“**AB 26**”), enacted in June 2011, most redevelopment agency activities in California were suspended, and redevelopment agencies were prohibited from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB 26 also dissolved all existing redevelopment agencies and specified procedures for establishment of “successor agencies” and “oversight boards” to ensure that payments for “enforceable obligations” of the dissolved redevelopment agencies were made and to administer the dissolution and wind down of the dissolved redevelopment agencies. Certain provisions of AB 26 are described further below.

On January 31, 2012, the City elected under AB 26 to become the dissolved City RDA’s successor agency, denominated the Redevelopment Agency Successor Agency (the “**RASA**”), for the City RDA’s non-housing assets and functions. On the same date, the Housing Authority of the City of Sacramento (the “**Housing Authority**”) elected under AB 26 to become the successor agency for the City RDA’s housing assets and functions. However, the RASA is responsible for managing payment of all of the City RDA’s “enforceable obligations.” AB 26 requires an oversight board for each successor agency to be established no later than May 1, 2012. The oversight board for the RASA (the “**Oversight Board**”) was formed on April 16, 2012.

Obligation Payment Schedules. AB 26 requires a successor agency to continue to make payments on enforceable obligations of the dissolved redevelopment agency from tax-increment proceeds that are deposited into the Redevelopment Obligation Retirement Fund and received from the County Auditor-Controller from the Redevelopment Property Tax Trust Fund (“**RPTTF**”).

As required by AB 26, the RASA has prepared, and the DOF has approved, Recognized Obligation Payment Schedules (“**ROPS**”) for each six-month period since dissolution. All City RDA bond-debt payments listed on the ROPS have been approved by DOF. Under these DOF-approved ROPS, the RASA receives funding from the County from the RPTTF to pay the enforceable obligations.

Although the RASA is obligated to continue including on the ROPS all payments under the RDA Agreements that are enforceable obligations under AB 26 (so as to avoid defaults), no assurances can be given regarding the actions of the Oversight Board to include scheduled payments under the RDA Agreements on a ROPS. In addition, the actions of the Oversight Board are subject to review by DOF as described later in this section.

State Department of Finance and State Controller review. AB 26 provides that most of the actions and activities taken by redevelopment agencies pending dissolution, by their successor agencies and oversight boards post dissolution, and by county auditor-controllers are subject to review and approval by the DOF. There can be no assurances that agreements listed on the ROPS as approved by the Oversight Board and DOF in prior periods will not be challenged in future when subsequent ROPS are prepared and submitted for approval. However, to date DOF has not disallowed payments to RASA under the RDA Agreements when it approved each of the ROPS, and AB 26 specifically provides that it is the intent of the law that “pledges of revenues associated with enforceable obligations of the former redevelopment agencies are to be honored.”

There may be additional legislation proposed or enacted in the future affecting the winding up of the affairs of the dissolved redevelopment agencies under AB 26 and related legislation. No assurances can be given about the effect of any such future proposed and/or enacted legislation on the RDA Agreements.

General Fund Obligation Debt Service Payments

The following table summarizes the City's total annual General Fund Obligation debt-service payments as of June 30, 2015. Obligations set forth on the following table are payable from the City's General Fund; however, the City uses amounts budgeted from certain enterprise and other funds as indicated in the following table. To the extent those other sources are unavailable, the General Fund would be responsible for such payments.

The following table does not include obligations of the City payable solely from tax-increment revenues.

GENERAL FUND OBLIGATION DEBT SERVICE

Fiscal Year	1993 ⁽¹⁾	1997 ⁽²⁾	1999 CFD 2A Lease Portion	1999 ^{(3)*}	2002 ^{(4)*}	2003 ⁽⁶⁾ Capital Impr. Revenue	2005 ^{(7)*} Ref. Rev. Bonds*	2006 ⁽⁸⁾	2006 ⁽⁹⁾ Capital Impr. Rev. Series C,D,E	Total ⁽¹⁰⁾ Equip. Leases & Loans	Total Debt Service Obligations	% of Budgeted FY 13-14 ⁽¹¹⁾	Total Offset Debt Service	Total General Fund Debt Service	% of Budgeted FY General Fund Rev.	
	Lease Revenue Bonds Series A, B	Lease Revenue Bonds Remarketing)		Capital Impr. Revenue*	Capital Impr. Revenue*			Capital Impr. Revenue Series A, B				General Fund Rev.				
2016	15,437,935	5,767,979	245,000	-	302,400	1,051,448	2,755,469	20,530,025	10,805,696	11,091,683	5,308,373	73,296,008	18.4%	44,428,831	28,867,177	7.2%
2017	15,430,735	5,758,070	245,938	-	291,275	1,051,938	2,794,966	20,509,400	10,799,388	11,091,855	4,926,315	72,899,880	18.3%	44,429,979	28,469,901	7.1%
2018	15,408,975	5,953,976	251,094	-	792,825	1,051,108	2,836,544	19,994,775	9,225,313	11,090,825	2,943,321	69,548,755	17.4%	43,199,869	26,348,886	6.6%
2019	15,391,035	6,086,638	255,313	-	-	1,048,918	2,952,846	16,591,000	9,229,575	11,540,000	1,461,169	64,556,494	16.2%	39,328,421	25,228,073	6.3%
2020	15,369,890	6,209,110	253,750	-	-	1,050,215	2,044,926	16,533,475	9,212,048	11,573,525	721,991	62,968,929	15.8%	39,283,509	23,685,420	5.9%
2021	15,348,515	6,400,018	256,406	-	-	1,044,958	1,718,776	16,470,100	9,210,746	11,042,000	138,659	61,630,178	15.4%	38,970,256	22,659,922	5.7%
2022	-	6,446,610	262,969	-	-	1,047,831	279,601	16,337,475	9,198,629	12,755,675	138,659	46,467,449	11.6%	27,986,998	18,480,451	4.6%
2023	-	6,648,342	263,438	-	-	1,043,975	277,395	5,685,600	9,191,481	22,593,150	69,330	45,772,710	11.5%	26,987,677	18,785,034	4.7%
2024	-	6,796,051	262,969	-	-	1,043,000	279,754	5,537,225	9,182,750	22,126,169	-	45,227,917	11.3%	26,890,646	18,337,271	4.6%
2025	-	6,956,041	-	-	-	1,044,625	271,772	5,538,688	9,181,265	22,027,794	-	45,020,184	11.3%	27,011,137	18,009,047	4.5%
2026	-	7,124,005	-	-	-	1,044,500	273,375	5,527,644	9,171,351	22,043,856	-	45,184,731	11.3%	27,165,519	18,019,212	4.5%
2027	-	7,305,017	-	-	-	1,042,625	274,375	5,533,631	9,162,435	22,035,025	-	45,353,108	11.4%	27,335,675	18,017,433	4.5%
2028	-	7,461,356	-	-	-	1,039,000	274,875	5,537,250	9,163,419	22,039,475	-	45,515,375	11.4%	27,496,944	18,018,431	4.5%
2029	-	-	-	-	-	1,038,500	284,625	5,517,000	9,158,354	22,132,225	-	38,130,704	9.5%	20,051,450	18,079,254	4.5%
2030	-	-	-	-	-	1,036,000	288,500	5,514,500	9,146,692	22,135,788	-	38,121,480	9.5%	20,032,240	18,089,240	4.5%
2031	-	-	-	-	-	1,036,375	291,625	-	9,132,759	22,135,044	-	32,595,802	8.2%	15,656,218	16,939,584	4.2%
2032	-	-	-	-	-	1,034,500	289,125	-	9,130,306	22,137,375	-	32,591,306	8.2%	15,653,272	16,938,034	4.2%
2033	-	-	-	-	-	1,035,250	291,000	-	9,113,362	22,144,775	-	32,584,387	8.2%	15,639,814	16,944,573	4.2%
2034	-	-	-	-	-	-	292,125	-	9,106,001	5,639,300	-	15,037,426	3.8%	3,231,114	11,806,312	3.0%
2035	-	-	-	-	-	-	-	-	9,096,828	2,005,000	-	11,101,828	2.8%	1,708,316	9,393,512	2.4%
2036	-	-	-	-	-	-	-	-	9,074,993	2,004,250	-	11,079,243	2.8%	1,702,487	9,376,756	2.3%
2037	-	-	-	-	-	-	-	-	9,069,174	2,003,875	-	11,073,049	2.8%	1,706,719	9,366,330	2.3%
2038	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	-	-	0.0%
2039	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	-	-	0.0%
2040	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	-	-	0.0%
2041	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	-	-	0.0%
2042	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	-	-	0.0%
Total	\$92,387,085	\$84,913,214	\$2,296,875	-	\$1,386,500	\$18,784,764	18,771,674	\$171,357,788	\$204,762,562	\$335,388,663	\$15,707,817	\$945,756,941		\$535,612,077	\$409,859,850	
Offset	73.7%	100.0%	0.0%	0.0%	36.4%	100.0%	19.7%	77.4%	18.5%	54.6%	36.0%	62.3%				

* Does not include amounts payable solely from tax-increment revenues.

- (1) 1993 Lease A: 80.5% Community Center Fund, 11.5% General Fund, 8.0% Golf Fund
1993 Lease B: 47.8% General Fund, 30.2% Parking Fund, 13.0%, Drainage Fund, 9.0% Community Center Fund
 - (2) 1997 Lease (ARCO Arena Sublease): assumes the fixed rate established in the 2007 remarketing is in effect for the remaining term of the bonds.
 - (3) 1999 Capital Improvement Revenue Bonds: amounts remaining supported solely from tax-increment revenues
 - (4) 2002 Capital Improvement Revenue Bonds: 58.4% General Fund, 21.0% RASA Master Lease (Stockton Blvd), 20.6% North Natomas Fund
 - (5) 2002 COP: payable from H Street Theatre Revenues (obligation of General Fund if insufficient)
 - (6) 2003 Capital Improvement Revenue Bonds: 85.3% General Fund, 14.7% North Natomas Fund
 - (7) 2005 Refunding: 30.9% Water Fund, 22.9% General Fund, 17.1% Solid Waste Fund, 14.6% Parking Fund, 12.3% RASA (Del Paso Heights, Merged Downtown, North Sacramento, Oak Park, River District), 1.7% North Natomas Fund, 0.5% Golf Fund
 - (8) 2006 Capital Improvement Revenue Bonds Series A and B: 81.5% General Fund, 18.5% RASA Master Lease (65th Street, Army Depot, North Sacramento, River District)
 - (9) 2006 Capital Improvement Revenue Bonds, Series C, D, and E: 46.3% Water Fund, 45.0% General Fund, 6.9% North Natomas Fund, 1.0% RASA Master Lease (Stockton Boulevard), 0.8% Golf Fund,
 - (10) Total Leases and Loans: 64.0% General Fund, 24.8% Solid Waste, 6.6% Marina, 2.6% RASA Master Lease (Merged Downtown), 2.0% Wastewater
 - (11) Data based on Fiscal Year 2016 General Fund Revenue Forecast: \$399,329,000.
- Source: City of Sacramento

Interest Rate Swap

In 2007, the City entered into an interest-rate swap with Goldman Sachs Capital Markets, L.P. (the “**Counterparty**”) in connection with remarketing the Sacramento City Financing Authority’s \$73,725,000 1997 Lease Revenue Bonds (Arco Arena Acquisition) variable-interest-rate bonds (the “**Arena Bonds**”). The Arena Bonds carry an interest rate equal to the 3-month London Interbank Offered Rate (“**LIBOR**”) plus 0.25% (with the total rate not to exceed 14.00%) payable quarterly until July 19, 2017. The swap agreement terminates on July 19, 2017, and, as of July 17, 2014, has a notional amount of \$59,790,000. Under the swap, the Authority pays the Counterparty a fixed payment of 5.607% and receives a variable payment equal to the interest rate payable on the Arena Bonds. See Note 7 in Appendix B – “CITY OF SACRAMENTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014.”

The City’s interest-rate swap entails risk to the City. Actual interest rates have varied from assumptions made at the time the swap was executed, and the City has not realized the expected financial benefits from the swap. There is no net City cost, because an affiliate of the Kings makes the debt payments. In addition, the potential future exposure to the City relating to the difference in payments between the amounts the City receives in connection with the swap and pays under that swap, including termination payments or other non-scheduled payments, cannot be predicted. The Counterparty may terminate the swap upon the occurrence of certain termination events or events of default, which might include failure of either the City or the Counterparty to maintain credit ratings at specified levels. If either the Counterparty or the City terminates the swap, the City may be required to make a termination payment to the Counterparty (even if termination is due to an event affecting the Counterparty, such as the Counterparty’s failure to maintain credit ratings at specified levels), and there is no assurance that payment by the City would not have a material adverse effect on its financial position. As of May 18, 2015, the current estimated amount of the termination payment that would be payable by the City is approximately \$5.7 million. The valuation of the swap or any future swaps is volatile and will vary based on a variety of factors, including current interest rates. There can be no assurances that termination amounts potentially payable by the City will not significantly increase. The City may enter into additional interest-rate swaps in the future.

Debt Statement

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. as of June 30, 2014. The Debt Report is included for general-information purposes only. The City makes no representations as to its completeness or accuracy.

The Debt Report generally includes long-term obligations sold in the public-credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated), nor are they necessarily obligations secured by property within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of that public agency.

**CITY OF SACRAMENTO
DIRECT AND OVERLAPPING BONDED DEBT
AS OF JUNE 30, 2014**

Dollar figures below are in thousands
2013-14 Assessed Valuation: \$36,924,255

	Total Debt 6/30/14	% Applicable (1)	City's Share of Debt 6/30/14 (2)
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Los Rios Community College District	\$370,270	25.367%	\$ 93,926
Natomas Unified School District	173,217	87.387	151,369
Sacramento Unified School District	372,363	83.460	310,774
San Juan Unified School District	335,630	3.062	10,277
Twin Rivers Unified School District	84,573	47.725	40,361
Twin Rivers Unified School District (former Grant Joint Union High School District bonds)	192,857	47.127	90,888
Robla School District	23,481	50.911	11,955
City of Sacramento Community Facilities Districts	144,275	100.	144,275
Elk Grove Unified School District Community Facilities District No. 1	182,044	11.486	20,910
City of Sacramento 1915 Act Bonds	8,690	100.	8,690
Sacramento Area Flood Control Agency Consolidated Capital Districts Assessment District	192,610	83.303	160,450
Sacramento Area Flood Control Agency Operation and Maintenance Assessment District	3,320	63.308	2,102
Sacramento Area Flood Control Agency Local Assessment District	35,350	84.065	29,717
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$1,075,694

Ratios to 2013-14 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 2.91%

DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Sacramento County General Fund Obligations	\$297,541	31.090%	\$ 91,904
Sacramento County Pension Obligations	990,308	31.090	305,886
Sacramento County Board of Education Certificates of Participation	8,010	31.090	2,474
Los Rios Community College District Certificates of Participation	5,670	25.422	1,438
Sacramento Unified School District Certificates of Participation	74,285	83.400	61,998
Sacramento Unified School District Pension Obligations	1,740	83.400	1,452
San Juan Unified School District Certificates of Participation	999	3.074	31
Twin Rivers Unified School District Certificates of Participation	129,825	47.665	61,183
City of Sacramento General Fund Obligations	654,165,000	100.	654,165,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$1,180,531,798
Less: Sacramento County supported obligations			1,993,820
City of Sacramento supported obligations			384,819,660
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 793,718,318

OVERLAPPING TAX INCREMENT DEBT: \$268,384,186 0.015-100. % \$194,895,211

GROSS TOTAL DIRECT DEBT	\$654,165,000
NET TOTAL DIRECT DEBT	\$269,345,340
GROSS TOTAL OVERLAPPING DEBT	\$1,796,956,207
NET TOTAL OVERLAPPING DEBT	\$1,794,962,387

GROSS COMBINED TOTAL DIRECT AND OVERLAPPING DEBT	\$2,451,121,207 (3)
NET COMBINED TOTAL DIRECT AND OVERLAPPING DEBT	\$2,064,307,727

- (1)Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2)Report prepared 5/21/13. Excludes any bonds sold between 5/21/13 and 6/30/13.
(3)Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:
Gross Combined Total Direct Debt (\$654,165,000) 1.75%
Net Combined Total Direct Debt (\$269,345,340) 0.72%
Gross Combined Total Direct and Overlapping Debt 6.56%
Net Combined Total Direct and Overlapping Debt 5.52%

Ratios to Redevelopment Increment Valuation (\$4,320,981,427):
Total Overlapping Tax Increment Debt..... 4.51%

No Default

The City has no record of having ever defaulted in the payment of principal or interest on any of its loans, bonds, notes, or other debt obligations or on any of its lease obligations.

RETIREMENT AND OPEB OBLIGATIONS

The City provides retirement and post-employment benefits to its employees as described below.

Employees Retirement Plans

Plans Description. The City provides defined-benefit retirement benefits through CalPERS and SCERS. CalPERS is a multiple-employer public-employee defined-benefit pension plan, whereas SCERS is a single-employer defined-benefit pension plan.

All full time and certain part-time City employees hired on or after January 28, 1977, and all City safety employees regardless of the date of hire, are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS annual financial report and a separate report for the City's plans within CalPERS may be obtained from the CalPERS-Executive Office at 400 Q Street, Sacramento, California 95811.

All full-time, non-safety employees hired before January 29, 1977, are eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The City reports SCERS as a pension trust fund. SCERS issues a publicly available annual financial report that includes financial statements and required supplementary information. This financial report may be obtained by writing to the City of Sacramento, Department of Finance, 915 I Street, NCH, 4th Floor, Sacramento, California 95814.

CalPERS Details. The tables below summarize the funded status of the City's retirement plans as of the most-recent actuarial-valuation dates. The funded status information presented from the June 30, 2013 actuarial valuation takes into account the effect of CalPERS's decision to lower its assumed investment earnings by 0.25% to 7.50%, which affected contribution rates beginning in Fiscal Year 2013-14. Additional information regarding the City's employee-retirement plans, annual pension costs, the funding status thereof, and significant accounting policies related thereto is set forth in Note 8 to the City's audited financial statements for the fiscal year ended June 30, 2014, attached as Appendix B to the Official Statement.

**CITY OF SACRAMENTO
RETIREMENT PLAN TREND INFORMATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Miscellaneous Employees
(\$ in Millions)**

Valuation Date (June 30)	Market Asset Value	Actuarial Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Actuarial Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2006	\$ 418	\$ 487	\$ 398	\$ 89	82%	\$ 153	58%
2007	521	549	457	92	83	173	53
2008	510	617	510	107	83	178	60
2009	403	696	556	140	80	175	80
2010	477	751	607	144	81	171	84
2011	590	819	660	159	81	165	96
2012	596	861	709	152	82	151	101
2013	677	914	677	237	74	151	157

Source: CalPERS actuarial valuations through June 30, 2013. The actuarial valuation for the City through June 30, 2014, is expected to be available in late Calendar Year 2015.

**CITY OF SACRAMENTO
RETIREMENT PLAN TREND INFORMATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Safety Employees
(\$ in Millions)**

Valuation Date (June 30)	Market Asset Value	Actuarial Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Actuarial Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2005	\$ 751	\$ 823	\$ 730	\$ 93	89%	\$ 83	111%
2006	834	908	787	121	87	92	131
2007	989	971	853	118	88	100	118
2008	928	1,048	908	140	87	110	127
2009	687	1,135	946	189	83	110	172
2010	770	1,183	987	196	83	111	178
2011	917	1,249	1,035	214	83	109	196
2012	897	1,313	1,077	236	82	108	219
2013	992	1,371	992	379	72	108	364

Source: CalPERS actuarial valuations through June 30, 2013. The actuarial valuation for the City through June 30, 2014, is expected to be available in late Calendar Year 2015.

**CITY OF SACRAMENTO
RETIREMENT PLAN TREND INFORMATION
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
(\$ in Millions)**

Valuation Date (June 30)	Market Asset Value	Actuarial Liability (AAL) – Entry Age	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2006	\$ 365	\$ 395	\$ 365	\$ 30	92%	\$ 10	292%
2007	378	395	365	30	92	10	313
2008	355	392	360	32	92	9	356
2009	273	398	314	84	79	6	1,406
2010	280	395	297	98	75	5	1,848
2011	304	397	297	100	75	4	2,420
2012	296	389	294	95	76	3	3,211
2013	296	382	292	90	76	2	3,949
2014	313	373	N/A	60	84	2	2,643

Source: SCERS actuarial valuations through June 30, 2014. The pension liability at June 30, 2014, was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, and, as a result, the actuarial asset value was not updated. The actuarial valuation for the SCERS through June 30, 2015, is expected to be available in late Calendar Year 2015.

Recent CalPERS Developments.

At its meetings on April 16 and 17, 2013, the CalPERS Board of Administration (“**PERS Board**”) approved a plan to replace the previous 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the previous 30-year rolling amortization of unfunded liabilities with a 30-year fixed-amortization period. The approach provides a single measure of funded status and unfunded liabilities, less volatility in extreme years, a faster path to full funding, and more transparency to employers about future contribution rates. These changes will accelerate the repayment of unfunded liabilities (including the 2008-09 market losses) of CalPERS participants’ plans (including the City’s) in the near term. The new methods are included in the June 30, 2012 valuation for rate projections, but actual rates were not set using the new methods until fiscal year 2014-15, reflected in the June 30, 2013 valuation.

At its February 18, 2014 meeting, the PERS Board approved new actuarial assumptions based on a recently completed experience study of CalPERS membership. The experience study was based on CalPERS member demographic data for the experience period from June 30, 1997, to June 30, 2011. The study focused on recent patterns of termination, death, disability, retirement, and salary increases. The major findings from the study showed an increase in life expectancy for both men and women. The actuarial assumptions adopted also reflect improvements to life expectancy.

CalPERS’s recent review of actuarial assumptions confirmed that government workers, including public-safety employees, are living longer. Since CalPERS last addressed the issue in 2010, there have been dramatic changes in life expectancy: by 2028, men retiring at age 55 are projected to live an average of 29.4 years and women 31.9 years post-retirement, longer than the prior assumptions of 27.3 years for men and 30.3 years for women post-retirement. Based on the revised figures, the PERS Board adopted the 20-year mortality projection along with 20-year amortization and a five-year phasing policy, with associated costs for local-government agencies beginning in Fiscal Year 2016-17. On a preliminary basis, the City anticipates that its General Fund contributions to CalPERS for Fiscal Year 2019-20 will be \$18.7 million higher than in Fiscal Year 2015-16.

SCERS Details. In the early 1980s, safety employees in the SCERS pension plan were moved to CalPERS after voters approved a change to the City Charter. There were 27 active members and 1,201 retirees and other beneficiaries participating in the SCERS plan as of June 30, 2014.

The SCERS pension plan has been closed to new members since 1977. Because SCERS is closed to new members and has only 27 remaining active members, the Actuarial Value of Assets is a three-year smoothed market value. Investment gains and losses are recognized over a three-year period. The actuarial value of assets is limited by a 15% corridor, meaning the actuarial value of assets will be no greater than 115% of market value of assets and no less than 85% of market value of assets.

Overall Contributions. Under collective bargaining arrangements signed in 2012 and 2013, the City will no longer pay the employee contribution to CalPERS after fiscal year 2014-15, and most bargaining groups have agreed to pay a portion of the City’s employer contribution through cost-sharing agreements.

The following table summarizes the City’s contributions to its defined-benefit pension plans.

**CITY OF SACRAMENTO
ANNUAL CONTRIBUTION TO RETIREMENT PLANS
(\$ in Millions)**

Fiscal Year	CalPERS	SCERS	Total City Employer Contribution⁽¹⁾	Total City-Paid Employee Contribution⁽²⁾	Total General Fund Contribution
2008-09	\$41.7	\$3.2	\$44.9	\$17.1	\$52.3
2009-10	44.6	3.4	48.0	16.7	54.6
2010-11	44.3	10.5	54.8	16.1	58.9
2011-12	49.5	10.4	59.9	15.4	63.3
2012-13	47.7	10.6	58.3	12.7	59.8
2013-14	49.8	9.6	59.4	9.8	57.7
2014-15 ⁽³⁾	61.4	9.1	70.5	5.7	64.3
2015-16 ⁽³⁾⁽⁴⁾	68.8	8.6	77.4	0.0	64.7

(1) Includes contributions payable from special funds.

(2) Employee contribution amount paid by the City pursuant to collective bargaining arrangements.

(3) Budgeted.

(4) The City’s employer contribution to CalPERS in 2015-16 is offset by negotiated employee cost-sharing of employer contributions totaling \$3.8 million citywide and \$3.4 million in the General Fund.

Source: The City of Sacramento.

The City contributed 100% of the actuarially required contributions in each fiscal year reported in the table.

The City also provides defined-contribution retirement benefits through the City of Sacramento 401(a) Money Purchase Plan (the “**Plan**”). The Plan is administered by the International City Management Association Retirement Corporation. Plan provisions and contribution requirements are established and may be amended by the City Council. Unrepresented exempt and certain represented employees may elect to participate in the Plan. Participating exempt employees

are required to contribute 5% of covered salary and the City contributes 4%, while participating non-exempt employees are required to contribute 2% of covered salary and the City contributes 2%. For the year ended June 30, 2014, employees contributed \$2,732,000 and the City contributed \$2,354,000 to the Plan.

On June 25, 2012, the Governmental Accounting Standards Board (“**GASB**”) approved two new standards with respect to pension accounting and financial-reporting standards for state and local governments and pension plans. The new standards, GASB Statement Nos. 67 and 68, replace GASB Statement No. 27 and most of GASB Statement Nos. 25 and 50. The changes affect the accounting treatment of pension plans in which state and local governments participate. Major changes include (1) the inclusion of unfunded pension liabilities on the government’s balance sheet (currently, unfunded liabilities are typically included as notes to the government’s financial statements); (2) more components of full pension costs will be shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the City is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013, and the reporting requirements for government employers, including the City, took effect for the fiscal year beginning July 1, 2014.

On November 25, 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, to eliminate a potential source of understatement of restated beginning net position and expense in a government’s first year of implementing GASB Statement No. 68. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement No. 68.

Annual OPEB Cost and Net OPEB Obligation

The City provides health-care and dental-care insurance benefits for all retirees and their survivors and dependents. Participants have the choice of enrolling in one of several health plans and one of two dental plans. To be eligible for these benefits, an employee must retire with a minimum of 10 full years of active service and be 55 years of age for miscellaneous employees or 50 years of age for safety employees. Participants with a minimum of 20 years of service are eligible for 100% of the maximum benefit while participants with less than 20 years of service are eligible for 50% of the maximum benefit. The post-retirement health care and dental-care benefits range from \$300 and \$694 a month per participant, which covers between 16% and 100% of the benefit cost, depending on

the choice of plan and number of dependents. New employees hired after January 1, 2013, are not eligible to receive post-retirement health care and dental-care benefits.

City retiree health benefits are defined by labor agreements and resolutions approved by the City Council. Benefit costs are recorded on a pay-as-you-go basis. The City’s financial statements assume that pay-as-you-go funding will continue. The City’s annual other post-employment benefits (“**OPEB**”) cost is calculated based on the Annual Required Contribution (“**ARC**”) of the City, an amount that is actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years.

In February 2013, the City Council voted to establish an OPEB trust fund and begin funding a portion of its OPEB liability with a one-time investment of \$2,000,000 deposited in January 2014. Again, in February 2014, the City Council voted to contribute another \$2,000,000 to the OPEB trust fund. The City deposited another \$1,000,000 into the trust in July 2014 after the City Council approved the Fiscal Year 2014-15 budget and will deposit another \$1,000,000 in July 2015 based on authority in the approved Fiscal Year 2015-16 budget. The following table shows the components of the City’s annual OPEB cost for Fiscal Year 2013-14, the amount contributed to the plan, and the changes in the City’s net OPEB obligation.

**CITY OF SACRAMENTO
ANNUAL OPEB COST COMPONENTS
FISCAL YEAR 2013-14
(\$ in Thousands)**

Annual Required Contribution (ARC)	\$43,974
Interest on beginning OPEB liability	5,928
Adjustment to the ARC	<u>(9,971)</u>
Annual OPEB cost	\$39,931
Contributions made	(13,473)
Trust prefunding	<u>(4,000)</u>
Increase in net OPEB obligation	\$22,458
Net OPEB obligation - Beginning of year	<u>131,739</u>
Net OPEB obligation - End of year	<u>\$154,197</u>

Source: The City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

The City's annual OPEB cost, actual contributions, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the previous five fiscal years were as follows:

**CITY OF SACRAMENTO
ANNUAL OPEB COST, ACTUAL CONTRIBUTIONS,
ANNUAL COST CONTRIBUTED, AND NET OBLIGATION
(\$ in Millions)**

Fiscal Year	Annual OPEB Cost	Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$29.5	\$11.0	38%	\$60.7
2010-11	31.4	11.9	38	80.2
2011-12	37.2	12.2	33	105.2
2012-13	39.4	12.8	33	131.8
2013-14	39.9	17.5	43	154.2

Source: The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

The City has projected, on a preliminary basis, that by the end of Fiscal Year 2014-15 its annual OPEB costs will increase to \$42.1 million, its annual contribution will increase to \$14.6 million, and its net OPEB obligation will increase to \$183.8 million.

The following table summarizes the funded status of the City's OPEB plan as of the most recent biennial actuarial-valuation date, June 30, 2013. Additional information regarding the City's OPEB plan, annual OPEB costs, the funding status thereof, and significant accounting policies related thereto is set forth in Note 9 to the City's audited financial statements attached as Appendix B hereto. The June 30, 2015 actuarial valuation is anticipated to be available in late Calendar Year 2015.

**CITY OF SACRAMENTO
OPEB TREND INFORMATION
(\$ in Millions)**

Actuarial Valuation Date (June 30)	Actuarial Accrued Liability (AAL)	Actuarial Asset Value	(Overfunded) Unfunded AAL	Funded Ratio	Annual Covered Payroll	(Overfunded) Unfunded AAL as % of Covered Payroll
2007	\$ 380	--	\$ 380	0.00%	\$ 266	142.9%
2009	376	--	376	0.00	275	136.7
2011	440	--	440	0.00	254	173.4
2012	447	--	447	0.00	262	170.9
2013	434	--	434	0.00	257	168.4

Source: The City's OPEB actuarial valuations.

CERTAIN CITY ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

A comparison of the City's population growth to that of the County and the State is provided in the table below. Population estimates are as of as of January 1 for each year.

POPULATION ESTIMATES⁽¹⁾ CITY OF SACRAMENTO, COUNTY OF SACRAMENTO AND THE STATE OF CALIFORNIA FOR SELECTED CALENDAR YEARS 1970 THROUGH 2014

Year	City of Sacramento	Average Annual % Change	County of Sacramento	Average Annual % Change	State of California	Average Annual % Change
1970	257,105		634,373		19,935,134	
1980	275,741	0.72%	783,381	2.35%	23,782,000	1.87%
1990	369,365	3.40	1,046,870	3.36	29,828,496	2.57
1995	384,300	0.81	1,120,733	1.41	31,910,000	1.45
2000	407,018	0.81	1,233,599	2.01	34,095,209	1.27
2005	453,592	1.85	1,378,538	1.46	36,899,392	1.32
2009	481,356	1.35	1,440,500	0.84	38,476,724	0.98
2010 ⁽²⁾	469,493	-2.46	1,427,961	-0.87	37,427,946	-2.73
2011 ⁽²⁾	469,895	0.09	1,431,726	0.26	37,680,593	0.68
2012 ⁽²⁾	472,679	0.59	1,442,993	0.79	38,030,609	0.93
2013 ⁽²⁾	475,871	0.67	1,456,230	0.92	38,357,121	0.86
2014 ⁽²⁾	480,105	0.89%	1,470,912	1.01	38,714,725	0.93

⁽¹⁾ Totals are estimates and may not add due to rounding.

⁽²⁾ The population estimates for 2010 forward incorporate the 2010 Census Population Benchmark.

Source: State of California, Department of Finance.

<http://www.dof.ca.gov/research/demographic/reports/estimates/e-1/view.php>

Industry and Employment

As the seat of State government, the City has traditionally had a large public-sector workforce. In recent years, the employment base in Sacramento and the surrounding area has diversified as the relatively low cost of living and supply of skilled labor have drawn a number of technology, financial services, and healthcare employers to the City.

As a result of the recent recession, unemployment levels throughout the country (including in the City) have significantly increased since Fiscal Year 2007-08. The table below shows historical unemployment rates for the City, the County, and the State.

**UNEMPLOYMENT RATES
CITY OF SACRAMENTO, COUNTY OF SACRAMENTO
AND THE STATE OF CALIFORNIA**

Year	City of Sacramento	County of Sacramento	State of California
2003	7.0	5.8	6.8
2004	6.7	5.6	6.2
2005	5.9	4.9	5.4
2006	5.6	4.8	4.9
2007	6.4	5.4	5.4
2008	8.5	7.2	7.3
2009	13.2	11.0	11.2
2010	13.3	12.6	12.2
2011	12.8	12.1	11.7
2012	11.1	10.5	10.4
2013	9.4	8.9	8.9
2014	7.7	7.3	7.5
2015 ⁽¹⁾	6.0	5.7	6.1

⁽¹⁾ April 2015

Figures above are not seasonally adjusted.

Source: Source: State of California. Employment Development Department.

<http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tablename=labforce>

Set forth below are data reflecting the County's civilian labor force, employment, and unemployment. These figures are County-wide and may not accurately reflect employment trends in the City.

**SACRAMENTO COUNTY AND SACRAMENTO-ROSEVILLE-ARDEN ARCADE
METROPOLITAN STATISTICAL AREA (MSA)
CIVILIAN LABOR FORCE, EMPLOYMENT AND
THE ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY
FOR YEARS 2009 THROUGH 2013**

LABOR FORCE (COUNTY):	2009	2010	2011	2012	2013
Labor force ⁽¹⁾	681,100	682,500	679,800	682,700	680,900
Employment	606,100	596,400	597,500	610,900	620,400
Unemployment	75,000	86,100	82,300	71,800	60,500
Unemployment Rate	11.0%	12.6%	12.1%	10.5%	8.9%
EMPLOYMENT INDUSTRY (MSA):					
Total All Industries ⁽²⁾	856,800	833,800	831,500	851,100	875,700
Total Farm	8,300	8,100	8,200	8,600	8,900
Total Non-farm	848,500	825,700	823,300	842,400	866,800
Goods Producing	78,400	71,600	70,600	72,700	77,700
Trade, Transportation & Utilities	135,000	132,600	134,100	138,900	141,700
Information	18,300	17,200	16,300	15,600	14,800
Financial Activities	52,900	48,300	46,700	48,200	49,400
Professional & Business Services	101,300	102,200	104,400	111,100	114,600
Education & Health Services	116,600	115,100	116,900	121,300	128,400
Leisure & Hospitality	81,900	80,200	81,700	84,500	88,700
Other Services	28,800	28,100	28,000	28,600	29,000
Government ⁽³⁾	235,300	230,300	224,600	221,500	222,500

⁽¹⁾ Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽²⁾ Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽³⁾ Includes Federal and State & Local Government employees

Source: Labor Market Information Division of the California State Employment Development Department.
<http://www.labormarketinfo.edd.ca.gov/>

The two tables below represent the Sacramento Region Major Private Sector Employers for the greater Sacramento area (including, Sacramento, El Dorado, Placer, Sutter, Yolo, and Yuba Counties) and the major public-sector employers. Major private employers in the Sacramento area include those in health care, electronics, telecommunications, and retail and financial services. Major public-sector employers include the State and the County. The data in the tables are from December 2014 and may not reflect subsequent changes in the work force.

**GREATER SACRAMENTO AREA
2014 MAJOR PRIVATE SECTOR EMPLOYERS**

Company	Type of Business	No. of Full-Time Employees
Sutter Health Sacramento Sierra Region	Health care	7,352
Dignity Health	Health care	6,212
Intel Corp.	Researches and develops computer chips and chipsets, including desktop, mobile and server processor products	6,000
Kaiser Permanente	Health care	5,421
Raley's Inc.	Retail grocery chain	3,389
Apple Inc.	Consumer Goods – Electronic Equipment	2,500
VSP Global	Vision health care insurance, eyewear, ophthalmic products and lab services sales systems for the optical industry optical medical record software	2,382
Health Net of California	Managed health care	2,299
Wells Fargo & Co.	Financial Services	2,190
GenCorp Inc.	Design, develop and manufactures solid waste rocket motors, and liquid and electric in-space propulsion systems	1,710
Delta Dental of California	Dental benefits	1,149

Source: Sacramento Business Journal Book of Lists 2014, December 2014.

**COUNTY OF SACRAMENTO
2014 MAJOR PUBLIC SECTOR EMPLOYERS**

Name of Employer	No. of Full-Time Employees ¹
State of California	72,220
Sacramento County	10,700
U.S. Government	9,906
UC Davis Health System	9,905
Elk Grove Unified School District	5,410
Sacramento City Unified School District	4,200
City of Sacramento	4,140
San Juan Unified School District	3,632
California State University Sacramento	2,999
Los Rios Community College District	2,976
Sacramento Municipal Utility District	2,046
Folsom Cordova Unified School District	1,958

¹ Does not include substitutes or seasonal employees.

Source: Sacramento Business Journal Book of Lists 2014, December 2014.

Commercial Activity

The following table summarizes taxable sales within the City from 2009 through 2013.

**CITY OF SACRAMENTO
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
FOR YEARS 2009 THROUGH 2013
(\$ in Thousands)**

Type of Business	2009	2010	2011	2012	2013
Apparel	\$314,415	\$319,555	\$331,037	\$339,108	\$340,610
General Merchandise	486,181	484,713	500,631	504,732	513,841
Food	272,980	282,078	291,616	295,149	299,456
Eating & Drinking	675,035	687,669	718,749	762,531	796,733
Household Furnishings	245,042	232,782	223,797	203,543	203,675
Building Materials	222,703	249,593	304,603	258,469	303,311
Automotive	285,724	259,294	282,738	338,082	388,898
Service Stations	424,739	484,980	574,763	612,199	599,365
Other Retail	444,823	455,716	475,042	487,314	506,059
Retail Stores Total	<u>\$3,371,643</u>	<u>\$3,456,380</u>	<u>\$3,702,978</u>	<u>\$3,801,126</u>	<u>\$3,951,948</u>
All Other Outlets	<u>1,577,522</u>	<u>1,491,067</u>	<u>1,588,997</u>	<u>1,670,192</u>	<u>1,752,173</u>
TOTAL:	<u><u>\$4,949,165</u></u>	<u><u>\$4,947,448</u></u>	<u><u>\$5,291,975</u></u>	<u><u>\$5,471,319</u></u>	<u><u>\$5,704,121</u></u>

Note: Detail may not compute to total due to rounding.

Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax), 2013 Annual Report

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**SUPERIOR COURT OF CALIFORNIA
COUNTY OF SACRAMENTO**

ISAAC GONZALEZ, JAMES CATHCART,
and JULIAN CAMACHO,

Petitioners and Plaintiffs,

vs.

KEVIN JOHNSON, JOHN SHIREY,
JOHN DANGBERG, CITY OF
SACRAMENTO, SACRAMENTO CITY
COUNCIL, and ALL PERSONS
INTERESTED IN THE MATTER OF THE
VALIDITY OF THE CITY OF
SACRAMENTO'S MAY 20, 2014, BOND
RESOLUTION TO ISSUE BONDS
PURSUANT TO THE MARKS-ROOS
LOCAL BOND POOLING ACT OF 1985,

Respondents and Defendants.

Case Number: 34-2013-80001489

**PROPOSED STATEMENT OF
DECISION**

Hon. Timothy M. Frawley

This matter came on regularly for court trial commencing June 22, 2015, at 9:00 a.m., in Department 29 of the above-entitled court, before the Honorable Timothy M. Frawley. Plaintiffs Isaac Gonzalez, James Cathcart, and Julian Camacho appeared and were represented by their attorneys of record, Cohen Durrett, LLP, and Soluri Meserve, a law corporation. Defendants Kevin Johnson, John Shirey, John Dangberg, City of Sacramento, and Sacramento City Council appeared and were represented by their attorneys of record, the Sacramento City Attorney and Meyers, Nave, Riback, Silver &

1 Wilson.

2 Oral and documentary evidence was introduced on behalf of the respective
3 parties, as noted in the court's minutes, and the case was argued and submitted for
4 decision. The court, having considered the evidence and heard the arguments of
5 counsel, and being fully advised, now issues this proposed Statement of Decision.
6 Under California Rule of Court 3.1590, subdivision (g), parties shall have fifteen days to
7 serve and file objections to the proposed Statement of Decision. The court then will
8 consider any timely objections and issue a final Statement of Decision.

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I.

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Introduction

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This action arises out of a public-private partnership agreement between the City of Sacramento and the owners of the Sacramento Kings professional basketball team for the construction, operation, and use of a new multi-purpose entertainment and sports center ("Arena") that will serve as the home of the Kings and host other entertainment events.

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Plaintiffs' Third Amended Verified Petition and Complaint seeks to overturn the City's approval of the Arena project based on claims of fraud, concealment, waste, and illegal expenditure of public funds. Plaintiffs bring these claims on behalf of taxpayers, alleging that City officials colluded with the investors to provide an additional subsidy – separate from the Arena – to offset the purchase price of the Kings, and then concealed that additional subsidy from the public. Plaintiffs also seek, through a reverse validation action, to invalidate the City's Resolution approving the issuance and sale of up to \$325 million in lease revenue bonds in connection with the project.

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After more than ten days of trial, with eighteen different witnesses and over 150 exhibits, the court concludes that Plaintiffs have failed to meet their burden of proof.

Plaintiffs' taxpayer representative claims depend on three basic contentions: (1) Defendants misrepresented that the City's "total contribution" to the Arena project was

1 limited to \$258 million ; (2) Defendants agreed to convey a second, "secret subsidy" to
2 the Kings investors to compensate them for their perceived "overpayment" for the Kings
3 team; and (3) the Defendants hid the secret subsidy within the financial arrangements for
4 the Arena by misrepresenting and concealing the value of certain components of the
5 City's contribution to the Arena project: namely, a Digital Billboard Lease and an Arena
6 Parking Management Agreement for the Downtown Plaza parking garages. The
7 evidence introduced at trial does not support Plaintiffs' contentions.

8 There is no merit in Plaintiffs' argument that Defendants misrepresented that the
9 City's "total contribution" to the Arena project was limited to its \$255 million cash
10 contribution toward development of the Arena. While Defendants stated in the Term
11 Sheet and elsewhere that the City's capital contribution to the construction cost of the
12 Arena is \$258 million (later reduced to \$255 million), Defendants did not misrepresent
13 that this was the City's "only" contribution to the project. Both the "Term Sheet" and the
14 "Definitive Agreements" for the deal clearly disclosed that the City's agreement extended
15 beyond its capital contribution.

16 Because the City agreed to contribute "assets" beyond its capital contribution,
17 Plaintiffs infer a nefarious, backroom deal to subsidize the investor group's purchase of
18 the team, separate from the Arena deal. However, the evidence shows that the additional
19 assets conveyed to the Kings are essential components of a single, integrated Arena
20 deal. They cannot be parsed out and treated as a separate, isolated transaction.

21 The City agreed to convey the assets as part of its total consideration for the
22 Arena deal, and in exchange the City received value back from the Kings, including at
23 least \$391 million in annual lease payments, payment by the Kings of all predevelopment
24 and capital repair expenses, and the Kings' agreement to take full responsibility for any
25 cost overruns (which currently are tens of millions of dollars). These were important
26 terms that the City received, at least in part, in consideration for its agreement to convey
27 the additional assets.

28

1 Plaintiffs focus on the value of the assets conveyed to the Kings and argue that
2 the City concealed the true nature of these "giveaways." However, the City was under no
3 obligation to disclose the potential revenue that the Kings might generate from the assets
4 conveyed. The relevant question for taxpayers is what the City gave up, not what the
5 Kings might do with them.

6 The evidence shows that the City's goal in structuring the deal was to use items
7 that currently have little or no value to the City, and use them as leverage to negotiate a
8 better deal for the City. Some City officials referred to this strategy as "making diamonds
9 out of coal."

10 The Downtown Plaza parking garage spaces serve a rundown, half-vacant mall,
11 produce relatively little revenue (due, in part, to a parking validation program), are
12 expensive to operate and maintain, and have extensive capital improvement needs.
13 Some within City ranks viewed the garages as more of a "liability" than an asset.

14 The Digital Billboard Lease relates to six small parcels of City land. The parcels
15 are undeveloped and, in the absence of the Arena deal, likely would otherwise remain
16 vacant. There are currently no billboards on the sites and the City has not agreed to
17 construct any. All of the risk in constructing, operating, and maintaining the billboards will
18 lie with the Kings.

19 These assets may have significant value in the hands of the Kings – time will tell –
20 but the evidence shows they did not have significant value to the City. Plaintiffs'
21 arguments to the contrary amount to nothing more than speculation, based largely on
22 taking statements out of context and assuming facts not in evidence.

23 Plaintiffs have failed to establish that Defendants knowingly misrepresented or
24 concealed the value of these "assets" to the City. The evidence shows that the assets
25 were a relatively small component of the City's total contribution to the deal. Thus, the
26 City was not required to assign a definitive dollar value to them.

27 Nevertheless, the City identified the value of the Downtown Plaza parking garages
28 based on the evaluation of an independent, third-party parking consultant, Walker

1 Parking. Because the garages serve a struggling mall, are subject to an onerous
2 management agreement, and have significant capital improvement needs, the consultant
3 estimated the value of the garages at \$6 million before debt service, or a negative value
4 after debt service. (The consultant subsequently determined that the capital improvement
5 needs are significantly higher than reported in the staff report, meaning that the value of
6 the garages is even lower.)

7 Plaintiffs take issue with the consultant's estimate, and contend, based primarily
8 on the testimony of their expert, Dr. Haveman, that the Downtown Plaza parking garages
9 are worth tens of millions of dollars. The court is not persuaded by Dr. Haveman's
10 testimony. The difference between the City's valuation and Plaintiffs' valuation amounts
11 to nothing more than a disagreement as to the valuation methodology.

12 Further, even if the Plaintiffs could show the City's analysis is flawed, Plaintiffs
13 have failed to show that Defendants *knew* it was flawed, as Plaintiffs must do to show
14 fraud and concealment. Plaintiffs have failed to prove that City officials persuaded its
15 independent consultant to prepare an intentionally fraudulent report.

16 In regard to the Digital Billboard Lease, the City recognized that the leases have
17 an opportunity cost in that the City theoretically could lease the sites to someone else
18 (even though the City had no intention of doing so). The City did not assign a specific
19 dollar value to this "opportunity cost," but the City publicly disclosed that it currently
20 receives \$180,000 per billboard per year for four digital billboards leased to Clear
21 Channel. This likely overstated the opportunity cost to the City, but the City nevertheless
22 disclosed this information as the best information available to it. The City did not
23 fraudulently conceal the value of the Digital Billboard Lease.

24 Plaintiffs' reverse validation claim challenges the City's finding that there is a
25 "significant public benefit" from issuing bonds under the Marks-Roos Local Bond Pooling
26 Act of 1985. Plaintiffs contend no significant public benefit exists.

27 The court's review of this issue is limited to determining whether the finding is
28 arbitrary, capricious, or entirely lacking in evidentiary support. Since there is evidence in

1 the administrative record to support the City's finding that issuing the bonds will result in
2 "significant public benefits," Plaintiffs have failed to meet their burden on the reverse
3 validation action.

4 The court shall issue a judgment denying the relief requested in Plaintiffs' Third
5 Amended Verified Petition and Complaint.

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7 II.

8 Background Facts and Procedure

9 In 1985, the Kansas City Kings NBA franchise relocated to Sacramento and
10 became the Sacramento Kings. From 1985 to 1988, the Kings played in a temporary
11 arena. In 1988, the Kings moved to a permanent arena, now known as Sleep Train
12 Arena. The Kings have played in this arena for the last twenty seven years.

13 Over the years, there have been repeated attempts to replace Sleep Train Arena with a
14 new arena. Two such proposals are relevant here.

15 Beginning in February 2011, the Maloofs, owners of the controlling interest in the
16 Sacramento Kings at the time, announced plans to pursue relocation of the team to
17 another city, citing the outdated design and condition of Sleep Train Arena. The NBA had
18 a deadline in March for the City and Kings to reach an agreement on terms for the
19 financing, development, and operation of a new facility, to be opened no later than the
20 start of the 2015 basketball season.

21 In February 2012, the Maloofs reached a tentative agreement with the City for the
22 construction of a \$390 million arena to be located at the downtown railyard (the "Railyard
23 Arena Proposal"). Under the terms of the (non-binding) term sheet, approved by the City
24 in March 2012, the City agreed to contribute approximately \$258 million toward
25 construction of the new arena. The City planned to finance its capital contribution by
26 "monetizing" the City's parking assets and selling certain City-owned land.¹

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28 ¹ Monetization contemplates transferring the City's parking assets or the right to operate such assets to another entity in exchange for a lump sum payment. Monetization can be public or private. Private

1 In addition to its capital contribution, the City was responsible for acquiring the
2 land for the arena (estimated at \$7.8 million) and for constructing a new 1,000 space
3 private parking structure (estimated at \$14.5 million). In addition, the City was
4 responsible for 50% of predevelopment costs (estimated at \$13 million) and for a portion
5 of development cost overruns. Under the term sheet, the Kings would get parking
6 revenue from city-owned lots on the nights of Kings games. The arena operators would
7 get all arena naming rights proceeds and ad signage revenue. The Railyard Arena
8 Proposal did not contemplate ancillary development by the Kings in the area surrounding
9 the arena.

10 In April 2012, shortly after the term sheet was announced, the Maloofs backed out
11 of the Railyard Arena Proposal.

12 In January 2013, it was publicly revealed that the Maloofs had agreed to sell their
13 controlling interest in the Kings franchise to a Seattle-based investor group. The Seattle
14 group had agreed to purchase a 65% controlling interest in the Kings at a "franchise
15 value" of \$525 million. The Seattle group publicly indicated its intent to relocate the Kings
16 to Seattle. The NBA indicated it intended to consider the proposed acquisition and
17 relocation in March or April.

18 Determined to avoid relocation of the Kings, Mayor Johnson began seeking
19 potential investors to submit a competing offer to purchase the Kings and keep the team
20 in Sacramento. The investor group assembled by Mayor Johnson included Mark
21 Mastrov, Vivek Ranadive, and (for a time) Ron Burkle as the principal investors, as well
22 as a number of other (generally local) investors. Mayor Johnson also set about gathering
23 evidence to show the NBA that Sacramento is a viable NBA market and to engage the
24 public on the arena issue (i.e., garner public support for an arena deal).

25 Mayor Johnson was assisted in his efforts by representatives of Think Big

26
27 monetization typically involves private investors paying a lump sum payment in exchange for the right to
28 receive future revenues generated by assets. Public monetization typically involves transferring assets to a
non-profit corporation that then issues bonds to be repaid from the expected future revenues generated by
the assets.

1 Sacramento, a private initiative that the Mayor formed in 2010 to help facilitate the
2 construction of a new arena in Sacramento. Employees of Think Big were used as
3 resources by the Mayor and other City officials, answering questions and providing input
4 on issues related to the effort to assemble an ownership group and, in some cases,
5 negotiations of deal points. Employees did not, however, negotiate terms on behalf of the
6 City.

7 The NBA agreed to entertain a competing offer to keep the Kings in Sacramento,
8 but told the City that any effort to keep the Kings would require both a competitive
9 (essentially, matching) offer to purchase the team and a plan to replace the existing
10 arena. Thus, as the Sacramento investor group was assembled, City officials, led by City
11 Manager (Mr. Shirey) and Assistant City Manager (Mr. Dangberg), with consultant Dan
12 Barrett of Barrett Sports Group, sought to negotiate the framework of a deal for financing
13 and constructing a new arena in Sacramento. Separately, the City entered into
14 agreements with Walker Parking Consultants to assist with the plan to monetize the City's
15 parking assets. The City was working under a very tight timeline because of the NBA's
16 March/April deadline to consider the Seattle group acquisition and relocation request.

17 Before commencing negotiations with the Sacramento investor group, the City
18 adopted a set of principles to guide negotiations of the preliminary terms of an
19 agreement. The core tenets included protecting taxpayers and the City's General Fund,
20 maximizing jobs and economic development in the downtown area, forming a true public-
21 private partnership in which both the City and Kings share in the risks/rewards, securing a
22 long-term commitment to keep the Kings in Sacramento, and reusing the existing
23 Natomas arena site.

24 The City also formed an Ad Hoc Committee to provide feedback regarding
25 negotiations. Several of the City Councilmembers (but less than a majority) were
26 members of the Ad Hoc Committee. Ad Hoc Committee meetings were not open to the
27 public, but members of the public, including representatives of Think Big were, from time
28 to time, invited to attend Ad Hoc Committee meetings to speak on (or address questions

1 about) particular issues.

2 Early in the course of negotiations for the Arena deal, the Sacramento investor
3 group conveyed a "wish list" of deal points to the City. Around the same time, the
4 Sacramento investor group communicated to the City that, to match the Seattle group's
5 offer, the investor group was going to have to "overpay" for the Kings by \$150-200 million.
6 Mr. Ranadive summarized the problem in an email as follows:

7 The problem is that while 525m might be a justifiable price for the Seattle market
8 it is not for Sac. The Kings market is more like Memphis or New Orleans – so
9 leaving aside our ask on the arena we have to find ways to make the Kings price
tag more in the 325m to 350m range. So we need almost 200m in value separate
from the arena. (Plaintiffs' Exhibit 223.)

10 Based on the gap between the purchase price of the Kings and the perceived
11 market value of the Kings, the Sacramento investor group asked for \$150 to 200 million in
12 additional value from the City. (See Plaintiffs' Exhibits 165, 223, 452.)

13 The investor group's wish list was not specifically tied to the "ask" for additional
14 value/assets. The investor group requested cash, not "assets." Nevertheless, Mr.
15 Ranadive's email included a list of assets that could provide additional "value" to the
16 Kings, and this list specifically referenced digital signage and the parking spaces at the
17 Downtown Plaza parking garages. (See Plaintiffs' Exhibits 165, 223, 355, 452.)

18 The City likewise had its own "wish list" of deal points, which included items such
19 as lessening the City's exposure to cost overruns, more favorable profit-sharing (i.e. the
20 "waterfall"), and making the Kings responsible for predevelopment expenses, operating
21 expenses, operating risk, and capital repairs.

22 On February 13, 2013, City officials met with the Sacramento investor group to
23 discuss the framework and timeline for a possible Arena deal. The parties discussed
24 their respective wish lists. "Key issues" included, among other things, the Downtown
25 Plaza parking garage spaces and digital signage. Notes from the meeting indicate that
26 digital signage was listed as an item that the City possibly could provide, but the parking
27 garages were identified as an issue requiring "follow up."
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1 Within weeks after the February 13 meeting, evidence shows that both the digital
2 signage and the parking garages were "on the table," and that City officials were
3 considering (at least internally) the potential value of those assets (in terms of revenues)
4 to the Kings. (Plaintiffs' Exhibits 166, 355.)

5 In March 2013, the Sacramento City Council approved a non-binding Preliminary
6 Term Sheet with the Sacramento investor group for the financing, development, and
7 operation of a new Arena. The Term Sheet outlined a basic agreement and set the
8 framework for the parties to negotiate final, definitive legal documents (the so-called
9 "Definitive Agreements").

10 Under the provisions of the Term Sheet, the investor group agreed to be
11 responsible for the planning, environmental review, design, land acquisition,
12 development, and construction of a new \$447 million Arena to be located at the site of the
13 existing Downtown Plaza shopping mall. The Arena will be owned by the City and leased
14 to the Kings under a long-term lease with a non-relocation agreement. The City agreed
15 to contribute \$258 million toward the cost of constructing the new Arena, with the investor
16 group responsible for the remaining \$189 million. In addition, the investor group agreed
17 to be responsible for all predevelopment expenses, all cost overruns, all operating
18 expenses and maintenance and repairs, all capital repairs and improvements, and all
19 operating risk.

20 The Term Sheet provides that a share of Arena operating profits shall be allocated
21 to the City on an annual basis according to a "waterfall" formula, with a minimum annual
22 payment to the City of \$1,000,000.

23 In the Term Sheet, the City agreed to transfer operational control of the remaining
24 spaces in the Downtown Plaza parking garages (approximately 3,700 spaces, less 1,000
25 spaces that will be demolished) pursuant to a long-term parking management agreement.
26 Unlike the Railyard Arena Proposal, the City was not required to build a stand-alone
27 parking structure. The Term Sheet allowed the City to keep parking revenues at City
28 garages (other than the Downtown Plaza garages) during Arena events. The investor

1 group agreed that Kings shall operate, maintain, and repair the Downtown Plaza parking
2 facilities.

3 The Term Sheet provides that the parties shall work to develop a digital signage
4 program, pursuant to which the investor group may develop and operate up to six digital
5 signs. The Term Sheet provides that the investor group shall be responsible for the
6 development and any operating and maintenance costs related to such signage.

7 The Term Sheet provides for reuse of the existing Natomas arena site, and the Kings
8 committed to reuse the Natomas arena site. The Term Sheet also provides for up to 1.5
9 million square feet of additional, ancillary real estate development in the downtown area,
10 including office, retail, housing, and hotel uses. The Term Sheet states that the investor
11 group shall use commercially reasonable efforts to develop the ancillary real estate as
12 promptly as practicable after the Arena opening date.

13 On May 20, 2014, after more than a year of deliberation and negotiations, the City
14 Council voted to approve the "Definitive Agreements" for the Arena project. The
15 Definitive Agreements include a Comprehensive Project Agreement; Arena Design and
16 Construction Agreement; Arena Management, Operation, and Lease Agreement; Team
17 Non-Relocation Agreement; Arena Finance and Funding Agreement; Property
18 Conveyance Agreement; Agreement for Interim Parking Operations Management; First
19 Amendment to the Property Acquisition Cost, Defense, and Indemnity Agreement; Arena
20 Parking Management Agreement; and Master Lease for Digital Billboards.

21 The staff report for the May 20 City Council meeting discusses the expected
22 economic benefits of the project. It states that the Arena "will retain up to 800 existing
23 jobs and create between 2,000 and 6,000 new ones." It further states that the total
24 economic output of the Arena (not including the benefits associated with ancillary
25 development) is estimated at between \$260 million and \$400 million locally and between
26 \$470 million and almost \$1 billion regionally and statewide. In addition, it states that the
27 Arena is expected to "help spur additional investment along K Street, in Old Sacramento
28 and throughout downtown," and "enhance the entertainment and cultural opportunities in

1 downtown and the region."

2 The key differences between the Definitive Agreements and the Term Sheet are
3 as follows:

	Term Sheet	Definitive Agreements
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Total Cost of Arena	\$447 million	At least \$477 million (and currently projected to be \$507 million, with Kings covering additional cost)
Ownership	Kings own Arena land	City owns Arena land
City's Capital Contribution – Cash	Funded primarily by monetizing City's parking assets	Funded primarily by sale of lease-revenue bonds and sale of City land
City's Capital Contribution – Land	City to transfer properties with estimated value of \$38 million	City to transfer eight properties with appraised value of \$32 million in exchange for cash to be applied toward City's cash contribution
City's Capital Contribution – Amount	City to contribute \$258 million toward development and construction of Arena	City to contribute \$255 million toward development and construction of Arena
Investor Group's Contribution toward Arena construction	\$189 million	At least \$222 million (and currently projected to be \$252 million)
Investor Group's Annual Remittances/Payments to City	5% ticket surcharge (estimated to generate \$3.7 million per year, subject to market risk), plus Operating Profit Allocation (Waterfall) with	Annual lease fee payments to City, with minimum annual lease fee of \$6.5 million, and total minimum lease fee payments over the term

	minimum annual payment to City of \$1,000,000 and uncertain potential for profit sharing (subject to market risk)	of the lease of approximately \$391 million (nominal value)
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The staff report for the Definitive Agreements directly addressed the value of the Arena Parking Management Agreement for the Downtown Plaza parking garages and the Digital Billboard Lease. With regard to the parking garages, the staff report notes that the garages currently generate only about \$1.25 per car in revenue, compared to \$6-9 per car in the City's other garages. The staff report explains that the reduced revenue is primarily the result of lackluster demand and onerous restrictions in the governing Parking Operations and Maintenance Agreement ("POMA"), including retail validation obligations for the merchants.

In addition, the staff report notes the garages have suffered from reduced volume due to the ongoing decline of retail at the mall. The staff report also notes that the garages have significant capital improvement needs totaling almost \$39 million over the next 40 years, according to an analysis by Walker Parking Consultants. Based on a 40-year analysis of anticipated net operating income and capital expenditures prepared by Walker Parking, the value of the Downtown Plaza garages based on current conditions and a continuation of the status quo ranges from approximately \$6 million before debt service to a negative value when existing debt service is included.

With regard to the Digital Billboard Lease, the City disclosed that the Lease is simply a right to use six small parcels of land that have little to no value to the City. The staff report indicates that the City currently derives no revenue from the underutilized sites, and states that there is currently little value and no cost to the City (other than opportunity cost) in providing the sites to the Kings. The staff report acknowledges that the Kings will be creating and benefitting from the value they create through installation of billboards (at their own cost) at the sites. The staff report further states:

1 Because of the unique nature of this arrangement where owners of a professional
2 basketball team own and operate digital billboards, it is difficult to come up with an
3 exact estimate of value. Neither staff nor our consultants have been able to find
4 comparable examples. Yet, unlike a typical outdoor advertising company, SBH
5 faces a number of unique constraints that are likely to limit the revenue-
6 generating potential of the billboards.

7 The City's existing agreement with Clear Channel for four digital billboards is a
8 very different arrangement, by which the City currently receives \$180,000 per
9 billboard per year. It is uncertain how much the City would be able to generate if
10 the six signs in question were leased to an entity other than SBH given the
11 proposed locations as well as the increase in the supply of signs in the market
12 (which will negatively impact value).

13 In May 2013, Plaintiffs filed a petition and complaint challenging the City's
14 approval of the non-binding Term Sheet. Defendants filed a demurrer to the petition and
15 complaint contending, among other things, that the matter was not ripe for adjudication.
16 The court sustained the demurrer with leave to amend.

17 Plaintiffs filed a first amended petition and complaint. Defendants filed another
18 demurrer. The court sustained the demurrer with leave to amend.

19 Plaintiffs filed a second amended petition and complaint. Defendants filed another
20 demurrer and a motion to strike. The court sustained the demurrer in part (with leave to
21 amend certain causes of action), overruled the demurrer in part, and granted the motion
22 to strike.

23 Plaintiffs filed a third amended petition and complaint. Defendants applied for an
24 order to show cause re contempt, arguing that Plaintiffs continued to include allegations
25 in contravention of the court's prior ruling. At the hearing, Plaintiffs agreed to amend their
26 third amended petition and complaint to remove the challenged provisions and file the
27 document again as a "revised" third amended verified petition and complaint. The
28 Revised Third Amended Petition and Complaint is the operative complaint in this action
(the "Complaint").

The Complaint alleges five causes of action. The First and Second Causes of
Action are taxpayer representative claims based on fraud and concealment. Plaintiffs
allege that key City officials (including the Mayor and Mr. Dangberg) fraudulently
misrepresented and concealed the value of certain assets conveyed to the Kings -- the

1 right to operate the Downtown Plaza parking garages and construct and operate digital
2 billboards – as part of a “secret” backroom deal to subsidize the investor group for
3 purchasing the “overvalued” Kings franchise. Plaintiffs allege that the City Council,
4 despite being on “inquiry notice” of this backroom agreement, failed to undertake any
5 meaningful investigation or take any actions to prevent this fraud on the public.

6 The Third and Fourth Causes of Action are taxpayer representative claims based
7 on waste and illegal expenditure of public funds. Plaintiffs allege that the City’s approval
8 of the Arena project constitutes waste and an unlawful gift of public funds because it
9 includes a “secret” subsidy to the Sacramento investor group for purchasing the
10 “overvalued” Kings franchise. Plaintiffs further allege that the Arena plan constitutes an
11 illegal expenditure of public funds because the City’s financing plan illegally proposes to
12 increase on-street parking meter revenues to pay debt service on the lease-revenue
13 bonds.

14 (The Complaint also alleges that the Arena project constitutes an illegal
15 expenditure of public funds because (1) the City violated City Code sections 3.68.020 and
16 3.68.110 by awarding the “Downtown Plaza Garage Lease” to the Kings investors without
17 competitive bidding; and (2) the City violated City Code section 3.88.100 by conveying
18 real properties to a private entity “without cost.” The Complaint further alleges that the
19 City’s approval of the project is wasteful because the City failed to substantiate its claims
20 that the Arena will be a catalyst for economic development and growth. None of these
21 claims were addressed at trial or in Plaintiffs’ opening or closing trial briefs. Thus, the
22 claims are deemed abandoned/forfeited and will not be considered here.)

23 Plaintiffs’ final cause of action – the Fifth Cause of Action – is a reverse validation
24 action seeking to invalidate the City’s Resolution authorizing the issuance of bonds under
25 the Marks-Roos Local Bond Pooling Act of 1985. Bonds may be issued under the Act
26 only if there are “significant public benefits” for taking that action. The City made findings
27 that issuing bonds under the Act would have “significant public benefits,” but Plaintiffs
28 contend the City’s finding is not supported by the evidence.

1 Trial of this matter commenced at 9:00 a.m., on June 22, 2015, and concluded on
2 July 8, 2015, after ten days of trial, with eighteen witnesses and over 150 exhibits.
3 Plaintiffs called as witnesses Assistant City Manager (and interim Director of Economic
4 Development) John Dangberg; California Assemblymember (and former City
5 Councilmember) Kevin McCarty; Vice President of Strategic Initiative Issues for the Kings
6 (and former Executive Director of Think Big Sacramento) Kunal Merchant; Sacramento
7 Basketball Holdings attorney (and former Think Big attorney) Jeffrey K. Dorso; City
8 Councilmember Allen W. Warren; City Councilmember Steve Hansen; Mayor Johnson's
9 Chief of Staff, Daniel Conway; City Manager John Shirey; City Finance Director Eleyne
10 "Leyne" Milstein; Kings Managing Owner Vivek Ranadive; Mayor Kevin Johnson; City
11 Treasurer Russell T. Fehr; and expert economist Jon D. Haveman, Ph. D.

12 Defendants called Assistant City Manager John Dangberg; City Entertainment and
13 Sports Center Project Manager Desmond Parrington; outdoor advertising/digital billboard
14 expert George Manyak; Assistant City Manager (and former City Parking Services
15 Manager) Howard Chan; City Parking Services Manager (and former Parking Operations
16 Supervisor) Matthew Eierman; and expert parking consultant Bernard Lee.

17
18 III.

19 Motion for Sanctions

20 Prior to the start of trial, Plaintiffs filed a motion seeking to impose, as a sanction
21 for the deletion of potentially relevant text messages by Mayor Johnson and Mr.
22 Dangberg, an adverse inference that Mr. Dangberg and Mayor Johnson communicated
23 via text regarding a secret agreement by them to convey City assets to the Kings
24 investors without public disclosure. The court deferred ruling on the motion at that time
25 and received testimony from Mr. Dangberg and Mayor Johnson.

26 During their testimony, both Mr. Dangberg and Mayor Johnson admitted deleting
27 text messages that potentially related to the Arena project, both before and after the
28 commencement of this action in May 2013, and receipt of Plaintiffs' June 24, 2013,

1 "litigation hold letter."

2 Mayor Johnson testified that his actions were, at most, negligence; he did not
3 intentionally destroy evidence. He testified that it is his usual practice, or habit, to delete
4 texts from his phone as soon as he is done with them (i.e., responded to the text or
5 resolved the issue). He was aware of the litigation hold letter but assumed that staff was
6 taking care of it. He testified that he was not a "heavy texter," preferring to send things by
7 email. He did not recall sending or receiving any texts discussing major deal points. He
8 denied sending any texts (or any other communications) discussing or relating to any
9 agreement to give the Kings a secret subsidy for overpaying for the team. He testified
10 that some of the deleted texts possibly could relate to the Arena deal, but he testified that
11 the texts would have been small talk, nothing major.

12 Like Mayor Johnson, Mr. Dangberg admitted deleting texts, including texts to/from
13 Mr. Dorso of Think Big. Like Mayor Johnson, Mr. Dangberg testified it is his normal
14 practice not to retain texts. Mr. Dangberg testified that he continued to delete text
15 messages even after the litigation hold letter because he believed the messages were
16 backed up when he synched his phone to his computer. However, Mr. Dangberg
17 admitted that he has never tried to retrieve texts that allegedly were "backed up" by his
18 computer. As it turns out, the texts may have been saved by his computer, but they were
19 not preserved, and therefore many of the texts were lost or destroyed. In hindsight, Mr.
20 Dangberg admits that his decision to delete the texts was a "mistake."

21 Mr. Dangberg testified that, after the fact, he worked with IT consultants to attempt
22 to recover the messages. The City purchased software specifically for the purpose of
23 trying to recover the messages from his hard drive. The City had some success, but was
24 unable to recover all of the deleted messages.

25 It is undisputed that both Mayor Johnson and Mr. Dangberg deleted text
26 messages that were potentially relevant to the issues in this case. One of the questions
27 before the court is whether they did so with the intent to destroy adverse evidence or as a
28 result of ordinary negligence. The court is persuaded that their actions were caused by

1 carelessness, not malicious intent.

2 Nevertheless, they destroyed potentially relevant evidence despite being aware of
3 a letter from Plaintiffs' counsel specifically warning them not to. The court does not take
4 this conduct lightly. Sanctions are warranted. But the court is not prepared to put
5 Plaintiffs in a better position than they would have occupied if they had obtained the
6 discovery. (See *Puritan Ins. Co. v. Superior Court* (1985) 171 Cal.App.3d 877, 884.)

7 Here, the court does not find it reasonable to infer that the deleted text messages
8 were the proverbial "smoking gun" – evidence of a stand-alone agreement to convey a
9 secret subsidy to the investor group, separate from the Arena deal, and then conceal that
10 subsidy within the financial arrangements for the Arena.

11 Instead, the court shall adopt an adverse inference, similar to other evidence
12 before the court, that Mayor Johnson and Mr. Dangberg sent/or received messages
13 reflecting the investor group's position that it was overpaying for the team and wanted
14 additional assets/value from the City.

15 IV.

16 Discussion

17 A. The First and Second Causes of Action

18
19 Plaintiffs' First and Second Causes of Action are taxpayer representative claims
20 for fraud and concealment. It is settled that a taxpayer may bring a representative suit
21 against the government under either of two theories, one statutory, and the other based
22 upon the common law. (*Los Altos Property Owners Assn. v. Hutcheon* (1977) 69
23 Cal.App.3d 22, 26; *City of Hermosa Beach v. Superior Court* (1964) 231 Cal.App.2d 295,
24 300.)

25
26 Statutory actions are governed by California Code of Civil Procedure section
27 526a. The essence of a taxpayer action under section 526a is an illegal or wasteful
28 expenditure of public funds. (*Waste Management of Alameda County, Inc. v. County of*

1 *Alameda* (2000) 79 Cal.App.4th 1223, 1240, overruled in part on other grounds, as stated
2 in *Save the Plastic Bag Coalition v. City of Manhattan Beach* (2011) 52 Cal.4th 155; see
3 also *Sagaser v. McCarthy* (1986) 176 Cal.App.3d 288, 310.)

4 In addition to a statutory cause of action under section 526a, a taxpayer is entitled
5 to bring suit under a common law theory alleging fraud, corruption, collusion, ultra vires,
6 or a failure on the part of the government body to perform a duty specifically enjoined.²
7 (See *Gogerty v. Coachella Valley Junior College Dist.* (1962) 57 Cal.2d 727, 730.)

8 The elements of a fraud claim are: (1) a knowingly false representation (or
9 concealment under a duty to disclose), (2) made with intent to deceive and to induce
10 reliance, (3) justifiable reliance, and (4) damages. (*Robinson Helicopter Co., Inc. v. Dana*
11 *Corp.* (2004) 34 Cal.4th 979, 990; *Cadlo v. Owens-Illinois, Inc.* (2004) 125 Cal.App.4th
12 513, 519.) The elements for fraudulent concealment are (1) an intentional concealment
13 of material fact, (2) a duty to disclose the fact, (3) an intent to defraud, (4) the party who
14 suffered the fraud was unaware of the concealed fact and would not have acted if known,
15 and (5) resulting harm. (*Levine v. Blue Shield of California* (2010) 189 Cal.App.4th 1117,
16 1126.)

17 In cases such as this, where taxpayers allege fraud on the public, the "reliance"
18 prong is more accurately described as the public's justifiable reliance that governmental
19 officials will perform their official duties in accordance with the law. (See *Gogerty, supra*,
20 57 Cal.2d at p.730; see also *Lusk v. Compton City School Board of Education* (1967) 252
21 Cal.App.2d 376, 379.)

22 In the First and Second Causes of Action, Plaintiffs allege that Defendants
23 engaged in fraud by agreeing to convey a "secret subsidy" to the Sacramento investor
24

25 ² Courts have held that standing under the common law doctrine is recognized only in mandamus
26 proceedings, and not as an exception to standing under section 526a. (*Reynolds v. City of Calistoga* (2014)
27 223 Cal.App.4th 865, 873.) Plaintiffs here dismissed their mandamus claim. Nevertheless, Plaintiffs have
28 standing under section 526a to allege an illegal expenditure of public funds. Plaintiffs allege that Defendants
are guilty of illegally spending public funds because, among other things, they engaged in fraud and
concealment regarding the "secret subsidy." Thus, the court finds that Plaintiffs have standing to raise the
claims asserted in the First and Second Causes of Action based on the substantial overlap between the two
theories.

1 group to subsidize their purchase of the team. Plaintiffs allege that Defendants hid the
2 secret subsidy within the financial arrangements for the Arena by misrepresenting and
3 concealing the value of two components of the City's "contribution" to the Arena project:
4 namely, the Digital Billboard Lease and the Parking Management Agreement for the
5 Downtown Plaza parking garages.³

6 Plaintiffs allege that the individual Defendants represented that these assets have
7 no value, when, in fact, they are worth tens of millions of dollars. Plaintiffs allege that the
8 individual Defendants knew the Digital Billboard Lease and parking garages have
9 significant value, and deliberately concealed this information from the public. Plaintiffs
10 allege that Defendants knowingly and intentionally undervalued the assets in order to
11 convey the "secret subsidy" to the Kings investors to offset their "overpayment" for the
12 Kings franchise. Plaintiffs allege the City Council had notice of the secret subsidy hidden
13 within the financial arrangements for the Arena project, but nevertheless approved the
14 deal, perpetrating a fraud upon the public.

15 It is Plaintiffs' burden to prove that Defendants knowingly misrepresented or
16 concealed material facts concerning the deal between the City and Sacramento investor
17 group, with the intent to deceive, and with resulting harm to the public. Plaintiffs must
18 prove these claims by a preponderance of the evidence. Plaintiffs have failed to meet
19 their burden.

20 The court finds no merit in Plaintiffs' argument that Defendants misrepresented
21 that the City's "total contribution" to the Arena project was limited to \$258 million. While
22 Defendants stated in the Term Sheet and elsewhere that the City's capital contribution to
23 the development cost of the Arena is \$258 million (later reduced to \$255 million),
24 Defendants did not misrepresent that this was the City's "only" contribution to the project.

25 Both the Term Sheet and the Definitive Agreements clearly disclosed that the
26

27 ³ In their Complaint, Plaintiffs also alleged that the City concealed or suppressed the "dual role" of Goldman
28 Sachs as both financial adviser and bond underwriter. However, Plaintiffs never proved that the "dual role"
exists or explained how this "dual role" would constitute fraud on the public. In addition, Plaintiffs failed to
raise this issue in their Closing Brief. Accordingly, the court treats the issue as abandoned/forfeited.

1 City's agreement extended beyond its capital contribution. For example, the staff report
2 for the Definitive Agreements separately lists, under a heading entitled "City Contribution
3 Overview," the City's capital contribution, the Digital Billboard Lease, and the Downtown
4 Plaza Parking Management Agreement. (See Joint Exhibit 15, pp.8-12.) Anyone reading
5 the report, which was posted on the City's website and readily available to the public,
6 could see that the components of the Arena deal extended beyond the City's share of the
7 Arena's construction costs, and included the digital billboards and Downtown Plaza
8 parking garages. The City expressly and publicly disclosed that it would be conveying
9 these items to the Kings as part of the Arena deal, in addition to the City's share of the
10 Arena construction costs.

11 Plaintiffs also publicly disclosed this information by filing this lawsuit in May of
12 2013, alleging that the City was conveying a secret subsidy to the Kings and hiding it in
13 the financial arrangements for the deal, including the billboards and the Downtown Plaza
14 parking garage, thereby bringing the City's total subsidy to approximately \$338 million.
15 (Initial Petition, ¶ 28.)

16 While the news media may have focused on the City's capital contribution toward
17 construction of the Arena, and downplayed the City's other contributions, this does not
18 render the City's disclosures fraudulent or misleading.

19 Plaintiffs also have failed to establish that Defendants knowingly misrepresented
20 or concealed material facts regarding the value of the "assets" conveyed to the Kings.
21 The staff report for the Definitive Agreements, which was publicly available, discussed the
22 value of both the Digital Billboard Lease and the Downtown Plaza parking garages.

23 The testimony and documents establish that the Digital Billboard Lease is merely
24 a right to use six small parcels of City-owned land. The staff report for the Definitive
25 Agreements indicates that the City currently derives no revenue from the sites, and states
26 that there is currently little value and no cost to the City (other than opportunity cost) in
27 providing the sites to the Kings.

28 Mr. Dangberg and Mr. Shirey testified that, as a practical matter, there was no

1 "opportunity cost" to the City in surrendering the billboard sites because, in the absence
2 of the Arena project, the City had no plans to use the sites or lease them to another party.
3 The choice confronting the City was to lease the sites to the Kings investors or continue
4 to hold them in their current (unused) condition.

5 Nevertheless, relying on the expert advice of Mr. George Manyak, the City
6 addressed the opportunity cost of the Lease, by disclosing the amount it receives under
7 its existing billboard lease agreement with Clear Channel: \$180,000 per billboard per
8 year. The City explained that the Clear Channel leases were not entirely comparable, but
9 the City reasonably determined this was the best information it had available regarding
10 the opportunity cost of the Lease. Mr. Manyak, who is an expert in outdoor advertising
11 and digital billboards, opined that this was a reasonable way for the City to disclose the
12 value of the Digital Billboard Lease under the circumstances. The court agrees.

13 Plaintiffs fault the City for not adequately disclosing the value of the Digital
14 Billboard Lease *to the Kings*. However, the City was under no obligation to disclose the
15 potential revenue that the Kings might generate from the Lease. The relevant question
16 for taxpayers is what the City gave up. The City had no legal obligation to speculate on
17 the potential revenue that the Kings might generate from the billboards in the future.

18 In any event, the staff report acknowledges that the Kings will be creating and
19 benefitting from any value they create through installation of the billboards (at their cost)
20 at the sites. The only thing the staff report does not do is to give an estimate of that
21 value. But this does not render the City's actions fraudulent.

22 With regard to the parking garages, the staff report for the Definitive Agreements
23 notes that the Downtown Plaza garages generate significantly less revenue than the
24 City's other garages (\$1.25 per car in Downtown Plaza versus \$6-9 per car in other
25 garages) due, in large part, to unfavorable retail validation contracts. (Testimony at trial
26 suggested the validation program depressed revenues to the City by approximately \$7.5
27 million a year.) In addition, the staff report notes the garages have suffered from reduced
28

1 volume due to the ongoing decline of retail at the mall. (Testimony at trial established
2 that the mall had about a 50% tenant vacancy rate at the time of the deal.)

3 The staff report also notes that the garages have significant capital improvement
4 needs totaling almost \$39 million over the next 40 years, according to an analysis by
5 Walker Parking Consultants. Based on an analysis of net operating income and capital
6 expenditures prepared by Walker Parking, the staff report indicates the value of the
7 Downtown Plaza garages, based on current conditions and a continuation of the status
8 quo, ranges from approximately \$6 million before debt service to a negative value when
9 existing debt service is included.

10 Relying on the testimony of their expert economist, Dr. Haveman, Plaintiffs argue
11 the Walker Parking analysis is flawed. Dr. Haveman testified that, using the City's
12 methodology, but with proper assumptions, the Downtown Parking garages are worth at
13 least \$30 to \$38.5 million without the Arena, and \$44 to \$57 million with the Arena, or
14 more.

15 The principal differences between Dr. Haveman's opinion of value, and that of
16 Walker Parking, is that Dr. Haveman (i) assumed the City's debt service obligations were
17 not relevant to the calculation, (ii) assumed parking rates would increase by 0.5% over
18 time, (iii) used a different discount rate, (iv) assumed construction of the Arena would
19 increase the value of the garages, (v) excluded various "indirect" expenses that were
20 included in the Walker Parking methodology.

21 The court does not find the Dr. Haveman's criticisms persuasive. Much of Dr.
22 Haveman's opinion is based on his unfounded assumption that the Arena would be
23 constructed whether or not the City conveyed the right to operate the Downtown Plaza
24 garages to the Kings. There is no evidence to support this assumption. All of the
25 evidence is to the contrary, establishing that if the Downtown Plaza parking spaces were
26 not conveyed to the Kings, there would not have been an Arena deal. The City
27 reasonably determined that the value of the garages what they would be worth based on
28 current conditions and a continuation of the status quo, since this is what is what the City

1 is arguably "giving up" to get the Arena deal.

2 The evidence before the court shows that, in the absence of the Arena deal, the
3 Downtown Plaza parking garages hardly qualify as an "asset." The garages generate
4 significantly less revenue than other City garages because the garages serve an
5 unpopular, decaying downtown mall. Demand for parking at the mall is low and revenues
6 are constrained by the POMA and the retail validation contracts. This is precisely why the
7 City put the garages "on the table" as part of the Arena deal – the garages have little
8 value without the Arena, but significant potential value to the Kings with the Arena. Dr.
9 Haveman's opinion ignores, or at least glosses over, this important distinction.

10 Dr. Haveman also relies heavily on his assumption that Walker Parking
11 understated the Downtown Plaza garages' share of certain overhead expenses incurred
12 for the City's parking garages – namely those associated with "administrative employees"
13 and "services and supplies." Dr. Haveman based this assumption on his reading of
14 historical financial results for the City's parking garages prepared and circulated by City
15 staff in connection with the Arena deal. (See Plaintiffs' Exhibits 135, 455, 457, 459.) (For
16 simplicity, the court shall refer to these documents as the "financial spreadsheets".)

17 Dr. Haveman testified that the financial spreadsheets allocated the overhead
18 expenses on a "per revenue" basis (i.e., based on each garage's proportional share of the
19 total revenues from all garages). From this, Dr. Haveman concluded that this must be the
20 City's historical practice. According to Dr. Haveman, Walker Parking instead allocated
21 the overhead expenses on a "per stall" basis.

22 Dr. Haveman, who is not a parking expert, admitted that he does not know what is
23 the industry standard; he simply made assumptions based on his reading of the financial
24 spreadsheets. He placed particular emphasis on lines 33, 36, and 37 of page 2 of
25 Plaintiffs' Exhibit 135, which he compared and contrasted against the expense figures
26 produced by Walker Parking for "employee" and "service & supplies" as set forth on page
27 2 of Plaintiffs' Exhibit 454.

28 Because the Downtown Plaza garages produce less revenue per stall relative to

1 the City's other off-street garages, Dr. Haveman testified that this has the effect of
2 decreasing the expenses attributable to the Downtown Plaza garages, relative to Walker
3 Parking's "per stall" approach. Dr. Haveman testified that allocating the overhead
4 expenses on a "per revenue," rather than "per stall" basis, has the effect of increasing the
5 value of the Downtown Plaza parking garages by approximately \$16 million. Dr.
6 Haveman surmised that Walker Parking deviated from the City's historical practice of
7 allocating expenses on a "per revenue" basis to make the Downtown Plaza garages
8 appear less valuable.

9 There are several problems with Dr. Haveman's opinion. First, City staff (Mr.
10 Chan, Mr. Eierman, and Mr. Parrington) and the City's expert parking consultant, Mr. Lee,
11 testified that it is both industry standard and the City's historical practice to allocate
12 overhead expenses on a "per stall" basis. They denied that the City has ever budgeted
13 overhead expenses on a "per stall" basis.

14 Second, they denied that the financial spreadsheets in question were provided to,
15 or relied upon by, Walker Parking in preparing its analysis of the Downtown Plaza
16 garages. Rather, the evidence established that the City provided and that Walker relied
17 upon raw data provided to it on an external hard drive. The decision to allocate overhead
18 expenses on a per stall basis was made by Walker Parking, consistent with the City's
19 historical budget practices and with the industry standard.

20 Dr. Haveman admitted that he never contacted anyone at the City to inquire what
21 data had been sent to Walker Parking or what specific data Walker Parking used for its
22 analysis. Dr. Haveman simply assumed that Walker Parking used the financial
23 spreadsheets and that the financial spreadsheets were accurate and reflective of City
24 practices. The only evidence to support Dr. Haveman's assumption is an email from Ms.
25 Cherisse Knapp to Janelle Gray, et al., dated June 26, 2014, in which Ms. Knapp
26 attaches the financial data and indicates it is the "same information that was provided to
27 Walker during their review." (Plaintiffs' Exhibit 459.)
28

1 It is not clear from the testimony at trial whether information attached to Ms.
2 Knapp's email was actually sent to Walker Parking. The testimony suggests that a
3 portion of it might have been, specifically the information above line 29 in the spreadsheet
4 included in Exhibit 135. The evidence established that the information above line 29 is
5 historical financial results for the City's garages. The information below line 29, in
6 contrast, is a "quick and dirty" analysis of the Downtown Plaza garages, produced
7 apparently to attempt to determine what would be the financial impact of removing the
8 garages from the City's (aborted) monetization plan. It is not clear who prepared the
9 analysis, or why the person decided to allocate expenses on a "per revenue" basis in the
10 financial spreadsheets, if indeed that is what was done. But it was established that the
11 information below line 29 is not reflective of the City's budgeting practices, was not part of
12 the City's audited financials, and was not sent to, or relied upon, by Walker Parking for
13 purposes of its analysis.

14 It is Plaintiffs' burden to show the Walker Parking analysis is deliberately wrong.
15 Plaintiffs succeeded only in showing it is different. (Cf. Plaintiffs' Exhibits 135, 455, 457,
16 459, with Plaintiffs' Exhibit 454 and Joint Exhibit 10, p.6.) Plaintiffs may speculate on why
17 overhead is allocated on a "per revenue" basis in the draft financial spreadsheets, but
18 such speculation does not prove fraud. Mr. Lee testified that he did not intentionally
19 undervalue the Downtown Plaza garages and that no one asked him to do so. His
20 testimony is credible and persuasive.

21 Dr. Haveman also criticized Walker Parking for including "in lieu and cost plan"
22 overhead expenses in its analysis of the Downtown Plaza garage, but excluding such
23 items from its analysis of other City-operated garages, suggesting that this too was an
24 effort to artificially inflate the expenses associated with the Downtown Plaza garages.
25 However, Dr. Haveman, who is an economist, not a parking expert, never explained why
26 it was improper for Walker Parking to include such expenses its analysis. Dr. Haveman
27 simply presumed that because both analyses were prepared by Walker Parking, they
28 should use the same assumptions.

1 Dr. Haveman ignores that the two Walker Parking reports were prepared for
2 different reasons and serve different purposes.⁴ The testimony of Mr. Chan, Mr. Eierman,
3 and Mr. Lee establish that the “in lieu and cost plan” allocations were excluded from the
4 “Walker III” report because the City wanted a picture of the performance of its garages
5 based on direct operating revenues and expenses. The “in lieu and cost plan” were
6 included in the final analysis of the Downtown Plaza garages – for lack of a better term,
7 the “Downtown Plaza valuation report” – because it was a “status quo” analysis, and
8 those expenses are part of the “status quo” for those garages. In essence, to assess the
9 value of the Downtown Parking garages, Mr. Lee included expenses that properly would
10 be expected to adversely affect the price received if the garages were sold to a private
11 party. This is entirely reasonable.

12 The court is persuaded that the differences between the valuations of Walker
13 Parking and Dr. Haveman amounts to nothing more than a disagreement among experts
14 as to the appropriate methodology to use in estimating the value of the garages. Since
15 only one expert, Mr. Lee, has the expertise and qualifications to opine on the appropriate
16 method for valuing parking assets, the court finds his testimony persuasive.

17 Moreover, even if Plaintiffs could show the Walker Parking analysis is flawed, this
18 still would not prove fraud. To prove fraud, Plaintiffs must prove that Defendants had the
19 necessary element of scienter and intentionally sought to deceive the public. Here,
20 Plaintiffs must prove not only that the Walker Parking analysis report is wrong, but that
21 Defendants knew it was wrong and intentionally concealed this from the public. Plaintiffs
22 have failed to meet this burden.

23 Plaintiffs point to nothing more than speculation that City staff and Walker Parking
24 conspired to “devalue” the Downtown Plaza parking garages. In contrast, Mr. Shirey, Mr.
25 Dangberg, Mr. Parrington, Mr. Chan, Mr. Eierman, and Mr. Lee all testified that they did
26

27 ⁴ For the same reason, one cannot compare the “value” of the Downtown Plaza garages from an asset-
28 monetization perspective, to the market value of the garages under status quo conditions. Among other
differences, the monetization approach assumes construction of the Arena.

1 not misrepresent or conceal the value of any assets conveyed as part of the Arena deal,
2 nor were they asked to do so. Mr. Parrington specifically testified that if anyone had
3 asked him to do so, he would have quit. This testimony is credible and persuasive. It is
4 not reasonable to assume that Mr. Lee, in particular, would risk his reputation and career
5 to perpetrate a fraud on the public to support a project in which he has no personal stake.

6 In addition to the testimony of Dr. Haveman, Plaintiffs rely on the testimony of
7 Assemblymember McCarty, who testified that it was his personal opinion that the parking
8 garages were undervalued by the City. McCarty based his opinion on (i) the fact that the
9 City's parking system as a whole had been estimated to be worth \$90 to \$130 million for
10 purposes of the monetization plan, and (ii) City staff told him the "replacement cost" of a
11 parking garage is at least several thousand dollars per stall.

12 Mr. McCarty occupies an esteemed position in our government, but he is not a
13 parking expert. His opinion on how the garages should be valued and what they are
14 worth carries no weight. Even if he were a parking expert, his opinion would amount to
15 nothing more than a disagreement about methodology, which is not enough to prove
16 fraud.

17 In any event, his opinion is misguided. The value of the City's parking system as
18 a whole, for purposes of monetization, is of little relevance in assessing the value of a
19 particular component of that parking system. The evidence shows that all parking
20 "assets" are different. In this case, the Downtown Plaza garages were the worst-
21 performing part of the City's off-street parking garage system. They brought in very little
22 revenue, were costly to operate, and had large capital improvement needs. It should not
23 be surprising that the garages were not a significant component of the monetization
24 valuation.

25 Mr. McCarty's focus on replacement value makes even less sense. For a variety
26 of reasons, the garages were an underperforming "asset." It would have been highly
27 misleading to the public to value the garages based on replacement cost and ignore their
28 operational history.

1 City staff told Mr. McCarty before the Term Sheet was approved that the
2 Downtown Plaza garages had little value to the City.⁵ He simply refused to believe them.

3 Plaintiffs also fault the City for not disclosing the value of the parking garage
4 revenues to the Kings. However, as discussed above, the City had no obligation to
5 disclose the potential revenue that the Kings might generate from the garages in the
6 future. The relevant question for taxpayers is what the City gave up.

7 To the extent the City discussed the potential value of the parking garages (and
8 signage) to the Kings, it is because the Kings communicated they wanted additional
9 revenues to make the deal "pencil out" and the City wanted to know how much leverage
10 these items would give the City in the course of its negotiations. But the potential value of
11 the assets to the Kings has nothing to do with the value of the assets to the City.
12 Plaintiffs fail to appreciate this distinction.⁶

13 Plaintiffs have failed to establish that Defendants knowingly misrepresented or
14 concealed any material facts concerning the valuation of the Digital Billboard Lease and
15 parking garages.

16 Plaintiffs likewise have failed to establish that there was a "private backroom"
17 agreement to subsidize the investor group's purchase of the team, separate from the
18 Arena deal. Plaintiffs argument is based on documentary evidence purportedly showing
19 that (1) the Sacramento investor group asked for an additional subsidy to compensate
20 them for their perceived "overpayment" for the Kings franchise; (2) the City subsequently
21 provided additional "assets" to the investor group; and (3) the City admitted to the NBA
22 that the assets were provided for the purpose of ensuring the "viability" of the team. This

23 ⁵ City staff always believed the Downtown Plaza garages had little or no value after accounting for the capital
24 improvement needs of the garages. Thus, it should be no surprise that there are communications reflecting
this. (See, e.g., Plaintiffs' Exhibit 343.)

25 ⁶ It would appear that it was the potential additional value to the Kings that someone suggested was
26 "politically tough" and "couldn't be put in writing." (See Plaintiffs' Exhibit 166 [handwritten notes of Mayor
27 Johnson describing the potential additional revenue to the Kings from, among other things, the up-zoning,
28 digital signs, and corporate support]; see also Exhibit 415.) It would make little sense to construe the notes,
which clearly refer to the potential value to the Kings for all of the other assets, as referring to value to the
City for the parking garages. A similar conclusion may apply to Mayor Johnson's March 22, 2013, email to
Ron Burkle, (see Plaintiffs' Exhibits 318 and 225), although it is equally possible that the Mayor was simply
referring to the original cost of the parking garages in order to assert leverage on Mr. Burkle.

1 proves, Plaintiffs contend, that Defendants agreed to convey assets to the investor group
2 to cover their perceived overpayment for the team.

3 Once again, Plaintiffs' arguments amount to nothing more than speculation, based
4 largely on taking statements out of context and assuming facts not in evidence.

5 Defendants do not dispute that the Sacramento investor group asked for an
6 additional subsidy from the City, in addition to the City's cash contribution toward
7 development of the Arena. Defendants also do not dispute that the investor group stated
8 they wanted an additional subsidy to offset their perceived overpayment for the team.
9 Further, Defendants do not dispute that the City agreed to convey additional "assets" to
10 the investor group as part of the Arena deal. What is in dispute is whether the City
11 agreed to contribute additional assets for the purpose of subsidizing the acquisition of the
12 team.

13 Plaintiffs contend there was a "secret agreement" between the individual
14 Defendants and the Sacramento investor group to offset the difference between the
15 purchase price of the Kings and the perceived value of the team. The court is not
16 persuaded.

17 At most, the evidence shows that the investor group *wanted* the City to
18 compensate them for "overpaying" for the team.⁷ The evidence does not support that the
19 City agreed to do so. Both Mayor Johnson and Mr. Dangberg testified, credibly, that the
20 City denied the request to help the investor group purchase the team, and this testimony
21 is supported by Mr. Dangberg's personal notes from the meeting on February 13, 2013.⁸
22 While the City agreed to convey additional assets to the investor group, there was no
23 "meeting of the minds" that the purpose of these additional assets was to offset the
24 perceived overpayment for the team.

25 It may be true that the investor group believed it was "overpaying" for the team,
26

27 ⁷ It is also possible that it was nothing more than a negotiation technique.

28 ⁸ Assemblymember Kevin McCarty likewise testified that he was not aware of any covert agreement to convey a secret subsidy to the investor group.

1 and looked to "make some of that up" on the Arena deal, as Kunal Merchant's January
2 27, 2013, email suggests. But that is not fraudulent or unlawful.⁹ Outside of a "secret
3 agreement" to gift public assets to the Kings with no concomitant public benefit, it is for
4 the most part irrelevant *why* the investors wanted additional assets from the City. It could
5 have been for any reason, or no reason at all. What's important is not why the assets
6 were requested, but why they were given.

7 Plaintiffs have attempted to prove that the assets were "gifted" to the Kings with
8 no concomitant public benefit. Plaintiffs have attempted to do this by parsing out the
9 additional assets and treating them as an isolated transaction, separate from the Arena
10 deal. However, the evidence shows that the additional assets conveyed to the Kings are
11 essential components of a single, integrated Arena deal. The City agreed to convey the
12 assets as part of its total consideration for the Arena deal. In exchange, the City received
13 valuable consideration back from the Kings, including at least \$391 million in annual lease
14 payments, payment by the Kings of all predevelopment expenses, and the Kings'
15 agreement to take full responsibility for any cost overruns (which currently are estimated
16 to be in the tens of millions of dollars). These were important terms that the City
17 received, at least in part, in consideration for its agreement to convey the additional
18 assets.¹⁰

19 Plaintiffs emphasize the timing of the City's agreement, coming shortly after the
20 investor group requested additional assets to offset their perceived overpayment.
21 However, both parking and signage were components of the City's earlier arena deal,
22 negotiated with the previous owners of the Kings. It is no surprise that they were "on the
23 table" for this Arena deal as well. In any event, as discussed above, there was no
24 "meeting of the minds" that the City would subsidize the purchase of the team.

25 ⁹ It is not difficult to conceive of a hypothetical Arena deal in which the Kings agree to pay 100% of the cost
26 of constructing the Arena, while the City agrees to convey hundreds of millions of dollars of "additional
27 assets" to the Kings. By Plaintiffs' logic, all of the additional assets would be fraudulent gifts of public funds,
28 even though it would be the City's consideration for the Arena deal.

¹⁰ In this sense, the Arena deal is not unlike other municipal agreements that, in one way or another,
"subsidize" private businesses, such as awarding tax credits to a private business to persuade it to
locate/relocate/stay in a particular city or county.

1 The evidence shows that Mayor Johnson, in his presentation to the NBA Board of
2 Governors, referred to the City as providing significant additional value to the Kings,
3 beyond its capital contribution to the cost of the Arena. In “selling” the deal to the NBA,
4 which had to approve the sale of the team to make the deal happen, Mayor Johnson
5 emphasized that the additional value would support the long-term viability of the team.
6 This was important to the NBA.

7 Plaintiffs argue that this shows the City’s intent to subsidize the team. The court
8 does not agree. It simply reflects an understanding that money is fungible and that any
9 additional revenues generated by the Kings will make the team more profitable, and
10 therefore more “viable” in the long run. It is noteworthy that, in addition to potential
11 revenue generated by the parking and signage, the presentation to the NBA noted other
12 sources of potential revenue to the Kings – e.g., TV rights and sponsorship commitments
13 – that were not provided by the City and which clearly are not intended to “subsidize” the
14 team. In this court’s view, the additional value provided by the City is no different. To the
15 Kings, the additional value might be used to ensure the long-term viability of the team.
16 But the City didn’t provide additional value to subsidize the team; it provided it to make
17 the Arena deal happen.

18 (As an aside, it is not obvious to this court that an agreement to subsidize a
19 professional sports team in the absence of an arena deal necessarily would constitute an
20 unlawful use of public funds. It would seem that a professional sports team may be a
21 public benefit to a city, just as an orchestra, ballet company, aquarium, art museum,
22 convention center, parade, music festival, or farmers’ market, etc., may be a public
23 benefit. When it comes to spending public funds, the only certainty is that public opinion
24 will diverge on what is a blessing and what is a curse. Fortunately, this court is not
25 required to venture into this prickly thicket, because the City agreed to convey the
26 additional assets as part of an integrated Arena deal.)

27 It is undisputed that the City agreed to convey additional assets to the Kings
28 investors as part of the Arena deal. However, Plaintiffs have failed to prove their claim

1 that there was a "secret" agreement to subsidize the investor group's purchase of the
2 team, separate from the Arena deal, and that Defendants hid the subsidy within the
3 financial arrangements for the Arena. The testimony consistently showed that there was
4 no secret subsidy asked for or given. Accordingly, the Plaintiffs' First and Second
5 Causes of Action, for fraud and concealment, are denied.

6
7 B. The Third and Fourth Causes of Action

8 Plaintiffs' Third and Fourth Causes of Action are taxpayer representative actions
9 under California Code of Civil Procedure section 526a to restrain "illegal" and "wasteful"
10 expenditures of public funds. To state a claim under section 526a, the proposed
11 expenditures must be illegal or wasteful, not merely improvident or unwise. Plaintiffs
12 allege that the City's approval of the Arena project constitutes waste and an illegal gift of
13 public funds because it includes a "secret" subsidy to the Sacramento investor group for
14 purchasing the "overvalued" Kings franchise. Plaintiffs further allege that the Arena plan
15 constitutes an illegal expenditure of public funds because the City's financing plan illegally
16 proposes to increase on-street parking meter revenues to make debt service payments
17 on the lease-revenue bonds.

18 It is well settled that the primary question to be considered in determining whether
19 an appropriation of public funds is an unlawful gift of public funds is whether the funds are
20 to be used for a public or private purpose. Money spent for public purposes is not a gift
21 even though private persons may benefit. (*Community Memorial Hospital v. County of*
22 *Ventura* (1996) 50 Cal.App.4th 199, 207; *Jordan v. Department of Motor Vehicles* (2002)
23 100 Cal.App.4th 431, 450.) The determination of what constitutes a public purpose is
24 primarily a matter for the governing body, and its discretion will not be disturbed by the
25 courts so long as that determination has a reasonable basis. (*County of Alameda v.*
26 *Carleson* (1971) 5 Cal.3d 730, 746; *Sturgeon v. County of Los Angeles* (2008) 167
27 Cal.App.4th 630, 639.)

28 The term "waste" as used in section 526a means something more than an alleged

1 mistake by public officials in matters involving the exercise of judgment or discretion.
2 (*Sundance v. Municipal Court* (1986) 42 Cal.3d 1101, 1138-39.) Section 526 does not
3 allow the judiciary to exercise a veto “merely because the judge may believe that the
4 expenditures are unwise, that the results are not worth the expenditure, or that the
5 underlying theory . . . involves bad judgment.” (*Id.* at p.1138; see also *Humane Society v.*
6 *State Bd. of Equalization* (2007) 152 Cal.App.4th 349, 356.) Waste occurs only where no
7 public benefit can, within the limits of reasonable legislative judgment, be found for the
8 expenditure. If reasonable minds possibly could differ, legislative judgment must prevail
9 and the court may not interfere. (See *Sundance, supra*, 42 Cal.3d at pp.1137.)

10 Plaintiffs’ claim of waste and an illegal gift of public funds is predicated primarily
11 on their theory that the City has given the Kings a gift of public funds to subsidize the
12 purchase of the team, for which the City received no public benefit. Plaintiffs do not claim
13 that the Arena will provide no public benefits and, in fact, concede that construction of the
14 Arena will provide some public benefits, although Plaintiffs dispute the extent to which the
15 public will benefit. The evidence before the court supports finding that the Arena will
16 provide public benefits.

17 For the reasons described above, the court has rejected the claim that the City
18 conveyed a second subsidy to the investor group to compensate them for their alleged
19 “overpayment” for the Kings franchise, and hid that subsidy within the financial
20 arrangements for the Arena. Accordingly, the court finds no waste or illegal gift of public
21 funds on this basis.

22 In their Closing Brief, Plaintiffs raise – for the first time – a new claim that the City
23 violated California Government Code § 53083 by failing to adequately describe the
24 subsidy conveyed to the Kings and disclose the public purpose of the subsidy. Obvious
25 reasons of fairness militate against consideration of this issue. (*Neighbours v. Buzz*
26 *Oates Enterprises* (1990) 217 Cal.App.3d 325, 335.) To withhold a point until the closing
27 brief deprives the opposing party of an opportunity to answer it. The court therefore
28 refuses to consider this new claim.

1 Plaintiffs further allege that the Arena plan constitutes an illegal expenditure of
2 public funds because the City proposes to increase on-street parking meter rates for the
3 purpose of raising general revenues to pay debt service on the lease-revenue bonds, in
4 violation of City Code section 10.40.130 and Proposition 26. Plaintiffs have failed to
5 prove a violation of City Code section 10.40.130 or Proposition 26.

6 In general, City Code section 10.40.130 provides that fees from on-street parking
7 meters/machines must be used for the regulation of traffic on public streets and the
8 installation, maintenance, and regulation of parking in parking meter zones. (See Parties'
9 Joint Statement of Undisputed Issues, ¶ 1 [City Code § 10.40.130].) Proposition 26
10 prohibits charges imposed for a specific government benefit or service that exceed the
11 reasonable costs to the government of providing the service or benefit. (Cal. Const. Art.
12 XIII, § 1.) Plaintiffs allege that the City's plan is to increase parking meter rates, in
13 excess of the cost of providing the service/benefit, and use the increased revenues to pay
14 the debt service on the lease-revenue bonds.

15 Plaintiffs' allegations have no merit. Although the City refers to "parking net
16 revenue" as a source of "repayment" of the bond debt, the staff report for the bond
17 Resolution explains that net parking revenues are not actually dedicated to bond debt
18 service:

19 Importantly, net parking revenues are not actually dedicated to debt service. By
20 law, the on-street parking revenues may be used only to cover the costs of
21 regulating and controlling traffic on the City's streets, of providing public off-street
22 parking facilities, and of operating and maintaining the City's on-street and off
23 street parking spaces. These costs greatly exceed available parking revenues,
and the excess is paid from the General Fund. When net parking revenues
increase, the General Fund's payment of the excess costs decreases, thereby
providing additional funding capacity in the General Fund. (Joint Exhibit 14, p.9.)

24 In sum, because the costs of regulating and controlling traffic and parking currently
25 exceed revenues, the City uses its General Fund to subsidize the costs. By increasing
26 net parking revenues, the City can reduce the subsidy and free up more of its General
27 Fund for other uses, such as paying debt service on the bonds. This arrangement does
28 not violate City Code section 10.40.130 or Proposition 26.

1 In their Closing Brief, Plaintiffs take aim at Defendants' statement that the plan to
2 increase parking revenues is part of a "parking modernization" plan that already was
3 underway, suggesting this is false. Plaintiffs have failed to prove the statement is false,¹¹
4 but even if they had, the court fails to see how this would prove that the financing plan is
5 illegal.

6
7 C. The Fifth (Reverse Validation) Cause of Action

8 Plaintiffs' final cause of action is a reverse validation action under Government
9 Code section 6599.3 challenging the City's Resolution authorizing the issuance of bonds
10 under the Marks-Roos Local Bond Pooling Act of 1985.

11 The Marks-Roos Act permits local agencies to form a public financing authority to
12 finance public capital improvements and other projects. Under the Act, an authority may
13 issue bonds to finance projects "whenever there are significant public benefits for taking
14 that action." (Cal. Gov. Code § 6586.) Section 6586 describes a significant public benefit
15 as any of the following: "(a) Demonstrable savings in effective interest rate, bond
16 preparation, bond underwriting, or bond issuance costs. [¶] (b) Significant reductions in
17 effective user charges levied by a local agency. [¶] (c) Employment benefits from
18 undertaking the project in a timely fashion. [¶] (d) More efficient delivery of local agency
19 services to residential and commercial development." (*Ibid.*)

20 The City's bond Resolution finds that financing the City's share of the Arena with
21 bonds issued under the Act will produce significant public benefits including, but not
22 limited to:

- 23
- 24 • The maintenance and promotion of economic development and increased
employment within the City and the region.
 - 25 • The improvement of the feasibility and enhancement of the development
26 and redevelopment of the City's downtown core.

27
28 ¹¹ The evidence at trial establishes that the City adjusts its parking meter rates based on the market and the
need for "turnover" of parking spaces.

- 1 • The maintenance and generation of increased tax revenues to the City.
- 2 • The promotion of the general welfare, sense of community, and quality of
- 3 life within the City and the region.
- 4 • The development of a multi-purpose entertainment-and-sports center to
- 5 provide recreational and entertainment activities, amenities, and attractions
- 6 to the people of the City and the region.
- 7 • The provision of a new facility for use by a National Basketball Association
- 8 basketball team as the primary user in order to assure the continued
- 9 presence of professional basketball in the City and the region, and the
- 10 beneficial and frequent media exposure and recognition that the continued
- 11 presence of professional sports would bring to the City and the region.
- 12 • The demonstrable savings in effective interest rate and the costs of bond
- 13 preparation, bond underwriting, and bond issuance that will result from
- 14 financing the City's share of the Project through the Authority.

15
16 Plaintiffs contend that only the findings of "employment benefits" and
17 "demonstrable savings" are relevant here, and that those findings are not supported by
18 the evidence. Plaintiffs also claim to have incorporated into their reverse validation cause
19 of action their allegations of fraud, collusion, and concealment. Plaintiffs seek an order
20 invalidating the Bond Resolution.

21 Defendants argue that the reverse validation cause of action must be denied, not
22 only because the City's finding of "significant public benefits" has evidentiary support, but
23 also because Plaintiffs failed to name the Sacramento Public Financing Authority as an
24 indispensable party.

25 The determination of whether a party is indispensable is governed by Code of
26 Civil Procedure section 389, which sets out, in subdivision (a), a definition of persons who
27 ought to be joined in an action if possible (sometimes referred to as "necessary" parties).
28 (*Quantification Settlement Agreement Cases* (2011) 201 Cal.App.4th 758, 848.) If a

1 person is a necessary party but cannot be made a party, subdivision (b) sets forth the
2 factors to determine whether "in equity and good conscience" the action should proceed
3 among the parties before it, or be dismissed, the absent person being thus regarded as
4 "indispensable." (*Ibid.*)

5 In this case, the court agrees that the Sacramento Public Financing Authority is a
6 "necessary" party. The Authority, not the City, is the entity who will actually issue the
7 bonds and its rights may be affected by the outcome of this litigation. However, due in
8 large part to Defendants' lack of diligence in raising this issue, the court does not find the
9 Authority "indispensable." (*Id.* at p.848.) The court shall proceed to consider Plaintiffs'
10 claim on its merits.

11 Where, as here, the Legislature has vested a local agency with discretion to act,
12 courts exercise very limited review out of deference to the separation of powers, to the
13 legislative delegation of authority to the agency, and to the presumed expertise of the
14 agency within the scope of its authority. (See *American Board of Cosmetic Surgery v.*
15 *Medical Board* (2008) 162 Cal.App.4th 534, 539.) The reviewing court may not reweigh
16 the evidence before the agency or substitute its judgment for that of the agency. (*Ibid.*)
17 The court's review is limited to determining whether the agency's decision was arbitrary,
18 capricious, or entirely lacking in evidentiary support, or whether it failed to conform to the
19 procedures required by law. (*Id.* at p.547.)

20 Where there is a contested issue of fact, the court may receive additional
21 evidence from the parties, as well as that contained in any official record of proceedings.
22 (*Lewin v. St. Joseph Hospital* (1978) 82 Cal.App.3d 368, 387 n.13; cf. *Western States*
23 *Petroleum Assn. v. Superior Court* (1995) 9 Cal.4th 559, 573-74 [courts may consider
24 only the administrative record in determining whether a quasi-legislative decision is
25 supported by substantial evidence].) However, the determination whether an
26 administrative decision is arbitrary, capricious, or entirely lacking in evidentiary support
27 must be based on the evidence considered by the administrative agency. (*Lewin, supra*,
28 82 Cal.App.3d at p.387 fn.13; *Pomona Police Officers' Assn. v. City of Pomona* (1997) 58

1 Cal.App.4th 578, 584; see also *Western States Petroleum Assn.*, *supra*, 9 Cal.4th at
2 p.574.)

3 Here, the "evidence" considered by the City includes many of the documents
4 admitted at trial, but does not include evidence created after-the-fact, including the expert
5 testimony presented in this case.

6 Based on the evidence considered by the City, Plaintiffs' claim must be denied.
7 There is evidence to support the City's finding that issuing the bonds will result in
8 "employment benefits" to the City and "demonstrable savings" in effective interest rate,
9 bond preparation, bond underwriting, or bond issuance costs. The City received reports
10 from staff that the Arena project is expected to retain 800 jobs and create between 2,000
11 and 6,000 new ones, and generate between \$260 million and \$400 million total economic
12 output locally and nearly \$1 billion regionally and statewide. The City further received
13 evidence that the anticipated "ancillary development" would add additional jobs and
14 economic output. (AR 3529-30 [same as Joint Exhibit 15].)

15 The economic impacts were projected using the "CSER" and "CRA" economic
16 models, which City staff has used for other projects. The CSER model, in particular, is
17 based on the well-known "IMPLAN input-output" model and is an accepted tool for
18 modeling economic impacts of projects.

19 Plaintiffs' expert testified that he would have applied the economic models
20 differently than staff. However, his testimony was not before the City when it made its
21 decision and, even if it had been, it would have amounted to nothing more than a classic
22 disagreement among experts on methodology, which is insufficient to overturn the City's
23 finding.

24 There also is evidence to support the City's finding that its decision to issue lease-
25 revenue bonds, rather than monetizing the City's parking assets, would result in a better
26 deal for the City because the bonds are "stronger credit" and the City would receive
27 "better market reception," "better credit rating," and, ultimately, a "better interest rate."
28 (AR 5303-04.)

1 In reviewing a decision under the arbitrary and capricious standard, the agency's
2 decision comes before the court with a presumption that it is correct. (*Cal. Teachers*
3 *Ass'n v. Ingwerson* (1996) 46 Cal.App.4th 860, 865; Cal. Evid. Code § 664.) It is Plaintiffs'
4 burden to prove that the City's findings are arbitrary, capricious, or entirely lacking in
5 evidentiary support. Plaintiffs failed to show that there is no evidence to support the
6 finding that issuance of the bonds will result in demonstrable savings in interest rate,
7 bond preparation, bond underwriting, or bond issuance costs.

8 As described above, Plaintiffs' claims of fraud, collusion, and concealment – to the
9 extent they are even relevant to this claim – were not proven. Thus, such claims also
10 cannot invalidate the City's Resolution.

11 In their Closing Brief, Plaintiffs argue that the Resolution should be invalidated
12 because the City's findings were insufficient to bridge the analytic gap between the raw
13 evidence and ultimate decision, in accordance with *Topanga Association for Scenic*
14 *Community v. County of Los Angeles* (1974) 11 Cal.3d 506. However, the rule of
15 *Topanga* applies to quasi-adjudicatory decisions reviewed under the administrative
16 mandamus standard set forth in Code of Civil Procedure section 1094.5. It does not
17 apply here. (*Heist v. County of Colusa* (1984) 163 Cal.App.3d 841, 848; *Great Oaks*
18 *Water Co. v. Santa Clara Valley Water Dist.* (2009) 170 Cal.App.4th 956, 970; see also
19 *Mahdavi v. Fair Employment Practice Com.* (1977) 67 Cal.App.3d 326, 335 [no
20 requirement to issue findings].) There is no *Topanga* violation.¹²

21 Plaintiffs have failed to meet their burden to show that the City's finding was
22 arbitrary, capricious, or entirely lacking in evidentiary support.

23 ///

24 ///

25

26

27 ¹² Furthermore, when an administrative agency's findings are found inadequate under *Topanga*, the
28 appropriate remedy is simply to remand the matter so that proper findings can be made. (See *Glendale*
Mem'l Hosp. & Health Ctr. v. State Dep't of Mental Health (2001) 91 Cal.App.4th 129, 140; *Saad v. City of*
Berkeley (1994) 24 Cal.App.4th 1206, 1214.)

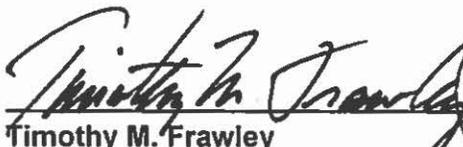
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IV.

Disposition

Plaintiffs have failed to meet their burden of proof on any of their causes of action. Judgment shall be entered against Plaintiffs and in favor of Defendants. Defendants shall be entitled to recover their costs of suit.

Date: July 24, 2015


Timothy M. Frawley
Judge of the Superior Court of California
County of Sacramento

