

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Series 2009 Bond for any period that such Series 2009 Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2009 Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2009 Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds. See "TAX MATTERS."

\$47,270,000

**SANTA BARBARA FINANCING AUTHORITY
REVENUE BONDS (AIRPORT PROJECT)
SERIES 2009**

Dated: Date of Delivery

Due: July 1, as shown on the inside cover page

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Santa Barbara Financing Authority (the "Authority") is offering \$47,270,000 of its Revenue Bonds (Airport Project), Series 2009 (the "Series 2009 Bonds"), pursuant to a Trust Agreement, dated as of May 1, 2009 (the "Trust Agreement"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Series 2009 Bonds are being issued to provide funds to: (i) finance the construction of a new passenger terminal building and related parking and roadway improvements at the Santa Barbara Municipal Airport (the "Airport Terminal Project") serving the City of Santa Barbara (the "City"), (ii) fund the Reserve Fund for the Series 2009 Bonds; (iii) fund a Capitalized Interest Account for the Series 2009 Bonds through January 1, 2012; and (iv) pay costs of issuance of the Series 2009 Bonds. See "THE AIRPORT PROJECT" herein.

Interest on the Series 2009 Bonds will be payable on January 1 and July 1 in each year, commencing January 1, 2010. The Series 2009 Bonds will be issued in denominations of \$5,000 or any integral thereof. See "THE BONDS" herein. The Series 2009 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2009 Bonds, and individual purchases of the Series 2009 Bonds will be made in book-entry form only. Principal of and interest on the Series 2009 Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Series 2009 Bonds, as described herein. See APPENDIX B – "BOOK-ENTRY SYSTEM" herein. The Series 2009 Bonds and additional Series of Bonds are referred to herein as the "Bonds."

The Series 2009 Bonds are subject to redemption prior to maturity, as described herein. See "THE BONDS" herein.

The Bonds are payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of Base Rental Payments to be received by the Authority from the City under a Facility Lease, dated as of May 1, 2009 (the "Facility Lease"), by and between the Authority and the City, and installment payments (the "2009 Installment Payments") received by the Authority from the City under an Installment Payment Contract, dated as of May 1, 2009 (the "2009 Installment Payment Contract"), by and between the Authority and the City, for the right to use and the possession of the real property and facilities comprising the Airport Project (the "Facilities"), as more fully described herein. The City has agreed in the Facility Lease to make all Base Rental Payments, subject to a proportional abatement of such Base Rental Payments in the event of material damage to or destruction of the Facilities or a taking of the Facilities in whole or in part. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – "Base Rental Payments" and "Abatement" herein. The City's obligation to make the 2009 Installment Payments, which is secured solely by a lien of Airport Revenues, is not subject to abatement and the City is required to pay the 2009 Installment Payments as required, free of any deductions and without any abatement, diminution or set-off whatsoever.

The Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided in the Trust Agreement, and the Authority is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the City, the State or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority as provided in the Trust Agreement. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction. The Authority has no taxing power.

The Series 2009 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. KNN Public Finance, a division of Zions First National Bank, is serving as financial advisor to the City in connection with the issuance of the Series 2009 Bonds. Certain legal matters will be passed upon for the Underwriter by Sidley Austin LLP and for the Authority and the City by the City Attorney for the City of Santa Barbara. It is anticipated that the Series 2009 Bonds will be available for delivery through the facilities of the DTC book-entry only system in New York, New York on or about June 10, 2009.

MORGAN STANLEY

MATURITY SCHEDULE

\$47,270,000
SANTA BARBARA FINANCING AUTHORITY
REVENUE BONDS
(AIRPORT PROJECT)
SERIES 2009

\$14,635,000 Serial Bonds

Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2012	\$ 865,000	4.000%	2.390%	801262AA4
2013	900,000	4.000	2.640	801262AB2
2014	935,000	4.000	2.990	801262AC0
2015	970,000	5.000	3.230	801262AD8
2016	1,020,000	4.000	3.430	801262AE6
2017	1,065,000	4.000	3.630	801262AF3
2018	1,105,000	5.000	3.820	801262AG1
2019	1,160,000	5.000	3.990	801262AH9
2020	1,220,000	4.000	4.150	801262AL0
2021	1,265,000	4.250	4.270	801262AM8
2022	1,320,000	4.375	4.390	801262AN6
2023	1,375,000	4.500	4.510	801262AP1
2024	1,435,000	5.000	4.630*	801262AQ9

\$8,365,000 5.000% Term Bond due July 1, 2029 Yield: 5.060% – CUSIP No. 801262AJ5[†]
\$24,270,000 5.000% Term Bond due July 1, 2039 Yield: 5.290% – CUSIP No. 801262AK2[†]

[†] Copyright 2008, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the Authority, the City or the Underwriter can assume any responsibility for the accuracy of such numbers.

* Pricing assumes redemption at par on first call date of July 1, 2019.

SANTA BARBARA FINANCING AUTHORITY
and
CITY OF SANTA BARBARA

CITY COUNCIL

Marty Blum, *Mayor*
Grant R. House, *Mayor Pro Tempore*
Iya G. Falcone, *Councilmember*
Dale Francisco, *Councilmember*
Roger L. Horton, *Councilmember*
Helene Schneider, *Councilmember*
Das Williams, *Councilmember*

CITY OFFICIALS

James L. Armstrong, *City Administrator/Clerk/Treasurer*
Stephen P. Wiley, *City Attorney*
Robert D. Peirson, *Finance Director*
Karen S. Ramsdell, *Airport Director*
Paul A. Casey, *Community Development Director*
Christine Andersen, *Public Works Director*
Hazel Johns, *Assistant Airport Director*

SPECIAL SERVICES

Financial Advisor

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A Division of Zions First National Bank
Oakland, California

Airport Consultant

Jacobs Consultancy, Inc.
Burlingame, California

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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 those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2009 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2009 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a 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.

The issuance and sale of the Series 2009 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and the Trust Agreement has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions provided thereunder.

All descriptions and summaries of documents and statutes hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document and statute for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and statute. Certain capitalized terms used but not defined herein are defined in APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Definitions.”

In connection with the offering of the Series 2009 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Series 2009 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2009 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements contained in this Official Statement reflect not historical facts but forecasts and “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” “plan,” “budget,” and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward statements are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Official Statement.

The achievement of certain results or other expectations contained in such 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 such forward-looking statements. The Authority and the City do not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur or do not occur.

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OFFICIAL STATEMENT

\$47,270,000 SANTA BARBARA FINANCING AUTHORITY REVENUE BONDS (AIRPORT PROJECT) SERIES 2009

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Series 2009 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose

The purpose of this Official Statement, including the cover page, and inside cover page, through the appendices hereto, is to provide certain information concerning the sale and delivery by the Santa Barbara Financing Authority (the “Authority”) of \$47,270,000 of its Revenue Bonds (Airport Project), Series 2009 (the “Series 2009 Bonds”). The Series 2009 Bonds are being issued to provide funds to: (i) finance the construction of a new passenger terminal building and related parking and roadway improvements at the Santa Barbara Municipal Airport (the “Airport Terminal Project”) serving the City of Santa Barbara (the “City”), (ii) fund the Reserve Fund for the Series 2009 Bonds; (iii) fund a Capitalized Interest Account for the Series 2009 Bonds through January 1, 2012; and (iv) pay costs of issuance of the Series 2009 Bonds. See “THE AIRPORT PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Authority for Issuance of the Series 2009 Bonds

The Series 2009 Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Bond Act”), pursuant to a Trust Agreement, dated as of May 1, 2009 (the “Trust Agreement”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). The City and the Authority will enter into the Facility Lease (as described below) and the 2009 Installment Payment Contract (as described below) pursuant to and in accordance with the Government Code of the State of California (the “State”), other applicable laws of the State and resolutions adopted by the City and the Authority prior to the issuance of the Series 2009 Bonds. The Series 2009 Bonds and additional Series of Bonds are referred to herein as the “Bonds.”

City of Santa Barbara

The City was incorporated on August 26, 1850. The City is a charter city under the laws of the State of California and operates under a Council-Administrator form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. See “THE CITY” and APPENDIX A – “THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION” herein.

Santa Barbara Municipal Airport

The City owns, and through its Airport Department (the “Department”) operates, Santa Barbara Municipal Airport (the “Airport”). The Department funds Airport operations and capital improvements with revenues generated from Airport rentals, fees, and charges, and with federal and State grants-in-aid. The Department maintains its financial records in accordance with generally accepted accounting principles as they apply to governmental entities. The Airport is considered a proprietary fund by the City, and its fiscal year runs from July to June. The Airport occupies approximately 952 acres and is located about 10 miles (approximately 20 minutes driving time) west of downtown Santa Barbara, adjacent to the Pacific Ocean, with convenient highway access from U.S. Highway 101. The Airport also owns 95 acres of land designated for commercial and industrial uses. This area contains 29 buildings, which provide over 76,000 square feet of office space, 58,000 square feet of industrial

space, and 7,000 square feet of storage. There are approximately 120 tenants, whose widely diverse enterprises include electronics, honey and beeswax processing, U.S. Department of Energy contractors, carpentry, printer cartridge recycling, undersea cable-laying, a golf course, and a car dealership. The Airport's service region comprises the totality of Santa Barbara County, California (the "County"). This area is approximately (though slightly larger than) the Santa Barbara Metropolitan Statistical Area.

Security for the Bonds

The Bonds are limited obligations of the Authority payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of base rental payments (the "Base Rental Payments") to be received by the Authority from the City under the Facility Lease, dated as of May 1, 2009 (the "Facility Lease"), by and between the Authority and the City, and installment payments (the "2009 Installment Payments") received by the Authority from the City under an Installment Payment Contract, dated as of May 1, 2009 (the "2009 Installment Payment Contract"), by and between the Authority and the City. Pursuant to the Site Lease, dated as of May 1, 2009, (the "Site Lease"), between the City and the Authority, the City has leased to the Authority the real property upon which the Facilities are located.

The obligation of the City to pay Base Rental Payments and the obligation of the City to make 2009 Installment Payments are independent legal obligations, as described below, with each payment obligation designed to be sufficient (in and of itself) to pay (including from amounts on deposit in the Capitalized Interest Account) the principal of and interest on the Series 2009 Bonds as the same becomes due. On any date upon which a Base Rental Payment installment is due, the City's obligation to pay such Base Rental Payment installment shall be deemed satisfied to the extent that the City's obligation to make Series 2009 Installment Payments has been satisfied as of such date. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – "Base Rental Payments" herein.

The Base Rental Payments to be made by the City pursuant to the Facility Lease are payable by the City from its General Fund to the Authority in an amount equaling the debt service for the Bonds for the use by the City of the real property and facilities comprising the Airport Project (the "Facilities"). The 2009 Installment Payments to be made by the City pursuant to the 2009 Installment Payment Contract are payable by the City, but solely from its Airport Revenues, defined generally as all charges received for, and all other income and receipts derived by the City, from the ownership and operation of the Airport Project, including all charges received for and all other income and receipts derived by the City from the ownership, operation and use of and otherwise pertaining to the Airport, or any part thereof. The City's obligation to make the 2009 Installment Payments is not subject to abatement and the City is required to pay the 2009 Installment Payments as required, free of any deductions and without any abatement, diminution or set-off whatsoever. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Installment Payments" and "– Airport Revenues." The 2009 Installment Payment Contract establishes a rate covenant that requires the City, to the extent reasonably practicable, to fix, prescribe and collect rentals, rates, fees and charges for the services and facilities of the Airport. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Installment Payments" herein.

The City covenants under the Facilities Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments in its annual budgets and to make the necessary annual appropriations therefor. Such budget may take into account the 2009 Installment Payments paid by the City under the 2009 Installment Payment Contract. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Base Rental Payments" herein.

The Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided in the Trust Agreement, and the Authority is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the City, the State or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority as provided in the Trust Agreement. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or

restriction. The Authority has no taxing power. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

Summaries Not Definitive

Brief descriptions of the Series 2009 Bonds, the Authority, the City and the Facilities are included in this Official Statement, together with summaries of the Site Lease, the Facility Lease, the 2009 Installment Payment Contract and the Trust Agreement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Series 2009 Bonds, the Site Lease, the Facility Lease, the 2009 Installment Payment Contract and the Trust Agreement are qualified in their entirety by reference to the actual documents, or with respect to the Series 2009 Bonds, the forms thereof included in the Trust Agreement, copies of all of which are available for inspection by written request mailed to the City of Santa Barbara, 735 Anacapa Street, Santa Barbara, California 93101, Attention: City Administrator, and will be available upon request and payment of duplication costs from the Trustee.

Continuing Disclosure

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2009 Bonds to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City’s Fiscal Year (presently June 30) (the “Annual Report”), commencing with the report for the 2008-09 fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” and APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT” herein.

THE AIRPORT PROJECT

General

The Series 2009 Bonds are being issued to provide funds to finance the construction of the Santa Barbara Airport’s Airport Terminal Project which consists of a new passenger terminal building, rehabilitation of the historic 1942 terminal, and related parking and roadway improvements. Based on the receipt of construction bids as described below, the total cost of the Airport Terminal Project is estimated by the Department to be approximately \$49 million. The Airport Terminal Project will be substantially completed by spring 2011.

The Airport is located about 10 miles or 20 minutes driving time west of downtown Santa Barbara with convenient highway access from U.S. Highway 101. The Airport occupies 952 acres which is comprised of 400 acres of aviation facilities and 95 acres of commercial/industrial uses. The remaining land is dedicated as a State Ecological Reserve.

The commercial/industrial property contains over 29 buildings which provide over 76,000 square feet of office space, 58,000 square feet of industrial space, and 7,000 square feet of storage. About 37% of the Airport’s revenue is derived from 100 commercial/industrial tenants whose widely diverse enterprises include electronics, honey and bee wax processing, lumber yard, printer cartridge recycling, undersea cable laying, golf course, car dealership, Southern California Edison utility, Department of Energy contractors, and a State of California Crime Lab.

Use of the 400 acres of aviation property includes airfield infrastructure, general aviation businesses, and commercial passenger airline facilities. General aviation business activity includes two fixed base operators, flight schools, aircraft maintenance and storage facilities.

Commercial passenger airline facilities include the passenger terminal, short term and long term parking lots, and ancillary buildings for rental cars and security offices. The airlines which currently serve the Airport are American Eagle, SkyWest Airlines (Delta Connection and United Express), Mesa Airlines (US Airways), Horizon Airlines (Alaska Airlines), and Allegiant Airlines. These airlines offer 34 daily scheduled flights to/from nine major

markets. The Airport is the 134th busiest airport in the United States and the 13th busiest airport in California. It is classified as a “small” hub by the Federal Aviation Administration (“FAA”).

In addition, three all-cargo airlines (Ameriflight (UPS), Empire Airlines (FedEx) and West Air) serve the Airport. FedEx also leases space at the Airport for its ground distribution operations.

In 1942, United Airlines built a 7,000 square foot passenger terminal of Spanish Colonial Revival design to serve the Santa Barbara market. Over the years the building was expanded to its current 22,000 square feet, with the last expansion taking place in 1976. About 68% of the current terminal is leaseable space. The structure provides a total of four departure gates and associated passenger holdrooms as well as a lobby, outdoor courtyard, and a second story restaurant. Its smaller size and geometry results in an irregular flow of passengers and less than optimal passenger amenities, baggage handling, and working conditions for employees.

The proposed new passenger terminal will be a two story, 60,000 square foot building plus the rehabilitated 1942 terminal. Over 63% of the terminal complex can be leased by the airlines and concessions. The Airport’s Aviation Facilities Plan evaluated the size and facility requirements for the new passenger terminal based on existing levels of airline traffic and a forecasted level of 450,000 enplaned passengers.

At the City’s request, a Report of the Airport Consultant on certain aspects of the proposed issuance of Series 2009 Bonds, dated May 18, 2009 (the “Airport Report”), was prepared by Jacobs Consultancy, Inc., Burlingame, California (the “Airport Consultant”). The Airport Report was prepared to evaluate the ability of the Department to generate Airport Revenues (to comprise 2009 Installment Payments to be received by the Authority from the City under the 2009 Installment Payment Contract), sufficient to meet Airport Operation and Maintenance Expenses and to meet other funding requirements established by the Trust Agreement, including the Debt Service on the Series 2009 Bonds, during each of the five Fiscal Years 2008-09 through 2012-13. See APPENDIX D – “REPORT OF THE AIRPORT CONSULTANT” herein. Appendix D includes a description of the assumptions made and the methodology used by the Airport Consultant. Investors are advised to read the Airport Report in its entirety to obtain information essential to the making of an informed investment decision.

The City expects to apply a total of \$1.5 million of Passenger Facility Charge receipts (“PFC Revenues” herein”) to pay costs of the Airport Terminal Project over Fiscal Years 2008-09 and 2009-10. PFC Revenues are not pledged to the payment of Installment Payments.

The Facilities include the real property and facilities comprising the approximately 60,000 square foot terminal facility, a portion of the Airport Project. As provided in the Facility Lease, such Facilities may be substituted or released in accordance therewith. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – The Facility Lease” herein.

The Contractor; Construction Contract

The City conducted a competitive bidding process with respect to the Airport Terminal Project and received bids from licensed general contractors. Emma Corporation (the “Contractor”), a private company located in Los Angeles, California, submitted the lowest responsive and responsible bid for the Airport Terminal Project. The City entered into a construction agreement with the Contractor in connection with the Airport Terminal Project dated March 24, 2009 (the “Construction Contract”) in the aggregate amount of approximately \$33 million. The Contractor is a diversified construction company that provides general contracting to private and public sector clients. Under the current specifications, the contract period is 730 calendar days from its effective date, which has yet to commence pending the City’s formal direction by Construction Notice to Proceed.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2009 Bonds are as follows:

Sources of Funds

Aggregate Principal Amount of Series 2009 Bonds.....	\$47,270,000.00
Original Issue Premium (Discount)	613,214.85
Total Sources	<u>\$46,656,785.15</u>

Uses of Funds

Construction Fund.....	\$37,007,065.43
Reserve Fund	3,146,750.00
Capitalized Interest Account ⁽¹⁾	5,727,515.37
Costs of Issuance Fund ⁽²⁾	775,454.35
Total Uses	<u>\$46,656,785.15</u>

⁽¹⁾ Deposit represents capitalized interest on the Series 2009 Bonds through January 1, 2012.

⁽²⁾ Includes legal fees, financing and consulting fees, underwriter's discount, fees of bond counsel, disclosure counsel and trustee, printing costs, rating agency fees, and other miscellaneous expenses.

THE BONDS

The following is a summary of certain provisions of the Series 2009 Bonds. Reference is made to the Series 2009 Bonds for the complete text thereof and to the Trust Agreement for a more detailed description of these provisions. The discussion herein is qualified by such reference. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS” herein.

General

The Series 2009 Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates shown on the inside cover page of this Official Statement. The Series 2009 Bonds will be dated the date of original delivery and will bear interest from that date. Interest on the Series 2009 Bonds will be payable on the unpaid principal amount thereof on January 1 and July 1 in each year, commencing January 1, 2010. The Series 2009 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

The Depository Trust Company (“DTC”), will act as the initial securities depository for the Series 2009 Bonds, which will be issued initially pursuant to a book-entry only system. See APPENDIX B – “BOOK-ENTRY SYSTEM” herein. Under the Trust Agreement, the Authority may appoint a successor securities depository to DTC for the Series 2009 Bonds. The Holders of the Series 2009 Bonds have no right to a book-entry only system for the Series 2009 Bonds. The information under this caption, “THE BONDS” is subject in its entirety to the provisions described below under APPENDIX B – “BOOK-ENTRY SYSTEM” while the Series 2009 Bonds are in the book-entry only system.

Payment of Principal and Interest

The Series 2009 Bonds will be issued as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. Individual purchases of interests in the Series 2009 Bonds will be made in book-entry form only, in authorized denominations. Purchasers of interests will not receive certificates representing their interests in the Series 2009 Bonds. For a description of the method of payment of principal, premium, if any, and interest on the Series 2009 Bonds and matters pertaining to transfers and exchanges while in the book-entry system, see APPENDIX B – “BOOK-ENTRY SYSTEM.”

So long as Cede & Co. is the registered owner of the Series 2009 Bonds, the Trustee will pay principal of and interest on the Series 2009 Bonds to DTC, which will remit principal, premium, if any, and interest payments to the Beneficial Owners of the Series 2009 Bonds, as described under APPENDIX B – “BOOK-ENTRY SYSTEM.”

The principal or redemption price of the Series 2009 Bonds and interest thereon shall be payable in lawful money of the United States of America at the principal corporate trust office of the Trustee.

While the Series 2009 Bonds are book-entry bonds, payment of the principal of and interest on any Series 2009 Bonds will be made by the Trustee directly to DTC, to the account of Cede & Co. Interest on the Series 2009 Bonds will be payable on January 1 and July 1 in each year, commencing January 1, 2010 (each, an “Interest Payment Date”). In the event the Series 2009 Bonds are no longer in a book-entry system, principal or purchase price on such Series 2009 Bonds will be payable at the Principal Corporate Trust Office of the Trustee, and interest on the Series 2009 Bonds due on or before the maturity or prior redemption thereof shall be paid by check mailed by first class mail on each Interest Payment Date to the person in whose name the Bond is registered as of the applicable Record Date for such Interest Payment Date at the address shown on the registration books maintained by the Trustee; provided, however, that interest on the Series 2009 Bonds shall be paid by wire transfer or other means to provide immediately available funds to any owner of at least \$1,000,000 in aggregate principal amount of Series 2009 Bonds, at its option, according to wire instructions given to the Trustee in writing for such purpose and on file as of the applicable Record Date preceding the Interest Payment Date. The Record Date for the Series 2009 Bonds means the close of business on the fifteenth calendar day (whether or not a Business Day) of the month preceding any Interest Payment Date.

Redemption Terms of the Series 2009 Bonds

Optional Redemption. The Series 2009 Bonds maturing on or prior to July 1, 2019 are not subject to optional redemption. The Series 2009 Bonds maturing on or after July 1, 2020 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from any moneys deposited by the Authority or the City, as a whole or in part on any date (in such maturities as are designated in writing by the Authority to the Trustee) on or after July 1, 2019, at the principal amount of Series 2009 Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. Subject to the terms and conditions hereinbefore set forth, the Series 2009 Bonds maturing on July 1, 2029, shall be prepaid (or paid on such date, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and upon the following dates:

Mandatory Sinking Account Payment Dates (July 1)	Mandatory Sinking Account Payments
2025	\$1,515,000
2026	1,590,000
2027	1,670,000
2028	1,750,000
2029*	1,840,000

* *Final Maturity.*

Subject to the terms and conditions hereinbefore set forth, the Series 2009 Bonds maturing on July 1, 2039, shall be prepaid (or paid on such date, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and upon the following dates:

Mandatory Sinking Account Payment Dates (July 1)	Mandatory Sinking Account Payments
2030	\$1,930,000
2031	2,025,000
2032	2,130,000
2033	2,230,000
2034	2,345,000
2035	2,465,000
2036	2,585,000
2037	2,715,000
2038	2,850,000
2039*	2,995,000

* *Final Maturity.*

Extraordinary Redemption. The Series 2009 Bonds are subject to redemption by the Authority on any date prior to their respective stated maturities, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each stated maturity in integral multiples of Authorized Denominations, in connection with the damage to or destruction of the Facilities caused by perils covered by insurance (including proceeds of title insurance), from insurance or eminent domain proceeds made by the City pursuant to the Facility Lease, at a redemption price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the Redemption Date. Whenever less than all of the Outstanding Series 2009 Bonds are to be redeemed on any one date, the Trustee shall select, in accordance with written directions from the Authority, the Series 2009 Bonds to be redeemed in part from the Outstanding Series 2009 Bonds so that the aggregate annual principal amount of and interest on Series 2009 Bonds which shall be payable after such Redemption Date shall be as nearly proportional as practicable to the aggregate annual principal amount of and interest on Series 2009 Bonds Outstanding prior to such Redemption Date.

Selection of Bonds for Redemption. The Authority shall designate which maturities of Bonds are to be redeemed. If less than all Outstanding Series 2009 Bonds of the same Series maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Series 2009 Bonds of such maturity date to be redeemed by lot and shall promptly notify the Authority in writing of the numbers of the Series 2009 Bonds so selected for redemption. For purposes of such selection, Series 2009 Bonds shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately redeemed. In the event Series 2009 Term Bonds are designated for redemption, the Authority may designate which sinking account payments are allocated to such redemption.

Notice of Redemption; Cancellation; Effect of Redemption. Notice of redemption shall be mailed by first-class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective Bondholders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the Series, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of any redemption shall either: (a) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (b) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on

deposit in the applicable fund or account. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

The Authority may, at its option, prior to the date fixed for redemption in any notice of redemption rescind and cancel such notice of redemption by Written Request to the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such Bonds shall cease to accrue, and the Bondholders of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of this Article shall be cancelled by the Trustee and shall be destroyed with a certificate of destruction furnished to the Authority upon its request and shall not be reissued.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are limited obligations of the Authority payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of Base Rental Payments payable to the Authority by the City under the Facility Lease and 2009 Installment Payments received by the Authority from the City under the 2009 Installment Payment Contract. Pursuant to the Site Lease, the City has leased to the Authority the real property upon which the Facilities are located. The obligation of the City to pay Base Rental Payments and the obligation of the City to make 2009 Installment Payments are independent legal obligations, as described below, with each payment obligation designed to be sufficient (in and of itself) to pay (including from amounts on deposit in the Capitalized Interest Account) the principal of and interest on the Series 2009 Bonds as the same becomes due. On any date upon which a Base Rental Payment installment is due, the City's obligation to pay such Base Rental Payment installment shall be deemed satisfied to the extent that the City's obligation to make Series 2009 Installment Payments has been satisfied as of such date.

The Base Rental Payments to be made by the City pursuant to the Facility Lease are payable by the City from its General Fund to the Authority in an amount equaling the debt service for the Bonds for the use by the City of the Facilities. Base Rental Payments are to be paid as annual rental payments with principal and interest components, the interest components being payable semi-annually, subject only to abatement, in accordance with the Facility Lease.

The 2009 Installment Payments to be made by the City pursuant to the 2009 Installment Payment Contract are payable by the City in an amount equaling the debt service for the Bonds, but solely from its Airport Revenues, which includes all charges received for and all other income and receipts derived by the City from the, ownership, operation and use of and otherwise pertaining to the Airport, or any part thereof. The City's obligation to make the 2009 Installment Payments is not subject to abatement and the City is required to pay the 2009 Installment Payments as required, free of any deductions and without any abatement, diminution or set-off whatsoever.

The Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided in the Trust Agreement, and the Authority is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the City, the State or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority as provided in the Trust Agreement. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

Pledge Under the Trust Agreement

Under the Trust Agreement, the Revenues consist of the Base Rental Payments and 2009 Installment Payments made by the City to the Authority. In accordance with the Trust Agreement, all Revenues are irrevocably pledged to and will be used for the punctual payment of the principal of and interest on the Bonds and will not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues may be applied such sums as are permitted under the Trust Agreement. This pledge constitutes a first lien on the Revenues in accordance with the terms of the Trust Agreement.

The Authority has directed that all Base Rental Payments and 2009 Installment Payments be paid directly to the Trustee to be held in trust by the Trustee in the Revenue Fund for the benefit of the Bondholders. The City has covenanted under the Facility Lease that so long as the Facilities are available for the City's use and occupancy, it will take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Lease in its annual budgets and to make the necessary annual appropriations therefor. Such budget may take into account the 2009 Installment Payments paid by the City under the 2009 Installment Payment Contract. The obligation of the City to make 2009 Installment Payments is absolute and unconditional; however, the City's obligation to make 2009 Installment Payments is payable solely from Airport Revenues.

Base Rental Payments

Base Rental Payments are calculated on an annual basis, for twelve-month periods commencing on July 1 and ending on June 30, and each annual Base Rental Payments will be divided into two interest components, due on January 1 and July 1, and one principal component, due on July 1, except that the first Base Rental Payment period will commence on the date of recordation of the Facility Lease and end on June 30, 2009. Each Base Rental Payment with respect to the Facility Lease will be payable on the 25th day of the month immediately preceding each Interest Payment Date on the Bonds. Each annual Base Rental payment will be for the use of the Facilities for the twelve-month period commencing on July 1 of the period in which such installments are payable (except for the first Base Rental Payment period which will commence on the date of recording of the Facility Lease). On any date upon which a Base Rental Payment installment is due, the City's obligation to pay such Base Rental Payment installment shall be deemed satisfied to the extent that the City's obligation to make Series 2009 Installment Payments has been satisfied as of such date.

Amounts on deposit in the Capitalized Interest Account are sufficient to pay the scheduled principal of and interest on the Series 2009 Bonds for that period through January 1, 2012, calculated at approximately six months following the expected spring 2011 substantial completion of construction of the Airport Terminal Project. As provided in the Facility Lease, until the City has delivered a Certificate of Completion to the Trustee, stating that construction of the Airport Terminal Project has been substantially completed and that all Construction Costs have been paid or provided for, the City's obligation to pay Base Rental Payments shall be limited solely to (i) an amount representing the fair rental value for the use and occupancy of the Available Leased Property, subject only to abatement as provided in the Facility Lease or (ii) amounts on deposit in the Interest Account, including the Capitalized Interest Account established within the Interest Account, pursuant to the Trust Agreement, and, if the Interest Account is exhausted, the Reserve Fund established pursuant to the Trust Agreement, and the City shall have no obligation to make any Base Rental Payments from any other source. As defined in the Facility Lease, the term "Available Leased Property" means that portion of the Facilities available for use and occupancy by the City as of the date of initial recordation of the Facility Lease. See "-- Abatement" below.

The Trust Agreement requires that the Base Rental Payments be deposited in the Revenue Fund maintained by the Trustee. In accordance with the Trust Agreement, the Trustee will transfer such amounts as are necessary to the Interest Account or the Principal Account, as the case may be, to pay principal of and interest on the Bonds as the same becomes due and payable. On each Principal Payment Date, following the payment of principal of and interest on the Bonds, any excess amount in the Revenue Fund will be transferred to the Reserve Fund, as necessary, and thereafter deposited into the Revenue Fund to be applied to pay the principal of and interest on the Bonds. See APPENDIX E – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – THE TRUST AGREEMENT – Creation of Funds and Accounts" herein.

The obligation of the City to make Base Rental payments is an obligation payable solely from amounts legally available therefor, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction or an obligation for which the City must levy or pledge, or has levied or pledged, any form of taxation.

Abatement

Base Rental Payments are paid by the City in each rental payment period for and in consideration of the right of use and occupancy of the Facilities during each such period for which said rental is to be paid. Unlike the 2009 Installment Payments made under the 2009 Installment Payment Contract (described below), the Base Rental Payments and Additional Payments are subject to abatement under the Facility Lease. As provided therein, except to the extent of (a) amounts held by the Trustee in the Interest Account or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2009 Bonds, the Base Rental Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation which is hereinafter provided for) there is substantial interference with the use and occupancy of the Facilities by the City, in the proportion in which the annual fair rental value of that portion of the Facilities rendered unusable bears to the annual fair rental value of the whole of the Facilities. See “Base Rental Payments” immediately above. If construction of the Airport Terminal Project is not completed by January 1, 2012 (the period through which capitalized interest is being funded from amounts on deposit in the Capitalized Interest Account) for any reason, including the City’s inability to pay unanticipated construction costs or unforeseen circumstances which delay construction completion, the obligation of the City to make Base Rental Payments will continue only with respect to rental attributable to the Available Leased Property. See “THE AIRPORT PROJECT” and “RISK FACTORS – Construction Risk” and “– Abatement.”

Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Facility Lease shall continue in full force and effect and the City waives any right to terminate the Facility Lease by virtue of any such damage or destruction. In the event the Facilities cannot be repaired during the period of time that proceeds of the City’s rental interruption insurance will be available in lieu of Base Rental Payments (a period of two years) plus the period for which funds are available from the Reserve Fund, or in the event that casualty insurance proceeds are insufficient to provide for complete repair of the Facilities, there could be insufficient funds to cover payments to Bondholders in full. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – FACILITY LEASE – Rental Abatement” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Insurance” herein.

Installment Payments

The 2009 Installment Payments made under the 2009 Installment Payment Contract will be credited against any Base Rental Payments due from time to time. As projected in the Airport Report, the Department through the operation of the Airport is expected to generate Airport Revenues sufficient to meet (i) Airport Operation and Maintenance Expenses and (ii) other funding requirements established by the Trust Agreement, including the timely payment of the principal of and interest on the Series 2009 Bonds through the forecast period comprised of Fiscal Years 2008-09 through 2012-13. See APPENDIX D – “REPORT OF THE AIRPORT CONSULTANT” herein. Appendix D includes a description of the assumptions made and the methodology used by the Airport Consultant. Investors are advised to read the Airport Report in its entirety to obtain information essential to the making of an informed investment decision.

On or before the 25th day of each June and December, commencing December 25, 2009, the City shall, from the moneys in the Airport Revenue Fund, pay the aggregate amount of interest and principal due on the next Interest Payment Date on the Bonds as 2009 Installment Payments, which shall be deposited to the Installment Payment Fund to be held by the City. Moneys may be withdrawn solely for the purpose of paying 2009 Installment Payments to the Authority as they become due and payable on or before the 25th day of the month prior to each Interest Payment Date.

On or before the 25th day of each June and December, commencing December 25, 2009, the City shall, from the moneys in the Airport Revenue Fund, pay for deposit into the Reserve Fund, an amount equal to one-half

of the aggregate amount of any withdrawal from the Reserve Fund in order to make a payment of principal of or interest on the Bonds, so that the Reserve Fund is replenished to the Reserve Fund Requirement within one year following any such withdrawal. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund.”

As applied in the 2009 Installment Payment Contract, the term “Airport Revenues” herein means all charges received for and all other income and receipts derived by the City from the, ownership, operation and use of and otherwise pertaining to the Airport, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport, or for any service rendered by the City in the operation thereof, all interest, profits and other income derived from the investment of moneys in any fund or account established hereunder (other than the Rebate Fund) but, unless and until deposited in the Revenue Fund, excluding:

- (a) moneys received as grants, appropriations or contributions from the United States of America, the State of California or any other governmental entity or agency, the use of which is limited by the grantor or donor to the cost of related Airport facilities or property;
- (b) proceeds from the Series 2009 Bonds or proceeds from loans or other borrowings obtained by the City;
- (c) moneys received with respect to any Net Rent Lease;
- (d) CFC Revenues and PFC Revenues;
- (e) moneys received from insurance proceeds other than loss of use or business interruption insurance proceeds, from the taking by or under eminent domain or from the sale of all or any part of the Airport; and
- (f) the proceeds received by the City from the sale or other disposition of all or part of the Airport property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges will be considered Airport Revenues.

As used herein, the term “CFC Revenues” means the CFC’s received by the City. The term “Customer Facility Charge” or “CFC” means any fee imposed by the City from time to time under the CFC Act. The term “CFC Act” means California Civil Code Section 1936, including any amendments, successors or replacements thereto. As used herein, the term “PFC Revenues” means the Passenger Facility Charge receipts collected from enplaned passengers at the Airport, less any collection or service fee or other amount permitted to be retained by the collecting airlines, which have been approved by the FAA, pursuant to the PFC Act and PFC Regulations (as defined in the 2009 Installment Payment Contract), which are remitted to the City, in an amount not greater than the Installment Payments attributable to a PFC Project (i.e., a capital project for which PFC Revenues may be expended).

The 2009 Installment Payment Contract establishes a rate covenant that requires the City, to the extent reasonably practicable, to fix, prescribe and collect rentals, rates, fees and charges for the services and facilities of the Airport and will establish a budget that will enable the City to collect such rentals, rates, fees and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Airport for such Fiscal Year; and (ii) one (1) times the debt service on all Installment Payments for such Fiscal Year, to the extent they are then unpaid or are not discharged in accordance with their terms. All Airport Revenues are to be deposited to the City’s Airport Revenue Fund, which will then be used in the following order of priority: (i) Maintenance and Operation Costs; (ii) Installment Payments; and (iii) Reserve Fund replenishment, if required. On October 1, 2007, the City adopted an Airport Operating Permit (the Permit), which applies to all scheduled passenger and cargo airlines operating at the Airport. The Permit is revised and reissued annually, and allows for 30 days written notice of termination by either the City or the

Scheduled Airline. The City's legal counsel will opine that the City has the right to fix, establish, and collect Airport rentals, fees, and charges to assure the revenue generation necessary to satisfy the rate covenant annually.

The obligation of the City to make the 2009 Installment Payments is absolute and unconditional, and until such time as the Total Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2009 Installment Payment Contract), the City will not discontinue or suspend any 2009 Installment Payments required to be made by it thereunder when due, whether or not the Airport Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement, for any cause whatsoever; provided, however that the City's obligation to so make the 2009 Installment Payments is payable solely from Airport Revenues.

All Airport Revenues are irrevocably pledged to the payment of the Installment Payments as provided under the 2009 Installment Payment Contract and the Airport Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that out of the Airport Revenues there may be apportioned such sums for such purposes as are expressly permitted below. Such pledge shall constitute a first lien on the Airport Revenues, after the payment of the Maintenance and Operation Costs, for the payment of the Installment Payments and all other Installment Payment Contracts and Airport Revenue Bonds in accordance with the terms of the 2009 Installment Payment Contract.

All Airport Revenues shall be deposited when and as available or received in the City of Santa Barbara Revenue Fund, which fund is established (the "Revenue Fund"), and which the City agrees and covenants to maintain so long as any 2009 Installment Payments remain unpaid, and all moneys in the Revenue Fund shall be so held in trust and applied and used solely as provided under the 2009 Installment Payment Contract. All moneys in the Revenue Fund shall be set aside by the City at the following times in the following respective special funds in the following order of priority:

(i) Maintenance and Operation Fund (which is established under the 2009 Installment Payment Contract and which is held by the City and which the City agrees and covenants to maintain so long as any Installment Payments remain unpaid); and

(ii) Installment Payment Fund (which is established under the 2009 Installment Payment Contract and which is held by the City and which the City agrees and covenants to maintain so long as any 2009 Installment Payments remain unpaid) including the Series 2009 Installment Payment Account within such fund (to be held by the City); and

(iii) The Reserve Fund established pursuant to the Trust Agreement (the "Reserve Fund"), to the extent necessary to increase the amount therein to the Reserve Fund Requirement.

All moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in the 2009 Installment Payment Contract.

So long as the City is not in default under the 2009 Installment Payment Contract, the City may at any time execute any Installment Payment Contract, the Installment Payments under and pursuant to which are payable from Airport Revenues on a basis senior to or on a parity with the payment by the City of the 2009 Installment Payments as provided under the 2009 Installment Payment Contract; provided, that the audited Airport Revenues for the Fiscal Year next preceding the date of the adoption by the City of the resolution authorizing the execution of such Installment Payment Contract, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant on such calculation on file with the City shall demonstrate compliance with the rate covenant under the 2009 Installment Payment Contract on all installment payment contracts outstanding after the execution of such Installment Payment Contract.

The City shall not be required to advance as 2009 Installment Payments any moneys derived from any source of income other than the Airport Revenues and the other funds provided in the 2009 Installment Payment

Contract for the payment of the 2009 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the 2009 Installment Payment Contract. For a description of the City's obligation to make Base Rental Payments under the Facility Lease, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Base Rental Payments" and "– Abatement" herein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose. The obligation of the City to make the 2009 Installment Payments is a limited obligation of the City payable solely from the Airport Revenues and other funds, and does not constitute a debt of the City, the Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Airport Revenues

The City has covenanted that it will make 2009 Installment Payments from all Airport Revenues as part of the Revenues pledged under the Trust Agreement to secure the Bonds. For a summary statement of Airport Revenues and expenses for the fiscal years ended June 30, 2008 to June 30, 2007 see TABLE A-16 "CITY OF SANTA BARBARA – Statement of Revenues, Expenses and Changes in Fund Net Assets (Airport)" in Appendix A hereto.

The City's pledge of Airport Revenues constitutes a net revenue pledge. Pursuant to the 2009 Installment Payment Contract, all Airport Revenues are irrevocably pledged to the payment of the Installment Payments as provided herein and the Airport Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that Airport Revenues will first be deposited in the Maintenance and Operation Fund on or before the 25th day of the month in an amount at least equal to Maintenance and Operation Costs becoming due in the next succeeding month. Airport Revenues may then be deposited to the Installment Payment Fund and then to the Reserve Fund, to the extent necessary to increase the amount therein to the Reserve Fund Requirement.

Reserve Fund

Upon issuance of the Series 2009 Bonds, there shall be deposited in the Reserve Fund established pursuant to the Trust Agreement from the proceeds of the Bonds the amount set forth under the caption "ESTIMATED SOURCES AND USES OF FUNDS" herein, such amount initially equal to the Reserve Fund Requirement. As defined in the Trust Agreement, the term "Reserve Fund Requirement" means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual debt service attributable to the Outstanding Bonds, (ii) 125% of average annual debt service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the Reserve Fund Requirement shall be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such Series of Additional Bonds. All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the Bonds or for the retirement of all the Bonds then outstanding, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement may be withdrawn from the Reserve Fund and deposited in the Revenue Fund. See APPENDIX E – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – THE TRUST AGREEMENT – Creation of Funds and Accounts – Revenue Fund" herein.

A surety bond or insurance policy may be issued to the Trustee, on behalf of the Bondholders, to be deposited in the Reserve Fund to meet the Reserve Fund Requirement, subject to the terms and conditions of the Trust Agreement. Any such surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds (a "municipal bond insurer") if such municipal bond insurer shall be rated, at the time of deposit in one of the two the highest rating categories issued by Moody's and by S&P, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody's and S&P, or any combination thereof.

Insurance

The Facility Lease requires the City to maintain or cause to be maintained throughout the term of the Facility Lease insurance against loss or damage to any structures constituting any part of the Facilities by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$250,000 or comparable amount adjusted for inflation or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed. The City is not obligated under the Facility Lease to maintain earthquake insurance on the Facilities. While the City currently maintains both earthquake insurance and flood insurance over City-owned facilities, City-wide, which include the Facilities (currently, an earthquake and flood limit of \$50 million per occurrence over a pool of insurable City property), there can be no assurance that any such proceeds will be sufficient to cover any or all claims, and the City has no obligation to continue either form of insurance through the remainder of the lease term. Damage or destruction to the Facilities caused by earthquake or flood could result in abatement of Base Rental Payments.

The Facility Lease requires the City to maintain or cause to be maintained throughout the term of the Facility Lease insurance against loss or damage by flood to any structures constituting any part of the Facilities but which insurance may also cover other properties of the City. Such insurance shall be in an amount equal to the lesser of (i) the amount of the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities and any other properties of the City so insured, excluding the cost of excavations, of grading and filling, and of the land or (ii) \$10,000,000 on a per occurrence basis subject to an aggregate claim limit of \$100,000,000 (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$250,000 or comparable amount adjusted for inflation) or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed. Such insurance may be provided a joint purchasing authority or a similar program.

Currently, the City's insurable property is covered for all risks by policies with a pooled aggregate limit of \$1,000,000,000. Earthquake and flood coverage have designated limits of \$50 million per peril. Unique risks such as airport liability, marine hull protection and indemnity, and boiler and machinery are fully insured. There were no claims made against any of these policies during the past fiscal year.

The City joined the Authority of California Cities Excess Liability (ACCEL) in May 1986. ACCEL is a public entity risk pool created for the purpose of pooling various public sector risks. ACCEL began its twentieth program year July 2007 with membership totaling twelve (12) cities. ACCEL was formed under the Joint Powers Agreement (JPA) provisions of State Law (Government Code Sections 990, 990.4, 990.8 and 6500-6515). In addition to the joint powers agreement, ACCEL is governed by bylaws and an investment policy adopted by the ACCEL members. ACCEL settlements have not exceeded coverage in any of the past fiscal years. ACCEL now transfers most of its risk sharing exposures through the purchase of a four layer commercial policy underwritten by various carriers. ACCEL members have a \$1 million self-insured retention. ACCEL pools the next \$4 million and commercial carriers provide \$30 million above that level. ACCEL members share pool losses above their self-insured retention. Losses are paid from a pool of funds comprised of member deposits. Deposits are actuarially determined to ensure that funds are available to pay pool losses. ACCEL collects a deposit from each member for each program year in which the member participates. Separate deposit accounts are set for each member for each year of participation. Deposits are invested into pre-approved vehicles and each member account is credited monthly with investment income at the rate earned by the investment vehicle. ACCEL adopted its investment policy in accordance with existing government code criteria.

In the event of any damage to or destruction of any part of the Facilities, caused by the perils covered by such insurance, the Authority is to cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facilities, and the Trustee is to hold said proceeds

separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Facilities to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee will permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided by the Trust Agreement. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental attributable to the portion of the Facilities so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facilities bears to the cost of the Facilities), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facilities and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the provisions of the Trust Agreement.

The Authority and the City shall promptly apply for federal disaster aid or State of California disaster aid in the event that the Facilities are damaged or destroyed as a result of an earthquake occurring at any time. Any proceeds received as a result of such disaster aid shall be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Facilities, or, at the option of the City and the Authority, to redeem outstanding Bonds if such use of such disaster aid is permitted.

Under the Facility Lease, the City is required to maintain or cause to be maintained, throughout the term of the Facility Lease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and its members, directors, officers, agents and employees and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facilities, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$200,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

As an alternative to providing the fire and extended coverage insurance or the liability insurance required by the Facility Lease, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. Participation by the City in an insurance program established by or pursuant to a joint powers authority shall not constitute a self insurance method or plan of protection that requires the prior written consent of the Authority and any municipal bond insurer with respect to Additional Bonds. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City hereunder shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Under the Facility Lease, the City is also required to maintain or cause to be maintained rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Facilities as the result of any of the hazards covered by its fire and extended coverage insurance, in an amount sufficient to pay the part of the total rent hereunder attributable to the portion of the Facilities rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Facilities) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty

thousand dollars (\$250,000) or a comparable amount adjusted for inflation. Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under the Facility Lease attributable to such structure for a period of time during which the payment of rental under the Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in the Facility Lease and any remainder shall be treated as Revenue under the Trust Agreement. The City is not obligated under the Facility Lease to maintain earthquake insurance on the Facilities.

The City is also required under the Facility Lease to obtain, for the benefit of the Authority, title insurance on the Facilities, in an amount equal to the aggregate principal amount of the Bonds.

Additional Bonds

Additional Bonds may be issued on a parity with the Bonds upon the terms and subject to the conditions set forth in the Trust Agreement, which includes the following: (i) that the proceeds of the sale of such Additional Bonds shall be applied to the acquisition (by purchase or lease) of facilities to be added to the Facilities or for the refunding of Outstanding Bonds; (ii) that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement; (iii) that the Facility Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year shall at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year; and (iv) that the 2009 Installment Payment Contract shall have been amended, if necessary, so that the Installment Payments payable by the City thereunder in each Fiscal Year shall at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – THE TRUST AGREEMENT – Additional Bonds” herein.

Investment of Bond Funds

Pursuant to the Trust Agreement, all money held by the Trustee in any of the funds or accounts established pursuant to the Trust Agreement are required to be invested only in “Investment Securities” as defined in the Trust Agreement. See APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – CERTAIN DEFINITIONS” herein.

For a further description of the provisions of the Facility Lease, including the terms thereof and a description of certain covenants therein, including construction, maintenance, utilities, taxes, assessments, insurance and events of default and available remedies, see “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – FACILITY LEASE” in Appendix E attached hereto.

For information regarding the City, see Appendix A and Appendix C attached hereto. See also “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

Debt Service Schedule

The following table shows the debt service schedule relating to the Series 2009 Bonds:

DEBT SERVICE SCHEDULE

Bond Year				Bond Year			
<u>(July 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>(July 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	--	\$2,411,769.70	\$2,411,769.70	2025	\$1,515,000	\$1,631,750.00	\$3,146,750.00
2011	--	2,278,837.52	2,278,837.52	2026	1,590,000	1,556,000.00	3,146,000.00
2012	\$ 865,000	2,278,837.52	3,143,837.52	2027	1,670,000	1,476,500.00	3,146,500.00
2013	900,000	2,244,237.52	3,144,237.52	2028	1,750,000	1,393,000.00	3,143,000.00
2014	935,000	2,208,237.52	3,143,237.52	2029	1,840,000	1,305,500.00	3,145,500.00
2015	970,000	2,170,837.52	3,140,837.52	2030	1,930,000	1,213,500.00	3,143,500.00
2016	1,020,000	2,122,337.52	3,142,337.52	2031	2,025,000	1,117,000.00	3,142,000.00
2017	1,065,000	2,081,537.52	3,146,537.52	2032	2,130,000	1,015,750.00	3,145,750.00
2018	1,105,000	2,038,937.52	3,143,937.52	2033	2,230,000	909,250.00	3,139,250.00
2019	1,160,000	1,983,687.52	3,143,687.52	2034	2,345,000	797,750.00	3,142,750.00
2020	1,220,000	1,925,687.52	3,145,687.52	2035	2,465,000	680,500.00	3,145,500.00
2021	1,265,000	1,876,887.52	3,141,887.52	2036	2,585,000	557,250.00	3,142,250.00
2022	1,320,000	1,823,125.02	3,143,125.02	2037	2,715,000	428,000.00	3,143,000.00
2023	1,375,000	1,765,375.00	3,140,375.00	2038	2,850,000	292,250.00	3,142,250.00
2024	1,435,000	1,703,500.00	3,138,500.00	2039	2,995,000	149,750.00	3,144,750.00

RISK FACTORS

General

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the Bonds. There can be no assurance made that other risk factors will not become evident at any future time.

The Bonds are payable solely from the Revenues of the Authority under the Trust Agreement consisting primarily of the Base Rental Payments payable by the City pursuant to the Facility Lease and Installment Payments payable by the City pursuant to the 2009 Installment Payment Contract for the beneficial use and occupancy of the Facilities.

The practical realization of any rights upon default by the City under the Facility Lease and/or the 2009 Installment Payment Contract will depend upon the exercise of various remedies specified in such instrument, as restricted by state and federal law. The federal bankruptcy laws may have an adverse effect on the ability of the Trustee to enforce its rights under the Trust Agreement and of the Authority to enforce its rights under the Facility Lease. See “– Limitation on Remedies” below.

In certain situations, with the consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds, certain amendments to the Trust Agreement, the 2009 Installment Payment Contract and the Facility Lease may be made. Such amendments could affect the security of the Bondholders.

Future economic and other conditions may adversely affect the value or essential nature of the Facilities and, consequently, the value of the Facilities to the Authority in exercising available remedies upon default by the City. In addition, there are certain other factors discussed herein as a result of which certain remedies available to the Trustee or the Authority may not be a viable option.

Limited Obligation

The Bonds are limited obligations of the Authority and are payable solely from the Revenues (as described herein), and the Authority is not obligated to pay the principal of or the interest on the Bonds except from the

Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Trust Agreement by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the City or any member of the Authority, and neither the City nor any member of the Authority is liable thereon, nor in any event will the Bonds be payable out of or secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City nor any member of the Authority is pledged for the payment of the principal of or interest on the Bonds or for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the City nor any member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

The Authority shall not be required to advance any money derived from any source other than the Revenues as provided in the Trust Agreement for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants in the Trust Agreement contained. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Authority, the Trustee, and the Bondholders any right, remedy or claim under or by reason thereof. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Authority, the Trustee, and the Bondholders.

Base Rental Payments

General. The Base Rental Payments and Additional Payments due under the Facility Lease (including insurance, payment of costs of repair and maintenance of the Facilities, taxes and other governmental charges and assessments levied against the Facilities) are not secured by any pledge of taxes or other revenues of the City but are payable from any funds lawfully available to the City. The City will incur other obligations in the future payable from the same sources as the Base Rental Payments. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other City 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 limitation on appropriations under Article XIII B of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII B of the State Constitution" herein.

Covenant to Budget and Appropriate. Pursuant to the Facility 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 the necessary annual appropriations for all such payments. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Base Rental Payments" herein. Such 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 the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. Upon issuance of the Bonds, Bond Counsel will render its opinion (substantially in the form of Appendix G attached hereto) to the effect that, subject to the limitations and qualifications described therein, the Facility Lease constitutes a valid and binding obligation of the City. As to the Trustee's or the Authority's practical realization of remedies upon default by the City, see "– Limitations on Remedies" below.

Abatement Risk

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and occupancy by the City of any portion of the Facilities, rental payments due under the Facility Lease with respect to the Facilities will be abated proportionately, in the proportion in which the annual fair rental value of that portion of the Facilities rendered unusable bears to the annual fair rental value of the whole of the Facilities, and the City waives any and all rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Abatement" herein.

Construction Risk

The Facility Lease provides that the City shall utilize amounts in the Construction Fund established pursuant to the Trust Agreement to pay costs of construction. Amounts on deposit in the Capitalized Interest Account are sufficient to pay the scheduled principal of and interest on the Series 2009 Bonds for that period through January 1, 2012, calculated at approximately six months following the expected spring 2011 substantial completion of construction of the Airport Terminal Project. Until such time as a Certificate of Completion has been delivered by the City to the Trustee, the City's obligation to pay Base Rental Payments shall be limited solely to (i) an amount representing the fair rental value for the use and occupancy of the Available Leased Property, subject only to abatement as summarized below or (ii) amounts on deposit in the Interest Account, including the Capitalized Interest Account established within the Interest Account, pursuant to the Trust Agreement, and, if the Interest Account is exhausted, the Reserve Fund established pursuant to the Trust Agreement, and the City shall have no obligation to make any Base Rental Payments from any other source. There can be no assurances that the City will be willing or able to provide funds to complete the Airport Terminal Project in the event costs of completion exceed anticipated levels. If construction of the Airport Terminal Project is not completed by January 1, 2012 (the period through which capitalized interest is being funded from amounts on deposit in the Capitalized Interest Account) for any reason, including the City's inability to pay unanticipated construction costs or unforeseen circumstances which delay construction completion, the obligation of the City to make Base Rental Payments will continue only with respect to rental attributable to the Available Leased Property. The City's obligation to make the 2009 Installment Payments is not subject to abatement. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – FACILITY LEASE."

Installment Payments

The 2009 Installment Payments due under the 2009 Installment Payment Contract (including payment of Operating and Maintenance Expenses of the Airport) are not secured by any pledge of taxes or other revenues of the City but are payable from the Airport Revenues. The City covenants in the 2009 Installment Payment Contract, to the extent reasonably practicable, to fix, prescribe and collect rates and charges for the Airport which are reasonably fair and nondiscriminatory and to establish a budget that will enable the City to collect such rates and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Airport for such Fiscal Year; and (ii) one (1) times the debt service on all Installment Payments for such Fiscal Year, to the extent they are then unpaid or are not discharged in accordance with their terms. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Installment Payments" herein. Such 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 the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. As to the Trustee's or the Authority's practical realization of remedies upon default by the City, see "– Limitations on Remedies" below.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Facility Lease nor of the total 2009 Installment Payments due under the 2009 Installment Payment Contract, and the Trustee is not empowered to sell a fee simple interest in the Facilities and use the proceeds of such sale to prepay the Bonds or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Limitation on Remedies

The enforcement of any remedies provided in the 2009 Installment Payment Contract, the Facility Lease and the Trust Agreement could prove both expensive and time consuming. Although the Facility Lease provides that if the City defaults the Trustee may reenter the Facilities and re-let it, portions of the Facilities may not be easily recoverable, and even if recovered, could be of little value to others because of the Facilities' specialized nature. Additionally, the Trustee may have limited ability to re-let the Facilities to provide a source of rental payments sufficient to pay the principal and interest on the Bonds so as to preserve the tax-exempt nature of interest on the

Bonds. The Trustee is not obligated to re-let the Facilities in a manner so as to preserve the tax-exempt nature of interest on the Bonds. Furthermore, due to the governmental nature of the Facilities, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto.

Alternatively, the Trustee may terminate 2009 Installment Payment Contract and the Facility Lease and proceed against the City to recover damages pursuant thereto. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The rights of the Owners of the Bonds are subject to certain limitations on legal remedies against cities and other governmental entities in the State, including but not limited to a limitation on enforcement against funds that are otherwise needed to serve the public welfare and interest. Additionally, the rights of the Owners of the Bonds may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws limiting or otherwise affecting the enforcement of creditors' rights generally (as such laws are now or hereafter may be in effect), (ii) equity principles (including but not limited to concepts of materiality, reasonableness, 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 law, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Authority could be prohibited or severely restricted from taking any steps to enforce their rights under the 2009 Installment Payment Contract and the Facility Lease and from taking any steps to collect amounts due from the City under the 2009 Installment Payment Contract and the Facility Lease.

City Obligations

The City does not currently have any significant capital lease obligations payable from General Fund revenues, but does have other obligations related to retirement benefits and other post employment benefits as well as certain other liabilities. The Department has no material obligations, other than the 2009 Installment Payments, however, the City may at any time execute any Installment Payment Contract, the Installment Payments under and pursuant to which are payable from Revenues on a basis senior to or on a parity with the payment by the City of the 2009 Installment Payments as provided in the 2009 Installment Payment Contract. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Installment Payments" and APPENDIX A – "THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION" herein.

Natural Disasters

The obligation to pay Base Rental Payments may be adversely affected if the Facilities are damaged or destroyed by natural disasters such as earthquake, flood or wildfire. While the City currently maintains both earthquake insurance and flood insurance over City-owned facilities, City-wide, which include the Facilities (currently, an earthquake and flood limit of \$50 million per occurrence over a pool of insurable City property), there can be no assurance that any such proceeds will be sufficient to cover any or all claims, and the City has no obligation to continue either form of insurance through the remainder of the lease term. Damage or destruction to the Facilities caused by earthquake or flood could result in abatement of Base Rental Payments. Pursuant to and under the circumstances described in the Facility Lease, the City is required to maintain or is permitted to self-insure for casualty, workers' compensation and standard comprehensive public entity liability.

The City may not self-insure for loss of use and occupancy of any portion of the Facilities. See APPENDIX E – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – FACILITY LEASE – Insurance to be Maintained by the City." However, no assurance can be given that such insurance or self-insurance at the time of any casualty or loss will be adequate to cover any claims that might arise.

Wildfires. The City is exposed to a variety of wildfire hazard conditions ranging from very low levels of risk along the coastal portions of the County, to extreme hazards in the inland and chaparral covered hillsides of the Santa Ynez Mountains and the Los Padres National Forest. Currently, fire hazard severity is a function of fuel conditions, historic climate, and topography. Population density or the number of structures in a particular region are not currently used to determine the fire hazard severity for a particular region. Areas throughout the County have been designated as having a “Very High Severity Hazard,” “High Hazard,” or “Moderate Hazard.” In the County, most of the area that has been designated as having a “Very High Severity Hazard” are located in the Santa Ynez Mountains and the Los Padres National Forest. These areas exhibit the combination of vegetative fuel, topography, and human proximity that contribute to an extreme fire hazard potential. The fact that an area is in a Moderate Hazard designation does not mean it cannot experience a damaging fire; it means only that the probability is reduced, generally because the number of days a year that the area has “fire weather” is less. The Airport, and the totality of the leased Facilities, is located west of downtown Santa Barbara, adjacent to the Pacific Ocean, approximately four miles from the vegetation and chaparral covered hillsides which typically fuel Southern California wildfires. The Airport has remained open and operating with runway traffic during the recent wildfires.

Santa Barbara has recently been impacted by wildfires in and around the City and County areas. In November 2008, a wildfire consumed approximately 1,940 acres in nearby Montecito. As is often the case with Southern California wildfires, the wind caused the fire to hopscotch in places, sparing some homes while igniting others. The Montecito fire was relatively smaller than many of the wildfires that have occurred in Southern California in recent years, but its speed and ferocity took its toll in property damage, racing through the populated slopes of the Santa Ynez Mountains, exacerbated by 70 mph winds, combustible brush and narrow roads. The Montecito fire destroyed 151 residences in the City and 80 residences in the County and damaged others. At that time, Governor Schwarzenegger declared a state of emergency for Santa Barbara County.

On May 5, 2009 a wildfire started in Santa Barbara County, immediately exacerbated by high winds. The fire, referred to as Santa Barbara Jesusita Fire, burned for over a week, blackened approximately 8,733 acres, destroyed 80 homes, 1 commercial building and 79 outbuildings, damaged 15 homes and 2 outbuildings and injured 30 firefighters. Approximately 30,000 people were forced from their homes during the firefight and thousands more were warned to be ready to go. The cause of the fire is under investigation. On May 6, 2009, the County of Santa Barbara declared a local emergency and Governor Schwarzenegger declared a state of emergency for Santa Barbara County. The Governor additionally requested that the Federal Emergency Management Agency (“FEMA”) grant a Fire Management Assistance Grant to ensure financial resources are available to fight the fire. Fire Management Assistance is available to States, local and tribal governments, for the mitigation, management, and control of fires on publicly or privately owned forests or grasslands, which threaten such destruction as would constitute a major disaster. As in this case, the Fire Management Assistance declaration process is initiated when a state submits a request for assistance to the FEMA Regional Director at the time a “threat of major disaster” exists. The entire process is accomplished on an expedited basis and a FEMA decision is rendered in a matter of hours. The Fire Management Assistance Grant Program (FMAGP) provides a 75 percent Federal cost share and the State pays the remaining 25 percent for actual costs. Typically costs accrue to public safety, with fire suppression costs being the most significant. Eligible firefighting costs may include expenses for field camps; equipment use, repair and replacement; tools, materials and supplies; and mobilization and demobilization activities. The resulting financial impact to the City is projected at 6.25% of eligible costs, or \$15-20,000 for the Jesusita Fire. The recent fires have not caused material negative impacts on tax receipts to the City.

When wildfires scorch thousands of acres in Southern California, they destroy all vegetation on mountains and hillsides. As a result, when heavy rain falls in the winter, there is nothing to stop the rain from penetrating directly into the soil. In addition, waxy compounds in plants and soil that are released during fires create a natural barrier in the soil that prevents rain water from seeping deep into the ground. The result is erosion, mudslides, and excess water running off the hillsides often causing flash flooding as described below.

Flooding. Flood zones are identified by FEMA. FEMA designates land located in a low- to moderate-risk flood zone (i.e. not in a floodplain) and has less than a 1% chance of flooding each year as being within a Non-Special Flood Hazard Area (a “NSFHA”). Both the Facilities and the Airport Project are located in areas designed by FEMA as subject to low to moderate flood risk. The City can make no representation that future maps will not be revised to include the Facilities within an area deemed subject to flooding. To the north of the City lies the Goleta Valley, which is bordered on the south by the coastal plateaus that encompass the Ellwood Mesa, Isla Vista,

the University of California, Santa Barbara (UCSB), and the More Mesa areas. The northern limit of the Goleta Valley is defined by the foothills of the Santa Ynez Mountains. To the east, the Goleta Valley extends to the hills near the western edge of the City. Most of the valley drains into the Goleta Slough, a coastal salt marsh located south of the City of Goleta and within the airport property. Several flat-floored stream valleys, including Glen Annie Creek, San Pedro Creek, Las Vegas Creek, San Jose Creek, and Maria Ygnacio Creek, convey water through the slough from the Santa Ynez Mountains.

The City most recently experienced flooding in Fiscal Year 2000-01 and Fiscal Year 2004-05. In Fiscal Year 2000-01 the City experienced a series of powerful winter storms that produced heavy rains, high winds and heavy surf in both the incorporated and unincorporated areas of the City. Damage to public property, including infrastructure, was estimated at approximately \$3.5 million.

The City is obligated under the Facility Lease to maintain flood insurance on the Facilities. The occurrence of flooding to the Facilities could result in an abatement of Base Rental Payments and could have an adverse effect on the ability of the City to make timely Base Rental Payments.

Seismic Factors. Generally, seismic activity occurs on a regular basis in the State. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential damage to property located at or near the center of such seismic activity. The Airport Project site is located in a seismically active area of southern California. Significant ground shaking as a result of a local or regional earthquake is likely to occur during the term of the Facility Lease. Due to the presence of groundwater and loose to medium dense silty sand, the site is considered to be susceptible to liquefaction in the event of a strong earthquake.

In addition, the City is susceptible to tsunami and seiche hazards. A tsunami is a sea wave generated by a submarine earthquake, landslide or volcanic eruption. A seiche is another form of earthquake- or landslide-induced wave or oscillation that can be generated in an enclosed body of water such as a lagoon or harbor. The Airport Project site is located within the tsunami run-up zone as identified in the City's Master Environmental Assessment. The proposed project consists of new infill development and would not substantially change the level of public exposure nor result in increased tsunami risks beyond existing levels. Impacts are considered less than significant. The Airport Project site is not particularly subject to seiche hazards.

Both the City and the County have a program requiring the retrofitting of certain property to meet higher standards of earthquake safety. Implementation of this program is ongoing and will continue for some years. There has been no major earthquake with an epicenter located in the County since August 1978; however, a number of faults located both within and outside of the County could become the site of quake activity impacting the County. The 1994 earthquake in Los Angeles County, which was centered in Northridge and was felt in the City, did not result in any deaths, injuries or property damage in the County according to the County Office of Emergency Services. In December 2003, an earthquake registering 6.5 on the Richter scale occurred with an epicenter 11 miles northeast of San Simeon.

The City is not obligated under the Facility Lease to maintain earthquake insurance on the Facilities. In the event of damage or destruction to the Facilities caused by perils for which the City does not provide insurance and is not required to provide insurance under the Facility Lease, the City is not obligated to repair, replace or reconstruct the Facilities. If an earthquake were to cause serious damage to the Facilities during any period when such facilities were not insured for earthquake damage, or if the proceeds of any earthquake insurance were insufficient to replace or repair the damaged Facilities, the City would be limited to its General Fund, reserves, and emergency grants, if any, in seeking to make appropriate repairs. Pending such repairs, the City's obligation to make Base Rental Payments would be subject to abatement and rental interruption insurance proceeds likely would not cover losses caused by earthquakes. The City will not be obligated to repair or restore the Facilities in the event of uninsured damage caused by an earthquake. See "RISK FACTORS – Abatement Risk." While the obligation of the City to make 2009 Installment Payments under the 2009 Installment Payment Contract would continue following an earthquake, the damage caused by an earthquake could materially adversely affect the amount of Airport Revenues and the City's obligation to make Installment Payments from Airport Revenues.

Hazardous Substances

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the City.

The City knows of no existing hazardous substances which require remedial action on or near the Facilities. However, it is possible that such substances do currently or potentially exist and that the City is not aware of them.

Factors Affecting Future Airline Traffic

As noted in the Airport Report, key factors that will affect airline traffic at the Airport include: the economy of the Airport’s service region; economic and political conditions; aviation security concerns; financial health of the airline industry; airline service and routes; airline competition and airfares; airline consolidation and alliances; availability and price of aviation fuel; capacity of the national air traffic control system; and capacity of the Airport. See APPENDIX D – “REPORT OF THE AIRPORT CONSULTANT” herein. Appendix D includes a description of the assumptions made and the methodology used by the Airport Consultant.

Air Travel and Airport Revenues Subject to Fluctuation

The collection of Airport Revenues arising from the use of the Airport by travelers is necessarily subject to fluctuations in spending which is affected by, among other things, general economic cycles. Airport Revenues may be vulnerable to adverse economic conditions and reduced spending and may decrease as a result. Consequently, the rate of collection of Airport Revenues may be expected to correspond generally to economic cycles, patterns of travel and transportation, alternative transportation and changes in population and density, among other factors. The City has no control over general economic cycles or changes in usage over time, and is unable to predict what economic factors, demands, changes in use or cycles of collection will occur while the Series 2009 Bonds remain Outstanding. As with other “forward-looking statements” herein, the achievement of certain results or other expectations contained in such projections 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 such projections. See APPENDIX D – “REPORT OF THE AIRPORT CONSULTANT” herein.

Climate Change Issues

Climate change concerns are leading to new laws and regulations at the Federal and state levels that could have a material adverse effect on airlines operating at the Airport and could also affect ground operations at airports.

The U.S. Environmental Protection Agency ("EPA") very recently has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing Federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On April 24, 2009, EPA published a proposed "endangerment and cause or contribute finding" under the Clean Air Act. In the proposed finding, EPA declared that the weight of scientific evidence "requires" a finding that it is very likely that the six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The proposed rule also finds that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. If the proposed rule becomes final, EPA would be required to regulate emissions of certain GHGs from motor vehicles. The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. Accordingly, EPA may elect or be forced by the courts to regulate aircraft emissions as a result of this endangerment finding.

Regulation by the EPA can be initiated by private parties or by governmental entities other than EPA. In 2007, several states, including California, petitioned EPA to regulate GHGs from aircraft. On July 30, 2008, EPA issued an Advanced Notice of Proposed Rulemaking ("ANPR") relating to GHG emissions and climate change. Part of the ANPR requested comments on whether and how to regulate GHG emissions from aircraft. While EPA has not yet taken any action to regulate GHG emissions from aircraft, the request for comments and proposed rule on motor vehicles may eventually result in such regulation.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the Federal level. California recently passed Assembly Bill 32, the Global Warming Solutions Act, which requires the statewide level of GHGs to be reduced to 1990 levels by 2020. A recently proposed Federal bill, the American Clean Energy and Security Act of 2009, would, if passed, amend the Clean Air Act to require regulation of aircraft GHG emissions, require a reduction in emissions from transportation fuels including jet fuel, and generally would cap GHG emissions.

The Department is unable to predict what Federal and/or state laws and regulations with respect to GHG emissions will be adopted, or what effects such laws and regulations will have on airlines serving the Airport or on Airport operations. The effects, however, could be material.

Other Financial Matters

Due to economic changes in the State and the United States as may be attributable to terrorist attacks, military movements, and responses thereto, it is possible that the general revenues of the City will decline, particularly those based on tourism. Such a reduction in revenues may include, but may not be limited to, a decline in transient occupancy tax and sales tax revenues, and the loss of vehicle license fee revenue. Such financial matters may have a detrimental impact on the City's General Fund. See APPENDIX A – "THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION – Recent Financial Performance" and "–Airport Summary Financial Performance" herein for information on transient occupancy tax revenues of the City, see APPENDIX A – "THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION – State Budget Information" and "– Changes in State Budget" herein for additional information.

State Financial Condition

The State is experiencing significant financial and budgetary stress. Decreases in revenues received by the State can affect the amount of funding received from the State by the City and other cities in the State. The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal year, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or the actions to be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. For a discussion of the potential impacts of State budget actions for Fiscal Years 2008-09 and thereafter on the City and other cities in the State, see APPENDIX A – "THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION – State Budget Information" and "– Changes in State Budget" herein.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

Article XIII A of the State Constitution, known as Proposition 13, was approved by California voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one percent limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, (2) any bonded

indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or (3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in 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 fiscal year tax bill or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any additional *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of taxable value.

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

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

Article XIII B of the State Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B of the State Constitution, which limits the amount of revenues that government entities are permitted to spend. Article XIII B, approved by California voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each governmental entity’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to such entity’s taxpayers through tax rate or fee reductions over the following two years.

For the 2007-08 Fiscal Year, permitted appropriations of “proceeds of taxes” are limited to \$97,189,358, and the City’s budgeted appropriations from the proceeds of taxes for the 2007-08 Fiscal Year are expected to be within such limit. The City has estimated that for the 2008-09 Fiscal Year, permitted appropriations of “proceeds of taxes” are limited to \$102,585,223, and the City’s budgeted appropriations from the proceeds of taxes for the 2008-09 Fiscal Year are within such limit.

Articles XIII C and XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218 – the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including cities, to impose new, or increase or extend existing, taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996, although application of some of its provisions was deferred until July 1, 1997.

Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes becomes effective. General taxes imposed for general governmental purposes of the City require a majority vote and special taxes imposed for specific purposes (even if deposited in the general fund) require a two-thirds vote. The voter approval requirements of Article XIII C reduce the flexibility of local governments to deal with fiscal problems by raising revenue through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if they were approved by voters by November 6, 1998. Any tax levied by the City subject to such approval has been either authorized in accordance with Proposition 218 or discontinued.

Among other things, Section 3 of Article XIII C states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” Absent the application of other legal authority, Section 3 of Article XIII C could result in a local initiative measure to retroactively reduce or repeal any property related fees contributing to General Fund revenues.

Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D (“SB 919”) provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. However, no assurance can be given that the voters within the City will not, in the future, approve an initiative that reduces or repeals local taxes, assessments, fees or charges or what limitations, if any, future court decisions may place on the initiative power granted under Article XIII C.

The City raises a portion of its revenues from various local taxes which could be reduced by initiative under Article XIII C. “Assessment,” “fee” and “charge” are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related, as described below) would be applied to Article XIII C. However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil* (Kelley) that charges for ongoing water delivery are property related fees and charges within the meaning of Article XIII D and are also fees or charges within the meaning of Section 3 of Article XIII C.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain “assessments” for local services and programs. “Assessment” is defined to mean any levy or charge upon real property for a special benefit conferred upon real property, and expressly includes standby charges. Article XIII D also includes new provisions affecting “fees” and “charges,” defined for purposes of Article XIII D to mean “any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a county upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” All new and existing property related fees and charges must conform to specific requirements and prohibitions set forth in Article XIII D. Further, before any property related fee or charge may be imposed or

increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIID), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge, or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City’s revenues. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 1A

Proposition 1A, proposed by the State Legislature in connection with the 2004-05 Budget Act, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the finances of the City.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D of the State Constitution and the statutes added by Proposition 1A were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City’s revenues or its ability to expend its revenues.

THE CITY

The City of Santa Barbara (the primary government) was incorporated on August 26, 1850. The City is a charter city under the laws of the State of California and operates under a Council-Administrator form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. The current

City Charter was adopted on May 2, 1967 and provides for the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise and Fiduciary funds, operated in a manner similar to a private business, include water, wastewater, airport, parking, golf and waterfront. See APPENDIX A – “THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION” herein.

THE AUTHORITY

The Santa Barbara Financing Authority was formed pursuant to the provisions of Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Act”) as a joint exercise of powers agency organized and existing pursuant to the laws of the State of California and a Joint Exercise of Powers Agreement, dated as of April 1, 2002 (the “Joint Powers Agreement”), by and between the City and the Redevelopment Agency of the City of Santa Barbara (the “Agency”). The Agency is a blended component unit of the City, was established in 1968 and is a separate governmental entity as prescribed in the State of California’s Community Redevelopment law as set forth in the State’s Health and Safety Code. The liabilities of the Agency are mutually exclusive from those of the City. The Joint Powers Agreement authorizes the Authority, among other things, to provide financing for public capital improvements and working capital for the City and the Agency through the lease, acquisition or construction of such public capital improvements, all as authorized by the Act.

The Authority functions as an independent entity and its policies are determined by its Governing Board, which is comprised of the members of the City Council and the members of the Board of the Agency. The members of the City Council serve as the members of the Board of the Agency. The Authority has no employees and all staff work is done by the City staff or by consultants to the Authority. The Finance Director of the City has been designated as Treasurer/Auditor of the Authority. The Treasurer/Auditor of the Authority has charge of, handles, and has access to any property of the Authority, has custody of all the money of the Authority from whatever source, and is required to perform the other functions of Treasurer/Auditor of the Authority as set forth in the Act.

The Authority, the City and the Agency are each separate and distinct legal entities, and the debts and obligations of any one such entity are not debts or obligations of the other entity.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES PLEDGED UNDER THE TRUST AGREEMENT. NEITHER THE PAYMENT OF THE PRINCIPAL OF NOR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY OR THE AGENCY.

CITY FINANCIAL INFORMATION

The City covenants to annually budget and appropriate sufficient funds to make all Base Rental Payments due under the Facility Lease. Such budget may take into account the Installment Payments paid by the City under the 2009 Installment Payment Contract. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein. For further information concerning the financial condition of the City, see APPENDIX A – “THE CITY OF SANTA BARBARA – ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION” and APPENDIX C – “CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008.”

Upon the issuance of the Series 2009 Bonds, the City will execute and deliver its certificate to the effect that to the best of the City’s knowledge, with respect to the information concerning the City contained in this Official Statement, no event affecting the City has occurred since the date of this Official Statement which either makes untrue or incorrect in any material respect, as of the date of the issuance of the Series 2009 Bonds, any statement or information contained in this Official Statement relating to the City or the Airport Project or is not reflected in this Official Statement but should be reflected herein in order to make the statements and information herein relating to the City or the Airport Project not misleading in any material respect.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2009 Bonds to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2008-09 fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Trustee on behalf of the City with the Municipal Securities Rulemaking Board (the "MSRB"). The notices of material events will be filed by the Trustee on behalf of the City with the MSRB. The specific procedure for filing with the MSRB, the nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the underwriter of the Series 2009 Bonds in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with its previous undertakings to provide annual reports and notices of material events pursuant to said rule.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Series 2009 Bond for any period that such Series 2009 Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2009 Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2009 Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2009 Bonds is less than the amount to be paid at maturity of such Series 2009 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2009 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2009 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2009 Bonds is the first price at which a substantial amount of such maturity of the Series 2009 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2009 Bonds accrues daily over the term to maturity of such Series 2009 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2009 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2009 Bonds. Beneficial Owners of the Series 2009 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2009 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2009 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2009 Bonds is sold to the public.

Series 2009 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Series 2009 Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Series 2009 Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Series 2009 Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Series 2009 Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2009 Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2009 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2009 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2009 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2009 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2009 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2009 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2009 Bonds. Prospective purchasers of the Series 2009 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2009 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2009 Bonds ends with the issuance of the Series 2009 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Series 2009 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2009 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2009 Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the Series 2009 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Complete copies of the proposed form of Bond Counsel opinion are contained in Appendix G hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Sidley Austin LLP and for the Authority and the City by the City Attorney for the City of Santa

Barbara. Certain legal matters will be passed upon for the Authority by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of their respective officers, threatened against the City or the Authority restraining or enjoining the issuance or sale of the Series 2009 Bonds or in any way contesting or affecting the validity of the Series 2009 Bonds, any proceedings of the City or the Authority taken concerning the issuance or sale thereof, the pledge or application of any monies or security provided for the payment of the Series 2009 Bonds, or existence or powers of the City or the Authority relating to the issuance of the Series 2009 Bonds.

FINANCIAL ADVISOR

KNN Public Finance, a division of Zions First National Bank, Oakland California (the “Financial Advisor”) has served as financial advisor to the City in connection with the issuance of the Series 2009 Bonds. The Financial Advisor has not independently verified any of the data contained in this Official Statement or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. The Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained in this Official Statement.

RATINGS

Standard & Poor’s, a Division of the McGraw-Hill Companies, Inc. (“S&P”) and Moody’s Investors Service (“Moody’s”) are expected to assign their ratings of “AA-” and “A1” respectively, to the Series 2009 Bonds. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, and Standard & Poor’s, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such ratings are not a recommendation to buy, sell or hold the Series 2009 Bonds. There is no assurance that such credit ratings will continue for any given period or that such credit ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such credit ratings may have an adverse effect on the market price of the Series 2009 Bonds.

UNDERWRITING

The Series 2009 Bonds are expected to be purchased pursuant to a purchase contract (the “Purchase Contract”) among the Authority, the City and Morgan Stanley & Co. Incorporated (the “Underwriter”), for the Series 2009 Bonds. The Underwriter has agreed, subject to certain conditions, to purchase the Series 2009 Bonds at a price of \$46,224,814.78 (which consists of the aggregate principal amount of the Series 2009 Bonds, less net original issue discount of \$613,214.85 and less an underwriter’s discount of \$431,970.37). The Purchase Contract provides that the Underwriters will purchase all of the Series 2009 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Series 2009 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

MISCELLANEOUS

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority, the City, the Underwriter, and the purchasers, Beneficial Owners or Registered Owners of any of the Series 2009 Bonds.

The preparation and distribution of this Official Statement have been authorized by the Authority and the City.

SANTA BARBARA FINANCING AUTHORITY

By: /s/ James L. Armstrong
Executive Director

CITY OF SANTA BARBARA

By: /s/ Robert D. Peirson
Finance Director

APPENDIX A

THE CITY OF SANTA BARBARA: ECONOMIC, DEMOGRAPHIC, AND FINANCIAL INFORMATION

General

The City, the county seat of Santa Barbara County (the “County”), is located on Highway 101, the main route connecting Los Angeles and San Francisco, some 100 miles northwest of the Metropolitan Los Angeles area. Incorporated in 1850, the City was reincorporated in 1899. The City is the largest city in the County in terms of population, with a present population of approximately 94,000 according to the California Department of Finance. The City encompasses a total of approximately 20 square miles within its corporate limits, including the airport.

The City is a Charter City, with the present Charter adopted in May 1967. The City is governed by a six-member City Council, and a Mayor, elected at large. The City employs a City Administrator, appointed by the full City Council.

The City provides police protection, fire protection, animal control, emergency medical aid, building safety regulation and inspection, street lighting, beautification, sanitation, land use planning and zoning, housing and community services, maintenance and improvement of streets and related structures, traffic safety maintenance and improvement and a full range of recreational and cultural programs for citizen participation. The City owns and operates its own sewage treatment plant as well as a water supply system and contracts out for refuse collection.

Population

The following table presents population statistics for the City since 2000.

TABLE A-1
CITY OF SANTA BARBARA
POPULATION
FOR CALENDAR YEARS 2000 THROUGH 2009
(As of January 1)

Year (as of January 1)	City of Santa Barbara
2000	89,606
2001	90,104
2002	90,670
2003	90,550
2004	90,597
2005	90,177
2006	89,268
2007	89,256
2008	90,074
2009	90,308

Source: State of California Department of Finance.

Employment

As of March 2009, the overall number of persons employed within the City was 53,200. This does not include the self-employed persons or contract workers. Unemployment in the City was 6.0% as of March 2009 as compared with the County level of unemployment of 8.5% and the State of California level of unemployment of 11.5%. The following table presents annual labor force, employment and unemployment data for the City, the County of Santa Barbara and the State for the years 2004 through 2008.

TABLE A-2
CITY OF SANTA BARBARA, COUNTY OF SANTA BARBARA
AND STATE OF CALIFORNIA
Labor Force, Employment and Unemployment
Yearly Average for Calendar Years 2004 Through 2008

Year and Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2004				
City of Santa Barbara	53,900	52,100	1,800	3.3%
County of Santa Barbara	212,700	202,600	10,100	4.7
State of California	17,506,600	16,413,400	1,093,200	6.2
2005				
City of Santa Barbara	54,600	52,900	1,700	3.0%
County of Santa Barbara	214,400	205,000	9,400	4.4
State of California	17,629,200	16,671,900	957,200	5.4
2006				
City of Santa Barbara	54,300	52,800	1,500	2.8%
County of Santa Barbara	213,000	204,400	8,600	4.0
State of California	17,821,100	16,948,400	872,700	4.9
2007				
City of Santa Barbara	54,900	53,300	1,700	3.0%
County of Santa Barbara	215,700	206,300	9,400	4.4
State of California	18,078,000	17,108,700	969,300	5.4
2008				
City of Santa Barbara	56,100	54,000	2,100	3.8%
County of Santa Barbara	221,200	209,200	12,000	5.4
State of California	18,391,800	17,059,600	1,332,300	7.2

Source: California Employment Development Department.

Major Employers

The following Table A-3 provides a listing of principal employers headquartered or located in the City and the County, respectively, and their employment levels.

TABLE A-3
CITY OF SANTA BARBARA
Principal Employers
(as of June 2008)

Firm	Product or Service	Employment	% Total City Employment
University of California, Santa Barbara	Education	9,723	17.68%
County of Santa Barbara	Government	4,269	7.76
Santa Barbara Cottage Hospital	Health Care	2,762	5.02
Santa Barbara City Community College	Education	2,157	3.92
Santa Barbara School District Administration	Education	1,618	2.94
Raytheon/E-Systems	Electronics	1,613	2.93
Sansum Medical Foundation Clinic	Health Car	1,100	2.00
City of Santa Barbara	Government	1,084	1.97
U.S. Postal Service	Government	830	1.51
Santa Barbara Bank & Trust	Banking	775	1.41
Total		25,931	47.15%

Sources: Santa Barbara Chamber of Commerce and California Employment Development Department, Labor Market Information Division.

Effective Buying Power

Between 2004 and 2008, the City's median household Effective Buying Power rose 10.2% compared to 9.8% for the County of Santa Barbara Statistical Area, 10.9% for the State and 8.5% for the United States. "Effective Buying Power" or "EBI" is defined as money income less personal tax and nontax payments. The following table summarizes the total Effective Buying Power of the City, the County of Santa Barbara Statistical Area, the State and the United States for the calendar years 2004 through 2008.

TABLE A-4
CITY OF SANTA BARBARA
Effective Buying Power
For Calendar Years 2004 Through 2008

Year and Area	Total Effective Buying Power (000s omitted)	Median Household Effective Buying Power
<u>2004</u>		
City	\$ 2,060,695	\$ 43,463
County of Santa Barbara	7,810,510	42,655
California	674,721,020	42,924
United States	5,466,880,008	38,201
<u>2005</u>		
City	\$ 2,130,788	\$ 44,563
County of Santa Barbara	8,211,533	43,752
California	705,108,410	43,915
United States	5,692,909,567	39,324
<u>2006</u>		
City	_(1)	_(1)
County of Santa Barbara	\$ 8,202,243	\$ 44,316
California	720,798,122	44,681
United States	5,894,664,154	40,529
<u>2007</u>		
City	_(1)	_(1)
County of Santa Barbara	\$ 8,832,530	\$ 46,310
California	764,120,982	46,275
United States	6,107,093,057	41,255
<u>2008</u>		
City	\$ 2,374,650	\$ 48,415
County of Santa Barbara	9,273,645	47,316
California	814,894,437	48,203
United States	6,300,794,040	41,792

⁽¹⁾ Data not available.

Source: *Sales and Marketing Management Magazine, Survey of Buying Power*, for 2004-2005 data; *Demographics USA 2006* for 2006 data and *Demographics USA 2007* for 2007 data; 2008 *Survey of Buying Power and Media Markets* for 2008 data.

Commercial Activity

Commercial activity is an important contributor to the City of Santa Barbara's economy. The following Table A-5 estimates the City's commercial activity between calendar years 2003 and 2007.

TABLE A-5
CITY OF SANTA BARBARA
Taxable Sales
for Calendar Years 2003-2007
(\$ In Thousands)

Taxable Retail Sales	2003	2004	2005	2006	2007
Retail Stores					
Apparel Stores	\$ 119,708	\$ 113,758	\$ 125,919	\$ 132,242	\$ 141,691
General Merchandise Stores	337,082	194,029	193,713	193,616	190,937
Food Stores	159,868	92,288	98,493	100,518	107,350
Eating & Drinking places	283,917	253,108	270,957	283,519	295,967
Home Furnishings & Appliances	137,560	95,154	94,173	96,527	86,067
Bldg. materl. and farm implements	253,619	119,616	133,693	142,870	136,525
Auto dealers and auto supplies	540,980	189,951	177,401	161,710	152,332
Service stations	157,833	89,028	97,030	112,736	125,383
Other Retail Stores	358,541	228,255	237,408	235,091	230,310
Total Retail Stores	\$ 2,349,108	\$ 1,375,187	\$ 1,428,787	\$ 1,458,829	\$ 1,466,562
All Other Outlets	1,239,537	272,022	282,539	306,060	306,655
Total All Outlets	\$ 3,588,645	\$ 1,647,209	\$ 1,711,326	\$ 1,764,889	\$ 1,773,217

Source: Taxable Sales in California (Sales and Use Tax) Annual Reports, California State Board of Equalization.

Construction Activity

Building permit activity for the years 2004 through 2008 is summarized below.

TABLE A-6
CITY OF SANTA BARBARA
Building Permit Valuation
for Years 2004-2008
(\$ In Thousands)

	2004	2005	2006	2007	2008
Valuation					
Residential	\$51,373,970	\$79,622,453	\$72,272,350	\$ 51,973,875	\$54,898,950
Nonresidential	21,339,115	71,743,691	65,047,373	95,599,504	77,065,724
Total	\$72,713,085	\$151,366,144	\$137,319,723	\$147,573,379	\$131,964,674
New Housing Units					
Single Family	58	42	47	23	24
Multiple Family	148	166	79	22	25
Total ⁽¹⁾	206	208	126	45	49

⁽¹⁾ Total represents the sum of residential and nonresidential building permit valuations. Data may not total due to independent rounding.

Source: Construction Industry Research Board.

Assessed Valuation, Property Tax Levies and Collections

The table below sets forth a ten-year history of the City's assessed valuation. Real and personal property categories include both secured and unsecured property. Total assessed value has grown by an average annual rate of approximately 7.75% over this ten-year period.

TABLE A-7
CITY OF SANTA BARBARA
Assessed Valuations of Real and Personal Property
(\$ in 000)

Fiscal Year	Secured Property	Unsecured Property	Exemptions	Taxable Assessed Value	Percent Increase
1998-99	\$6,991,302	\$526,227	\$(552,040)	\$6,965,489	8.33%
1999-00	7,489,424	497,403	(580,768)	7,406,059	6.32
2000-01	8,032,015	597,443	(579,933)	8,049,525	8.69
2001-02	8,641,674	637,216	(622,514)	8,656,376	7.54
2002-03	9,262,486	703,068	(663,027)	9,302,527	7.46
2003-04	9,986,688	741,575	(714,976)	10,013,287	7.64
2004-05	10,768,306	738,641	(708,983)	10,797,964	7.84
2005-06	11,921,748	738,200	(802,033)	11,857,915	9.82
2006-07	13,005,939	757,276	(794,226)	12,968,989	9.37
2007-08	13,996,764	755,075	(947,703)	13,824,136	6.73
2008-09	14,896,566	908,857	(1,089,312)	14,716,111	6.06

Source: Santa Barbara County Auditor-Controller.

The table below shows total property tax levies and collections for the ten year period through 2007-08. Data in this table includes the basic and supplemental City property taxes and subventions, debt service tax and Redevelopment Agency tax increment allocations, ERAF refunds, and property tax in-lieu of motor vehicle fees. Santa Barbara County assesses properties and it bills, collects and distributes property taxes to all taxing entities, including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The County elects to establish a Teeter Plan and may determine to discontinue the plan at its discretion, whereupon taxing entities, such as the City, would be paid as taxes are collected.

TABLE A-8
CITY OF SANTA BARBARA
Property Tax Levies and Collections: Fiscal Year 1998-99 through Fiscal Year 2007-08

Fiscal Year	Tax Levy	Collected within the Fiscal Year of the Levy	
		Total Tax Collections	Percentage of Levy
1998-99	\$16,761	\$16,761	100%
1999-00	17,751	17,751	100
2000-01	19,883	19,883	100
2001-02	21,366	21,366	100
2002-03	23,224	23,224	100
2003-04	24,143	24,143	100
2004-05	30,022	30,022	100
2005-06	34,078	34,078	100
2006-07	37,871	37,871	100
2007-08	40,520	40,520	100

Source: City of Santa Barbara.

Largest Assesseees

A table of the ten largest assesseees in the City as of June 30, 2008, is set forth below, by order of assessed valuation.

TABLE A-9
CITY OF SANTA BARBARA
Largest Assesseees of June 30, 2008
(\$000s)

Taxpayer	Assessed Value	Percent of Total Assessed Value
Paseo Nuevo Association ⁽¹⁾	\$90,327	0.70%
Fess Parker Doubletree Hotel	77,695	0.60
FW CA-Five Points Shopping Center, LLC	48,684	0.38
Nettleship, Patricia S. Trust	43,107	0.33
MCC BB Property, LLC	40,383	0.31
Due West, LLC	28,429	0.22
HDG Associates	28,109	0.22
Riviera Dairy Products	25,340	0.20
Ralphs Grocery Co.	24,946	0.19
El Encanto, Inc.	23,334	0.18
ESJ Centers	18,707	0.14
Pini, Dario	15,533	0.12
Total	\$464,594	3.58%

⁽¹⁾ The City's Redevelopment Agency owns the property and leases the property to the Paseo Nuevo Mall Association which is responsible for the payment of property taxes related thereto.
Source: City of Santa Barbara.

Utilities

Gas and electricity are provided within the City by Southern California Gas Company and Southern California Edison Company. Verizon California supplies telephone service. Cox Communications offers telephone, cable television and internet services.

Transportation

Highways. The City is served by a well-developed transportation network which includes road, rail, and bus services. US Highway 101 and numerous State Highways such as 1, 33, 135, 166, 154, 217 and 246 provide convenient access throughout the County and its municipalities.

Railroads. Amtrak railroad crosses through the County with its main line generally following the coastline, with stations in Carpinteria, Santa Barbara and Goleta. Freight transportation is also provided by several intra-state and transcontinental trucking firms.

Airports. The Airport, owned and operated by the City of Santa Barbara, is located approximately 10 miles west of downtown Santa Barbara on approximately 952 acres, adjacent to the Pacific Ocean. The Airport, which currently includes approximately 45,300 square feet of facilities consisting of the passenger terminal, short term and long term parking lots, and ancillary buildings for rental cars and security offices, is the regional airport for the San Luis-Santa Barbara-Ventura tri-county area. The Airport is served by five major airlines that provide non-stop service to 10 destinations in the United States. The Airport operates twenty-four general aviation hangars and facilities. Additional hangar facilities are also available from the two fixed base operators operating at the Airport.

The Airport is in the process of constructing a new two-story, 60,000 square foot terminal building and additional parking facilities. The new terminal project, which includes renovation of the existing approximately

7,000 square foot historic terminal building, will accommodate aircraft up to the size of a Boeing 737 and is expected to be substantially complete by spring 2011. See “THE AIRPORT PROJECT” herein.

Bus Service. The Santa Barbara Metropolitan Transit District (“MTD”) operates a municipal bus system serving the cities of Goleta, Santa Barbara and Carpinteria, and the unincorporated areas of Ellwood, Isla Vista, Montecito and Summerland. Limited commuter service linking Solvang and Buellton with Goleta, Santa Barbara and the University of California, Santa Barbara is also available through the MTD. Bus services is also provided by the Clean Air Express, providing roundtrip weekday service from Santa Maria and Lompoc to Santa Barbara and Goleta; City of Lompoc Transit, providing fixed route service in Lompoc, Vandenberg village and Mission Hills; and Santa Ynez Valley Transit, linking the cities of Buelton, Los Olivos, Santa Ynez and Solvang.

Education

Public instruction in the City is provided by the Santa Barbara High School District and the Santa Barbara Elementary School District. There are eleven elementary schools, four middle schools, four high schools and five continuation high schools. Total enrollment for the last five school years was as follows:

TABLE A-10
CITY OF SANTA BARBARA
Public School Enrollment
for 2003-04 through 2007-08 School Years

Year	Enrollment
2003-04	16,622
2004-05	16,508
2005-06	16,410
2006-07	16,137
2007-08	15,836

Sources: California Department of Education Educational Demographics Unit.

In addition, the University of California, Santa Barbara has enrollment of approximately 21,410 full-time students and offers bachelors, masters and Ph.D. degrees in a variety of fields. There is also the Santa Barbara City College which offers associate degrees and acts as a feeder for the University of California and California State University systems as well as other four-year institutions.

Recreation and Tourism

The City’s natural, historic and commercial attractions make it an attractive visiting spot. The area’s natural attractions include its moderate weather, the Pacific Coast with its many beaches and harbor, and the mountains. The City is a very popular destination resort for tourists from both within California and without. Among the attractions are the beaches within the City and the wharf and State Street, a popular shopping and restaurant area, starting from the beach and continuing into the downtown area. Included in the business-type activities are the City’s municipal airport, the waterfront/harbor, downtown parking, and golf course.

Within the City and in the immediate area, there is an exceptional selection of park and recreational opportunities. The City maintains 38 developed parks, 13 undeveloped parks and 25 recreational facilities. In addition to City recreational facilities, various golf courses and tennis courts, hiking trails, bike paths, and open spaces are available to the public for use. Among the historical and cultural attractions are the El Presidio, Santa Barbara Botanical Garden, Santa Barbara Historical Museum, Santa Barbara Museum of Art, Santa Barbara Museum of Natural History, Santa Barbara Zoological Gardens, and various other museums and libraries.

The County offers numerous opportunities for recreation. Some popular activities are swimming, climbing, picnicking, boating, surfing, fishing, sailing, whale watching and water skiing at the beaches, lakes and the more than 2,243 acres of public parks within the County, camping and wine tasting. The Santa Barbara Harbor and

Stearns Wharf, the oldest working wharf in the State dating back to 1872, the Santa Barbara Museum of Natural History Ty Warner Sea Center, Mission Santa Barbara and the Santa Barbara Maritime Museum are each located in the City of Santa Barbara, the Natural History Museum and the Motorcycle Museum in Santa Maria, and the Return to Freedom, 300 acre wild horse sanctuary in Lompoc; are popular tourist attractions within the County.

The County is also home of the Guadalupe Beach Festival, the Santa Barbara International Film Festival, the Santa Barbara Harbor and Seafood Festival, the Santa Barbara County Vintners Festival, the Santa Barbara Wine Festival.

Recent Financial Performance

Table A-11 below details the principal sources of the City's General Fund tax revenues. Tables A-12 through A-15 summarize certain General Fund financial data of the City, and have been prepared from the City's audited financial statements and General Fund budget information. Reference is made to APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

TABLE A-11
CITY OF SANTA BARBARA
General Fund Tax Revenues By Source
Last Five Fiscal Years

Source	Fiscal Years Ending,				
	2004	2005	2006	2007	2008
Sales Tax ⁽¹⁾	\$18,419,580	\$18,948,766	\$20,068,492	\$20,210,822	\$20,866,791
Utility Users Tax	5,498,926	5,802,186	6,210,793	6,566,440	6,844,081
Property Tax ⁽²⁾	11,197,742	16,076,041	18,805,134	21,040,618	22,438,713
Real Property Transfer Tax	708,746	718,762	685,406	645,545	451,640
Transient Occupancy Tax	10,365,683	11,081,510	12,032,372	12,840,766	12,935,553
Business License Tax	1,925,832	2,036,552	2,168,731	2,214,235	2,252,134
	48,116,509	54,663,817	59,970,928	63,518,426	65,788,912

(1) Sales Tax includes Property Tax in lieu of Sale Tax and a half-cent sales tax under Proposition 172. Proposition 172 imposed a half-cent sales tax as a mitigation for ERAF. ERAF concerned the shift of financial responsibility for funding education from the State to local government (cities, counties and special districts) by requiring county auditors to shift the allocation of local property tax revenues from local government to ERAFs to support schools.

(2) Property Tax includes educational revenue augmentation funds (ERAF) shifts in 2004-05 and 2005-06 fiscal years and property taxes in lieu of Vehicle License Fees (VLF).

Source: City of Santa Barbara.

TABLE A-12
CITY OF SANTA BARBARA
General Fund Balance Sheet

ASSETS	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Cash and investments	\$22,554,957	\$20,443,187	\$19,951,032	\$16,356,784
Accounts receivable	5,004,403	6,375,193	6,377,991	5,993,032
Accrued interest receivable	1,044,408	1,274,173	1,719,356	1,633,454
Loans receivable	2,468,250	2,813,798	3,210,752	3,692,282
Due from fiduciary funds	20,525	96,836	213,191	327,081
Due from other agencies	86,345	6,250	--	--
Interfund receivable	1,610,191	2,144,121	437,162	981,176
Advances to other funds	1,635,517	3,235,517	3,124,765	3,102,617
Prepaid assets and deposits	--	356,157	239,030	41,139
Total assets	34,424,596	36,745,232	35,273,279	32,127,565
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	1,127,363	927,969	776,103	1,042,338
Salaries and benefits payable	1,806,386	4,041,524	4,376,034	4,015,128
Interest payable	--	--	--	--
Interfund payables	192,909	99,264	--	--
Deposits	448,255	794,510	815,931	934,746
Unearned Revenue	--	--	1,097,372	1,110,242
Deferred revenue	1,026,331	1,067,129	--	--
Total liabilities	4,601,244	6,930,396	7,065,440	7,102,454
Fund Balances:				
Reserved	4,394,973	4,866,334	5,175,231	7,059,969
Unreserved:				
Designated	24,974,039	24,948,502	23,032,608	17,965,142
Undesignated	454,340	--	--	--
Total fund balances	29,823,352	29,814,836	28,207,839	25,025,111
Total liabilities and fund balances	\$34,424,596	\$36,745,232	\$35,273,279	\$32,127,565

This statement is a summary statement only. The City's Comprehensive Annual Financial Report, including the notes to the Audited Financial Statements, are an integral part of and necessary to a complete understanding of this summary table. See APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

Source: City of Santa Barbara.

TABLE A-13
CITY OF SANTA BARBARA
General Fund Revenue and Expenditures by Source and Use

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
REVENUES:				
Taxes	\$56,787,968	\$59,970,929	\$63,518,427	\$65,788,913
Franchise fees	--	2,607,222	2,812,296	2,829,559
Intergovernmental	2,758,702	1,490,591	2,455,426	2,678,225
Fines and forfeitures	2,594,148	2,831,823	2,424,628	2,709,282
Use of money and property	1,159,124	1,403,221	2,255,017	2,600,533
Charges for services	14,666,229	17,070,913	17,650,947	18,749,956
Program income	--	--	--	--
Other revenues	5,757,579	6,736,244	7,375,043	7,504,313
Total revenues	<u>83,723,750</u>	<u>92,110,943</u>	<u>98,491,784</u>	<u>102,860,781</u>
EXPENDITURES:				
Current:				
Mayor and City Council	465,399	755,768	798,484	800,738
City Attorney	1,713,286	2,036,205	2,005,388	2,109,104
City administration	1,755,806	1,792,187	2,072,027	2,163,842
Administrative services	1,359,991	1,616,065	1,896,343	2,272,640
Finance	4,511,603	4,825,183	5,234,903	4,660,727
Public safety	44,336,842	47,316,775	49,776,081	53,679,636
Public works	4,917,510	5,388,948	6,034,568	6,498,273
Community services	15,858,899	16,481,423	17,456,748	19,011,156
Community development	8,202,762	8,935,793	9,750,292	10,905,192
Community promotions	2,439,166	2,252,557	2,373,293	1,884,114
Capital Improvements	--	--	--	--
Debt service:				
Principal	--	--	--	--
Interest	--	--	--	--
Total expenditures	<u>85,561,264</u>	<u>91,400,904</u>	<u>97,398,127</u>	<u>103,985,422</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,837,514)</u>	<u>710,039</u>	<u>1,093,657</u>	<u>(1,124,641)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	697,954	703,334	807,529	499,546
Transfers out	(1,903,609)	(1,421,889)	(3,508,183)	(2,557,633)
Total other financing sources (uses)	<u>(1,205,655)</u>	<u>(718,555)</u>	<u>(2,700,654)</u>	<u>(2,058,087)</u>
Net change in fund balances	<u>(3,043,169)</u>	<u>(8,516)</u>	<u>(1,606,997)</u>	<u>(3,182,728)</u>
FUND BALANCES:				
Beginning of year	32,866,521	29,823,352	29,814,836	28,207,839
End of year	<u>\$29,823,352</u>	<u>\$29,814,836</u>	<u>\$28,207,839</u>	<u>\$25,025,111</u>

This statement is a summary statement only. The City's Comprehensive Annual Financial Report, including the notes to the Audited Financial Statements, are an integral part of and necessary to a complete understanding of this summary table. See APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

Source: City of Santa Barbara.

The adopted General Fund budget for Fiscal Year 2007-08 provided for approximately \$105 million of expenditures, including transfers. Budget amendments and appropriation carryovers from the prior year of \$5.7 million increased the budget to \$110.7 million. Appropriations tied to outstanding encumbrances of \$3.1 million were carried forward from Fiscal Year 2006-07. Amendments totaling \$2.6 million were approved by City Council during Fiscal Year 2007-08. The majority of these amendments were funded from additional revenues.

The Fiscal Year 2007-08 adopted budget was developed based on the assumption of moderate growth in key revenues, such as sales taxes, property taxes, and transient occupancy taxes. In fact, the adopted budget included a capital program entirely funded from current revenues, and still provided for a budgeted surplus of over \$200,000. During the second half of Fiscal Year 2007-08, the national, state and local economies began to slow, and key revenues sources for the City's General Fund slowed relative to projections. The City's key revenues that pay for basic services, including public safety, library, parks and recreation, are tied particularly to tourism and, accordingly, to the health of the national, state and local economies. For example, both sales tax and transient occupancy tax (TOT) revenues, which together make up approximately one-third of total General Fund revenues, are directly tied to economic swings. Property tax revenues, making up approximately 20% of total revenues, are also tied to economic conditions, but have traditionally been less volatile than sales tax and TOT revenues. By the end of the year, key revenues were below budget, partially offset by favorable variances in expenditures. The pace of declining revenues did not permit the City time to impose significant cost controls and a total of over \$3.1 million in General Fund reserves were consumed as a result of the revenue shortfalls.

The entire country is now in the midst of the worst economic downturn in recent history. This is the third economic downturn since 1990 and, in each case, City sales tax and TOT revenues either declined or grew well below historic growth rates. Property values have declined, as they did in the recession of the early 1990's. Consequently, the City currently expects property tax revenues to grow just 3.7% in Fiscal Year 2008-09 compared to an average growth rate of 8% in the previous eight fiscal years. As a tourist destination and a city that relies on revenues that are directly impacted by economic swings, the impacts from the current economic crisis on the General Fund's key revenues have been significant. For example, sales tax revenues for the quarter ended June 30, 2008 declined by over 7% - the largest decline in over a decade. As a result of this and other factors, the General Fund structural imbalance of \$2 million that was included in the Fiscal Year 2008-09 adopted budget has now grown to a \$10.6 million projected General Fund deficit for Fiscal Year 2009-10. These projected deficits have required reductions to services provided to the community to re-balance the General Fund. The City has imposed cost reductions and freed available governmental reserves to re-balance the Fiscal Year 2008-09 budget. These goals were achieved without further depleting General Fund reserves. City Council policy for General Fund reserve requires a disaster reserve of 15% of the General Fund budget, which is currently fully funded, a budget reserve of 10% of the General Fund budget, which was substantially underfunded at \$950,000 as of June 30, 2008, and a \$1 million capital reserve, which is currently fully funded.

The City's strategy to address the \$10.6 million projected General Fund deficit in Fiscal Year 2009-10 has been to focus on reducing the City's structural deficit while minimizing service level impacts to the public, especially in public safety. This approach relies primarily on reducing ongoing costs, with a minimum use of one-time monies. Due to the depletion of most of the City's General Fund Budget reserves, no use of these reserves is proposed. The balancing strategy primarily includes measures that provide on going, long term reductions to costs or increases to revenues. This has included reductions of approximately \$7.4 million across City departments to help balance the General Fund budget. In preparation of the Fiscal Year 2009-10 budget, all divisions were requested to reduce their Fiscal Year 2009-10 operational expenditures by a minimum of 3% in relation to the Fiscal Year 2008-09 adopted budget. With a few exceptions, all divisions met or exceeded the 3% reduction goal. In addition, the balancing measures provide for approximately \$300,000 as a contingency in case of future unexpected declines in revenues. If economic conditions improve more quickly than expected, the funds could be used to restore a portion of reduced services and eliminated staff positions. Table A-15 below presents the Fiscal Year 2009-10 staff recommended budget. The recommended budget is in presentation form and is subject to revision by City Council prior to its adoption. In addition to the \$7.4 million needed from departments to help balance the General Fund budget, departments have also identified \$1.9 million of alternative adjustments. These alternative measures will provide the City Council with additional options to consider when evaluating the Fiscal Year 2009-10 budget. In total, the alternative measures include the elimination of an additional ten full time positions and would result in even further impacts to operations and the levels of service provided to the community.

CalPERS set the employer contribution rates for Fiscal Year 2009-10 based on the investment return of the fiscal year ending June 30, 2007. CalPERS has not yet set employer contribution rates for subsequent fiscal years, based on the investment return of the fiscal years ending June 30, 2008 and 2009, and the budgets below do not consider the potential impact of increased CalPERS rates in subsequent budget years.

TABLE A-14
CITY OF SANTA BARBARA
General Fund Adopted Budgets

	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
REVENUES:				
Taxes	\$56,959,350	\$63,204,600	\$66,399,400	\$67,123,500
Franchise fees	2,170,200	2,621,000	2,968,600	2,995,400
Intergovernmental	1,035,309	910,598	1,117,631	2,775,944
Fines and forfeitures	2,793,882	2,810,662	3,357,932	3,026,937
Use of money and property	1,589,778	1,569,900	1,978,395	2,620,692
Charges for services	16,598,637	18,000,079	18,842,319	21,428,809
Program income	--	--	--	--
Other revenues	6,630,652	9,497,150	9,619,171	7,909,682
Total revenues	87,777,808	98,613,989	104,283,448	107,880,964
EXPENDITURES:				
Current:				
Mayor and City Council	774,145	803,038	861,972	857,792
City Attorney	2,005,626	2,107,759	2,175,121	2,230,025
City administration	1,852,690	2,078,496	2,185,157	2,265,445
Administrative services	2,052,802	1,964,977	2,365,566	2,157,971
Finance	4,942,143	5,333,774	5,017,295	5,140,416
Public safety	--	--	--	53,439,486
Fire	17,438,305	17,854,144	18,886,215	--
Police	30,165,274	30,155,407	32,206,702	--
Public works	5,895,904	6,348,323	6,643,826	7,032,089
Park and recreation	13,176,924	13,916,269	14,663,066	19,866,577
Library	4,230,755	4,367,587	4,561,679	--
Community development	9,897,657	10,575,889	11,003,853	11,500,094
Community promotions	2,667,084	2,425,109	1,895,168	1,804,071
Capital improvements	--	--	--	1,385,070
Total expenditures	95,099,309	97,930,772	102,465,620	107,679,036
REVENUES OVER (UNDER) EXPENDITURES	(7,321,501)	683,217	1,817,828	201,928
OTHER FINANCING SOURCES (USES):				
Transfers in	1,297,306	797,196	901,927	1,537,796
Transfers out	(1,843,448)	(1,977,106)	(2,510,675)	(1,739,724)
Total other financing sources (uses)	(546,142)	(1,179,910)	(1,608,748)	(201,928)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(7,867,643)	(496,693)	209,080	--
FUND BALANCES:				
Beginning of year	29,823,352	29,814,836	28,207,839	25,025,111
End of year	<u>\$21,955,709</u>	<u>\$29,318,143</u>	<u>\$28,416,919</u>	<u>\$25,025,111</u>

Source: City of Santa Barbara.

TABLE A-15
CITY OF SANTA BARBARA
General Fund Fiscal Years Ending June 30, 2008, 2009 and 2010

	Fiscal Year 2008 Actual/Audit	Fiscal Year 2009 Adopted Budget	Fiscal Year 2010 Recommended Budget
REVENUES:			
Taxes	\$65,788,913	\$67,123,500	\$64,207,624
Franchise fees	2,829,559	2,995,400	2,976,000
Intergovernmental	2,678,225	2,775,944	3,240,945
Fines and forfeitures	2,709,282	3,026,937	2,942,774
Use of money and property	2,600,533	2,620,692	1,268,256
Charges for services	18,749,956	21,428,809	26,082,556
Other revenues	7,504,313	7,909,682	4,398,760
Total revenues	102,860,781	107,880,964	105,116,915
EXPENDITURES:			
Current:			
Mayor and City Council	800,738	857,792	766,599
City Attorney	2,109,104	2,230,025	2,095,420
City administration	2,163,842	2,265,445	2,039,567
Administrative services	2,272,640	2,157,971	2,219,621
Finance	4,660,727	5,140,416	4,725,685
Public safety	53,679,636	53,439,486	54,691,966
Public works	6,498,273	7,032,089	6,824,112
Community services	19,011,156	19,866,577	18,966,988
Community development	10,905,192	11,500,094	10,814,247
Community promotions	1,884,114	1,804,071	1,601,623
Capital improvements	--	1,385,070	1,302,670
Debt service	--	--	--
Total expenditures	103,985,422	107,679,036	106,048,498
REVENUES OVER (UNDER) EXPENDITURES	(1,124,641)	201,928	(931,583)
OTHER FINANCING SOURCES (USES):			
Transfers in	499,546	1,537,796	931,583
Transfers out	2,557,633	(1,739,724)	--
Total other financing sources (uses)	(2,058,087)	(201,928)	931,583
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	3,182,728	--	--
FUND BALANCES:			
Beginning of year	28,207,839	25,025,111	25,025,111
End of year	\$25,025,111	\$25,025,111	\$25,025,111

This statement is a summary statement only. The City's Comprehensive Annual Financial Report, including the notes to the Audited Financial Statements, are an integral part of and necessary to a complete understanding of this summary table. See APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

Source: City of Santa Barbara.

Airport Summary Financial Performance

Table A-16 summarizes certain financial data concerning airport operations prepared from the City's audited financial statements. Reference is made to APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008." As noted therein, Fiscal Year 2007-08 operating revenues included an increase of \$590,000 (4%) in the Airport Fund. The increase in Airport operating revenues was primarily due to increases from all categories of leases.

The current economic downturn has negatively affected the finances of the Airport Fund in two areas. First, the decline in passenger and commercial airline traffic has resulted in a decline in revenues generated from landing fees, parking revenues, and concessions. Secondly, the general decline in the economy has resulted in the loss of some major tenants, reducing rental income. See APPENDIX D – "REPORT OF THE AIRPORT CONSULTANT" herein. Currently, in order to offset the loss of revenues, the Airport Department expects to increase parking fees, for an additional \$60,000 in revenues, and impose expenditure reductions totaling approximately \$206,765, including the elimination of one position. The Airport Department, like other City divisions has been requested to reduce its Fiscal Year 2009-10 operational expenditures by a minimum of 3% in relation to the Fiscal Year 2008-09 adopted budget.

TABLE A-16
CITY OF SANTA BARBARA
Airport Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets

	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
Operating Revenues:				
Sales	--	--	--	
Service charges	\$ 1,729,923	\$ 1,908,009	\$ 2,349,293	\$ 2,282,685
Leases and rents	11,227,543	11,752,544	12,179,541	12,872,959
Other revenues	229,212	278,215	331,954	295,032
Total operating revenues	<u>13,186,678</u>	<u>13,938,768</u>	<u>14,860,788</u>	<u>15,450,676</u>
Operating Expenses:				
Salaries, wages and benefits	3,718,288	4,128,646	4,344,843	4,485,030
Materials, supplies and services	6,542,302	7,340,075	7,118,943	7,886,362
Depreciation	2,032,788	2,312,013	3,713,748	4,294,191
Other expenses	--	787	11,584	5,092
Total operating expenses	<u>12,293,378</u>	<u>13,781,521</u>	<u>15,189,118</u>	<u>16,670,675</u>
Operating income (loss)	<u>893,300</u>	<u>157,247</u>	<u>(328,330)</u>	<u>(1,219,999)</u>
Non-operating Revenues				
(Expenses):				
Taxes	--	--	--	--
Investment income	386,444	556,060	1,063,814	1,031,359
Interest expense	--	--	--	(124,583)
Grants and contributions	3,397,496	12,328,745	17,154,977	--
Other, net	--	--	--	--
Total Non-operating Revenues (Expenses):	<u>3,783,940</u>	<u>12,884,805</u>	<u>18,218,791</u>	<u>906,776</u>
Income (loss) before transfers:	<u>4,677,240</u>	<u>13,042,052</u>	<u>17,890,461</u>	<u>(313,223)</u>
Capital Contributions*				11,860,445
Transfers in	--	--	--	--
Transfers out	(30,823)	(2,174)	(37,170)	(14,042)
Change in net assets	<u>4,646,417</u>	<u>13,039,878</u>	<u>17,853,291</u>	<u>11,533,180</u>
Net assets, beginning of year	<u>39,255,745</u>	<u>82,124,996</u>	<u>95,164,874</u>	<u>113,018,165</u>
Net assets, end of year	<u>\$43,902,162</u>	<u>\$95,164,874</u>	<u>\$113,018,165</u>	<u>\$124,551,345</u>

* Fiscal Year 2007-08 capital contribution of \$11,860,445 represents FAA grant funds expended by the City and reimbursed by the FAA during Fiscal Year 2007-08.

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Source: City of Santa Barbara.

Outstanding Indebtedness

The City's outstanding debt as of June 30, 2008 is shown in detail in the table below.

TABLE A-17
CITY OF SANTA BARBARA
Summary of Outstanding Indebtedness as of June 30, 2006, 2007 and 2008

	Ending Balance June 30, 2006	Ending Balance June 30, 2007	Ending Balance June 30, 2008
<i>Governmental Activities</i>			
Certificates of Participation	\$ 3,290,100	\$ 3,069,000	\$ 2,838,000
Tax Allocation Bonds	79,460,000	74,110,000	69,265,000
Loans	750,000	750,000	750,000
Governmental funds debt issues	83,500,100	77,929,000	72,853,000
Claims Liability	9,410,301	8,647,686	5,669,901
Governmental activity long-term debt	92,910,401	86,576,686	78,522,901
<i>Business-Type Activities*</i>			
Revenue Bond	24,570,000	23,545,000	22,470,000
Certificates of Participation	32,709,900	31,656,000	30,557,000
Loans	37,229,369	40,302,987	38,268,711
Business-type activities long-term debt	94,509,269	95,503,987	91,295,711
Total Debt Activity	\$187,419,670	\$182,080,673	\$169,818,612

Prospective Additional Long Term Obligations

The City from time to time will consider entering into additional long term lease financings incident to new construction. Accordingly, it is possible that the City may in the future issue certificates of participation backed by general fund lease financing payments. The City has no current plans for future general fund lease financings. The Airport Report includes a description of the Department's 2009-2011 Capital Improvement Program (CIP), with the new passenger terminal building and the Series 2009 Bonds being a part of that program. Additional components of the CIP include improvements to the Airport water and sewer system, certain airfield improvements, and other miscellaneous projects. As shown, the total cost of the CIP is estimated by the Department to be approximately \$54.7 million. The Department expects to fund remaining components of the CIP on a pay-go basis from revenues generated from Airport rentals, fees, and charges, and with federal and State grants-in-aid. The Department estimates the CIP will be substantially completed by June 2011. The Department is currently completing a joint use rental car facility (Quick Turnaround Area), an approximately \$7.8 million project, which is scheduled to open in July 2009. As described herein, so long as the City is not in default under the 2009 Installment Payment Contract, the City may at any time execute any Installment Payment Contract, the Installment Payments under and pursuant to which are payable from Airport Revenues on a basis senior to or on a parity with the payment by the City of the 2009 Installment Payments as provided under the 2009 Installment Payment Contract. See SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Installment Payments.”

Short Term Borrowings

The City has not in recent years issued short term debt for meeting its cash flow needs.

* Business-type activities include the City's utility operations (water and wastewater), the City's municipal airport, the waterfront/harbor, downtown parking, and golf course. The Airport Fund is obligated in connection with a State Department of Transportation Loan in the amount of a \$2,450,339, due to be repaid in 17 annual payments of \$218,714. Interest is 3.0% per annum. The final payment is due June 30, 2024. Funds were used to finance capital improvements at the airport.

Direct and Overlapping Debt

Contained within the City are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by the City. The City has not independently verified the information in the table and makes no representations as to completeness or accuracy.

TABLE A-18
CITY OF SANTA BARBARA
Statement of Direct and Overlapping Debt as of June 30, 2008
(amounts expressed in thousands)

2007-08 Assessed Valuation	\$14,771,839
Redevelopment Agency Incremental Valuation	2,188,315
Adjusted Assessed Valuation	<u>\$12,583,524</u>

	Debt Outstanding	Estimated Percentage Applicable⁽¹⁾	Estimated Share of Overlapping Debt
Overlapping Debt Repaid with Property Taxes			
Santa Barbara School Districts	\$84,117	100%	\$84,117
Total overlapping debt repaid with property taxes	<u>\$84,117</u>		<u>\$84,117</u>
Direct and Overlapping General Obligation Debt			
Santa Barbara County General Fund Obligations	\$56,460	21%	\$11,894
City of Santa Barbara Certificates of Participation	4,300	100%	4,300
Total direct and overlapping general obligation debt	<u>\$60,760</u>		<u>\$16,194</u>
Total direct and overlapping debt			<u>\$100,311</u>
Ratio to 2007-08 Assessed Valuation			
Total direct and overlapping debt			0.68%

(1) Population estimates for the City and County were used to calculate the estimated percentage applicable to the overlapping debt. Of the County's 428,655 population, 21% (or 90,018) reside within the City's boundaries.
Source: County of Santa Barbara.

Risk Management

The City is partially self-insured for workers' compensation and general and automobile liability claims, and fully self-insured for unemployment claims. Insurable property is covered for all risks by policies with a pooled aggregate limit of \$1 billion per occurrence. An earthquake and flood limit of \$50 million per occurrence is included as well. Various unique risks such as airport liability, marine hull protection and indemnity, fidelity, and boiler and machinery are insured as well.

The City is a member of the Authority of California Cities Excess Liability (ACCEL) for the purpose of pooling various risks. The City's self-insured retention (SIR) for general and automobile liability is \$1 million. ACCEL pools the next \$4 million and members now jointly purchase \$30 million of coverage above their respective SIR's from the commercial market. See Note 12 in the Notes to the Basic Financial Statements appearing in APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

City management evaluates rates charged to user departments and adjusts them annually to fully accumulate the funds needed in the City's Self-Insurance Fund to meet catastrophic losses that may potentially arise.

The City has been partially self-insured for workers' compensation since 1974, and partially self-insured for general and automobile liability since 1978. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in any of the past ten fiscal years.

The City's self-insured retention for workers' compensation is \$750,000. An indemnity policy provides limits of \$45 million in excess of the City's self-insured retention and a \$5 million pooled layer. Employers' Liability is also included with the limits of \$5 million. The City's self-insured retention for general and automobile liability is \$1,000,000. Excess liability coverage is purchased from the commercial market. Coverage provides limits of \$30 million in excess of the City's self-insured retention and a \$4 million pooled layer.

Employees and Labor Relations

As of June 30, 2008, the City had 1,085 full-time equivalent employees. The following table provides a list of employee organizations in the City and their membership.

TABLE A-19
CITY OF SANTA BARBARA
Employee Organizations

Organization	Number of Employees Represented	Current Contract Expires	Next Wage Reopening Occurs	Date of Next Scheduled Wage Increase	Percentage Increase
Service Employees' International Union, Local 620 (General Employees)	500	9/30/10	None	10/10/09	1.5%
Service Employees' International Union, Local 620 (Treatment and Patrol)	113	9/30/10	None	4/10/10	1.5
Santa Barbara City Firefighters Association	98	12/31/10	None	7/4/09	3.0
Santa Barbara Police Officers Association	182	12/31/09	None	N/A	N/A
Police Management	10	N/A	N/A	7/4/09	3.0
Santa Barbara City Supervisory Employees' Bargaining Unit	85	1/9/11	None	9/12/09	1.0
Temporary Employees	320	12/31/10	None	10/10/09	1.5

Source: City of Santa Barbara Finance Department Insurance Coverage.

Pension Plan

The following information concerning the California Public Employees' Retirement System ("CalPERS") is excerpted from publicly available sources, which the City believes to be accurate. CalPERS is not obligated in any manner for payment of debt service on the Series 2009 Bonds, and the assets of CalPERS are not available for such payment. CalPERS should be contacted directly at CalPERS, Lincoln Plaza, 400 P Street, Sacramento, California 95814, Telephone: (888) 225 7377 for other information, including information relating to its financial position and investments. A separate report for the City's plans is not available.

General. All permanent employees and those part-time employees with a minimum of 1,000 hours worked in a fiscal year are eligible to participate in CalPERS' Public Employees' Retirement Fund (the "Fund"). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and City ordinance.

CalPERS acts as a common investment and administrative agent for participating public entities within the State. CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. CalPERS maintains three pension plans for the City, a Safety Fire Plan (the "Safety Fire Plan"), a Safety Police Plan (the "Safety Police Plan" and, together with the Safety Fire Plan, the "Safety Plans") and a Miscellaneous Plan (the "Miscellaneous Plan" and, together with the Safety Plans, the "CalPERS Plans"). The City contributes to CalPERS amounts equal to the recommended rates for the CalPERS Plans multiplied by the payroll of those employees of the City who are eligible under CalPERS.

As a result of the national recession, the CalPERS portfolio overall lost more than 26.6% of its value from last July through January. By March 2009, the fund, which in October 2007 totaled \$260.4 billion, was valued at \$166.3 billion. CalPERS' stock portfolio alone lost nearly 40% of its value, and the stocks represent about 38% of CalPERS' assets.

Currently, public safety and all other employees have an obligation to contribute 9% and 8%, respectively, of their salary to the CalPERS Plans. During an employee's first two years of employment, the City makes partial contributions on behalf of employee members in varying amounts based upon the employee's bargaining unit. Following two years of employment, the City makes full contributions required of Public Safety employees and 7% for all other City employees on their behalf and for their account. See Note 10 in the Notes to the Basic Financial Statements appearing in APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

Under GASB 27, the City reports its annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the actual plan contributions for the year. The cumulative difference is the net pension obligation (NPO). In its most recent CAFR, the ARC for the period July 1, 2007 to June 30, 2008 was determined by an actuarial valuation of the plan as of June 30, 2005. In its most recent June 30, 2007 actuarial report provided to the City, CalPERS set the employer rates for each of the City's three retirement plans as follows: the miscellaneous, non-safety, members' rate is 18.612%, the safety police plan rate is 26.768%, and the safety fire plan rate is 29.087% of payroll. Miscellaneous, non-safety, members contribute 8% and safety members contribute 9% of their annual covered salary. The City makes a portion of the contributions required of City employees on their behalf and for their account. The City paid 1.3% of the miscellaneous, non-safety employees' required contribution in the fiscal year ended June 30, 2008. The contribution requirements of the City and plan members are established and may be amended by CalPERS.

A CalPERS member, safety and non-safety, becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements).

Annual Pension Cost. For the fiscal year ended June 30, 2007, the City's annual pension costs for all of the retirement plans, in the amount of \$20,681,841 for CalPERS, was equal to the City's required and actual contributions. For the fiscal year ended June 30, 2008, the City's annual pension costs for all of the retirement plans, in the amount of \$21,513,692 for CalPERS, was equal to the City's and employees' required and actual contributions. The required contribution for Fiscal Year 2007-08 was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method. For the fiscal year ended June 30, 2009, the City's annual pension costs for all of the retirement plans, is projected in the amount of \$21,149,752 for CalPERS, for the City's required and actual contributions. The required contribution is determined using the entry age actuarial cost method. The actuarial assumptions are included in Note 10 in the Notes to the Basic Financial Statements appearing in APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

In its most recent June 30, 2007 actuarial reports, CalPERS estimated the Safety Fire Plan to have a \$19.6 million unfunded liability (96.7% funded status), the Safety Police Plan to have a \$25.4 million unfunded liability (96.2% funded status) and the Miscellaneous Plan to have a \$57.4 million unfunded liability (93.5% funded status).

City CalPERS Plans; Funding Policy. The staff actuaries at CalPERS prepare annually an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is prepared (thus, the actuarial valuation delivered to the City in October 2008 covered CalPERS' Fiscal Year 2006-07). The actuarial valuation expresses the City's required contribution rates in percentages of payroll, which percentages the City contributes in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rates derived from the actuarial valuation as of June 30, 2007, which was prepared in October 2008, will be effective during the City's Fiscal Year 2009-10). CalPERS rules require the City to implement the actuary's recommended rates.

In calculating the annual actuarially required contribution rates, the CalPERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that CalPERS will fund under the CalPERS Plans, which includes two components, the normal cost and the Unfunded Accrued Actuarial Liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL is an estimate of the unfunded actuarial present value of the benefits that CalPERS will fund under the CalPERS Plans to retirees and active employees upon their retirement and is not a fixed or hard expression of the liability the City owes to CalPERS under the CalPERS Plans. The City's actual liability under the CalPERS Plans could be materially higher or lower. Actual results under the CalPERS Plans will not impact the City's obligation to repay the Series 2009 Bonds.

In calculating the UAAL in an actuarial valuation, the CalPERS actuary smooths gains and losses over a number of years (the exact number of which is adjusted as expected values fluctuate) using a smoothing technique that generally only recognizes one third of the gain or loss realized in a given Fiscal Year. In each actuarial valuation, the CalPERS actuary calculates what was the expected actuarial value of the assets (the "Expected Value") of the CalPERS Plans at the end of the Fiscal Year (which assumes, among other things, that the actuarial rate of return during that Fiscal Year equaled the assumed rate of investment return). However, CalPERS does not allow the Expected Value to be less than 90% or more than 110% of the market value. The smoothing method adopted by CalPERS imposes a corridor of 80% to 120% of the market value of assets when determining the smoothed actuarial value of assets. Investment return lower than negative 13% will produce a significantly greater impact on employer rates. See "Projected Annual Costs" below. The likelihood of meeting this corridor is uncertain and, with investment losses of approximately 25% since June 30, 2008, it is not unreasonable to assume that employer contributions in Fiscal Year 2011-12 could rise from 16% of payroll to 22% for miscellaneous employees and from 27% of payroll to 40% for safety employees.

On May 2004, the CalPERS Board approved a change in the inflation assumption used in the actuarial valuations that set employer contribution rates. The inflation assumption was changed from 3.5% to 3%. The change impacted the inflation component of the annual investment return assumption, the long term payroll growth assumption and the individual salary increase assumptions as follows:

- The annual assumed investment return has decreased from 8.25% to 7.75%. (Investment returns greater than 7.75% result in investment gains and returns less than 7.75% result in investment losses). CalPERS reports, that actual asset earnings for the past 15 years at CalPERS have ranged from -7.2% to 20.1% while the 15 year compound return has been 10.4%.
- The long term salary increase assumption has decreased from 3.75% to 3.25%.

- The inflation component of individual salary scales has decreased from 3.50% to 3.00%.

In April 2005, the CalPERS Board adopted new policies aimed at stabilizing rising employer costs. These policies were used starting in Fiscal Year 2006-07 to set employer contribution rates for the City. These policies include:

- Spreading CalPERS market value asset gains and losses over 15 years rather than the current three years.
- Widens the “corridor” limits for establishing the actuarial value of assets from 90% to 110% of market value to 80% to 120% of market value.
- Established a rolling 30-year amortization on all remaining net unamortized gains or losses, instead of amortizing 10% of the net unamortized gain or loss each year.

CalPERS demographic assumptions are based on their 1997-2002 experience study. The rates used are based on CalPERS experience for agencies with similar plans (for example Police Safety 3% @ 50 formulas). CalPERS assumptions generally assume Safety employees with 3% @ 50 retire at approximately age 55.

A result of recent events in the financial markets for CalPERS and its members has been a fluctuation of asset market value. The impact of the markets on CalPERS has in large part been a fluctuation of the market value of CalPERS assets. This is expected to continue until the private sector credit markets become unfrozen. As noted above, by March 2009, the fund, which in October 2007 totaled \$260.4 billion, was valued at \$166.3 billion. There is, however, no immediate impact on CalPERS employer rates. Employer rates to be paid for the fiscal year that begins July 1, 2009 will be based on earlier investment performance – performance from the 2006-07 fiscal year for public agencies, such as the City. Employer rates for the fiscal year that begins July 1, 2010 will be based on investment performance from Fiscal Year 2007-08 for public agencies, such as the City. Cushioning the effect of losses are CalPERS rate stabilization policies that spread market gains and losses over 15 years. That means gains or losses are spread evenly so no single year employer contribution change would be severe.

CalPERS has had a long history of market downturns followed in later years by market recoveries. This includes the savings and loan problems of a few decades ago, the big real estate slump of the early 1990s (when CalPERS bought cheap properties for big cash-outs later), and this decade’s recession, when CalPERS lost \$50 billion on paper and rebounded with a \$120 billion gain over the next four years. Neither CalPERS or the City is able to predict when a market recovery could occur. The impact upon the City’s annual pension contribution based upon various potential investment returns as advised by CalPERS is discussed below under “Projected Annual Costs.”

Annual Pension Cost. The City’s annual pension cost for its fund was equal to the City’s required and actual contributions which was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the City’s assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. The plan’s unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of any unfunded actuarial liabilities of the City is approximately 20 years for safety employees and is approximately 18 years for other employees.

CalPERS’ actuarial calculations are based on a number of assumptions about very long term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year to year basis. The year to year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer’s rate from year to year. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

The CalPERS actuary, in its June 30, 2007 actuarial valuation, projected that the City's contribution rates as follows:

Contribution Rates –% of Payroll			
<u>Fiscal Year</u>	<u>Safety Fire Plan</u>	<u>Safety Police Plan</u>	<u>Miscellaneous Plan</u>
2008-09	29.6%	27.8%	19.3%
2009-10	28.6	27.8	18.5
2010-11	28.2	27.4	18.4

For a discussion of the smoothing policy of CalPERS, see “– General” above.

Projected Annual Costs. In general, local public agency contribution rates are affected by the investment return of a given fiscal year in the third fiscal year that follows. For example, CalPERS recently set the employer contribution rates for Fiscal Year 2009-10 based on the investment return of the fiscal year ending June 30, 2007. The negative 5.1% return for Fiscal Year 2007-08 will first be reflected in the public agency employer contribution rates applicable for the 2010-11 fiscal year.

In a letter dated November 18, 2008, CalPERS notified its public agency members that it had achieved double digit gains in each of the four years leading up to the 2007-08 fiscal year. Through CalPERS 15 year smoothing of investment returns, these previous positive returns will cushion the impact the 2007-08 investment losses will have on employer contribution rates in Fiscal Year 2010-11. In fact as of June 30, 2007, the asset smoothing method set aside about 14% of the CalPERS fund as a “rainy day” fund. The negative 5.1% return for Fiscal Year 2007-08, about 12.9% less than the 7.75% expected rate of return, uses up most of the 14% of the “rainy day” fund. However, employer contribution rates in Fiscal Year 2010-11 are not expected to increase as a result of the Fiscal Year 2007-08 negative 5.1% return. In fact, with the rate smoothing policies at CalPERS, the estimated impact of the negative 5.1% investment return is a decrease up to 0.1% of payroll in expected Fiscal Year 2010-11 employer rates. This assumes that all other actuarial assumptions are realized in aggregate. It is important to note that in recent years, the demographic experience of most plans translated to increases in employer rates.

In the most recent June 30, 2007 actuarial valuation reports, in which CalPERS set employer contribution rates for Fiscal Year 2009-10, and estimated employer contribution rate for Fiscal Year 2010-11, the projected Fiscal Year 2010-11 employer rate (due to timing and availability of data) used the preliminary estimated negative 2.5% rate of return rather than the actual negative 5.1% investment for Fiscal Year 2007-08. In its letter dated November 18, 2008, CalPERS notified its public agency members that the projected employer contribution rate for Fiscal Year 2010-11 shown in the annual valuation report should be about 0.1% of payroll higher than the figure contained in the most recent June 30, 2007 actuarial report.

Further, in that letter dated November 18, 2008, CalPERS advised that the investment return for Fiscal Year 2008-09 will first impact public agency employer contribution rates in the 2011-12 fiscal year. As a result CalPERS' rate stabilization method the impact on employer rates will be mitigated. However, the CalPERS smoothing method imposes a corridor of 80% to 120% of the market value of assets when determining the smoothed actuarial value of assets. That is, the 15 year smoothing method stops when the actuarial value of assets hits 120% of the market value of assets or 80% of the market value assets. The corridor limit will be hit if the Fiscal Year 2008-09 investment return reaches about negative 13%. Investment return lower than negative 13% will produce a significantly greater impact on employer rates. The impact on a given public agency employer's rates will vary from based on the assets of public agency employer's plan compared to the payroll of active members of that plan. The higher the ratio of assets to payroll, the greater the change in employer rate.

The table below shows the estimated impact of various Fiscal Year 2008-09 investment returns on the employer rate for Fiscal Year 2011-12.

**CalPERS Estimated Change in Employer Contribution Rates in Fiscal Year 2011-12
(Hypothetical Investment Return for Fiscal Year 2008-09)**

	-20% Return	-15% Return	-10% Return	0% Return	7.75% Return	10% Return	20% Return
Range of Estimated Changes in Rates in Fiscal Year 2011-12	Increase of about 2% to 5% of Payroll	Increase of about 1% to 2% of Payroll	Increase of about 0.2% to 0.5% of Payroll	Increase of about 0.1% to 0.2% of Payroll	Decrease of less than 0.1% of Payroll	Decrease of about 0.1% to 0.2% of Payroll	Decrease of about 0.2% to 0.5% of Payroll

If CalPERS does experience a negative return in Fiscal Year 2008-09 as illustrated above, and then returns to its anticipated 7.75% investment return, employer rates would likely continue to rise slowly over time. Returns in excess of 7.75% in subsequent years would be necessary to prevent a steady rise in employer rates. For example, if the 2008-09 fiscal year ends with an investment return of negative 20%, investment returns of 7.75% in the next few years would result in increases in employer rates of about 0.2% to 0.6% of payroll each year.

Under its current procedures, CalPERS determines a plan's funded status by comparing the market value of assets to the accrued liability. For purposes of illustration, the table below provides estimated average funded status for CalPERS public agency plans as of June 30, 2009 under various possible investment return scenarios.

**CalPERS Estimated Funded Status on a Market Value of Assets Basis as of June 30, 2009
(Based on Hypothetical Investment Returns)**

	-20% Return	-15% Return	-10% Return	0% Return	7.75% Return	10% Return	20% Return
Miscellaneous	66%	70%	74%	82%	89%	91%	99%
Safety	63	67	71	79	85	87	95

Neither the City nor CalPERS can predict what the rest of the fiscal year will bring in the way of investment return. The information above was provided by CalPERS to assist with long-term planning and constitute forward-looking statements. Actual results may vary materially from what is contained in such forward-looking statements. The City and the Authority assume no obligation to provide public updates of such forward-looking statements.

Other Retirement Plans

City Fire and Police Pension Plans. In addition to CalPERS, the City provides two additional single-employer, defined benefit pension plans. One, the Safety Retirement Plan, was established to account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 1937 and May 1965. The second plan, the Service Retirement Plan, was established to account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 1937 and May 1965, and who were disabled due to job related injuries. A total of eighteen (18) former public safety (police and fire) employees receive a monthly pension retirement benefit in the form of a cash stipend directly from the City. Both plans have been closed to all other employees as of May 1965 and contributions from the employer and employees also ceased on that date. The City administers the plans in compliance with and under the authority of Article XVA of the City Charter. The costs of administering the plans are financed with investment earnings. As of June 30, 2007, ten (10) retirees (or beneficiaries) are receiving benefits from the Safety Retirement Pension Trust Fund, and eight (8) retirees (or beneficiaries) are receiving benefits from the Service Retirement Pension Trust Fund.

All of the pensioners are retirees. The annual required contribution (ARC) for the City was \$112,887 for Fiscal Year 2007. The annual required contribution (ARC) for the City was \$131,011 for Fiscal Year 2007-08. The City paid the entire ARC and has no net pension obligation for the year ended June 30, 2008. Financial statements for the funds are available from the City of Santa Barbara Finance Director. All members of the plan are retired. The plans were closed as of 1965.

Deferred Compensation Plan. The City offers two deferred compensation plans for regular employees and one for hourly employees created in accordance with Internal Revenue Code Section 457. Under the terms of these plans, employees may defer amounts of income up to a maximum of \$15,500 per year or one-hundred percent (100%) of includable compensation, whichever is less. Amounts so deferred may be withdrawn or directed for future payment at separation of employment but may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue and unforeseen financial hardship for the employee.

Effective January 1, 1999, federal legislation (Small Business Job Protection Act of 1996) requires the Section 457 plan assets to be placed in trust for the exclusive use of the plan participants and their beneficiaries. The City's deferred compensation administrator qualifies as the plan trustee to meet federal requirements. Since the plan assets are no longer considered the property and rights of the City, such assets are no longer reflected in the accompanying basic financial statements. See Note 10 in APPENDIX C – "CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

Post-Employment Benefits

The City provides certain post-retirement health insurance premium payments to qualifying retired employees and their eligible dependents or survivors. The City provides a retiree medical insurance contribution benefit, in accordance with employee Memorandum of Agreement, to retired employees. The City contributes an amount each month towards the purchase of medical insurance for the retiree and his/her spouse or domestic partner registered with the City Clerk or the Secretary of State, if applicable. The monthly amount is determined by the applicable Memorandum of Agreement of the retired employee. The payment is based upon the employees' years of service up to a maximum of 35 years, multiplied by the annual amount for the respective employee unit. The City will continue to make its contribution until the retiree reaches age 65 or dies, whichever occurs first, provided however, that if the retiree dies before reaching the age of 65 and there is a surviving spouse or registered domestic partner, the City's contribution shall cease when the retiree would have reached age 65. Thereafter, the spouse may remain on the insurance plan, at his/her own cost, subject to the conditions set forth by the insurance company. The City currently administers its retiree medical plan. There is no requirement to contribute any amount beyond the pay-as-you-go contributions. If retirees elect medical insurance coverage through the City, the retiree pays the entire cost of the premiums, less the City's monthly payment to the retiree.

For the Police bargaining unit only, the City will continue the normal retiree medical allowance past the age of 65 for the six (6) specified employees named in the Police Memorandum of Understanding who retire after December 23, 2006 and thereafter certify, on an annual basis, that they are not eligible to apply for Medicare Part A (hospitalization) coverage on the basis of their City service, other covered employment, through a spouse's covered employment, or through any other means.

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") approved Statement No. 45 (GASB 45), accounting standards for other (than pensions) postemployment benefits (OPEB). Accounting for these benefits – primarily postretirement medical – can have significant impacts on state and local government financial statements. The City's annual Other Post Employment Benefit (OPEB) cost (expense) is calculated based upon the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB 45.

As of June 30, 2008, 194 retirees were receiving such post-retirement health insurance premium payments. Expenditures for post-employment health care are recognized when premiums are paid. Currently, the City funds contributions on a pay-as-you-go basis. The City is evaluating various options for funding the post retirement health benefits liability. The City has not set up a trust for purposes of funding the required retiree medical payments but has elected to continue funding the benefit on a pay-as you- go basis in the current year. The City plans to fund the Annual Required Contribution each year based upon projections from the April 21, 2008 actuarial valuation study

performed by Aon Consultants. This study was conducted in accordance with GASB Statement 45, Accounting and Financial Reporting for Post Employment Benefits Other than Pensions (GASB 45).

The City made payments of \$375,584 on postretirement health care benefits for Fiscal Year 2006-07. The total retiree healthcare plan expenditures for Fiscal Year 2007-08 were approximately \$831,000 and estimated to be approximately \$940,000 for Fiscal Year 2008-09. The City's current annual required contribution of \$1,842,000 represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The City's annual Other Post Employment Benefit (OPEB) cost (expense) is calculated based upon the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City Retiree Medical annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008 was as follows:

Year Ended	Annual OPEB Costs	Annual OPEB Cost Contributed	Percentage Contribution	Net OPEB Obligation
6/30/2008	\$1,842,000	\$831,000	45%	\$1,011,000

See Note 18 in the Notes to the Basic Financial Statements appearing in APPENDIX C – “CITY OF SANTA BARBARA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008.”

Measure G - Utility User's Tax

Measure G, the City's Telecommunication & Video Users Tax Reduction & Modernization Ordinance, was approved by voters at the November 2008 general election. Measure G was submitted to the voters by the unanimous vote of the City Council to update the City's existing Utility User's Tax (UUT) on telecommunications and video services.

Measure G provides for the enactment of a City ordinance which will amend the City's 1970's era UUT ordinance with a modern “telecommunication and video services” ordinance. The new ordinance will also reduce the rate of the UUT tax rate from 6% to 5.75% for all city residents who use “land line” telephone service, cell phones, Cable TV, and similar video services. The modernized technical definitions in the Measure G ordinance will apply to all types of telecommunication regardless of whether the communication is intrastate, interstate, or international and regardless of the technology used to provide such communications. New telecommunication services will include paging, text messaging, and private communication services (T 1 line). The new ordinance will not apply to charges for internet services, including digital downloads like music, games, and ringtones. Measure G will not amend the City's UUT on gas, electricity, water, waste water, or trash services.

Santa Barbara's existing UUT ordinance, like many similar municipal UUT ordinances throughout California, was written before the introduction of the new telecommunications and video technologies, such as cellular phones, private network communications, voice over internet telephone services (VoIP), and IP video. Santa Barbara's existing ordinance was also written before changes occurred to federal law such as the Mobile Telecommunications Sourcing Act of 2000 and a change in Internal Revenue Service regulations concerning how the Federal Excise Tax (the “FET”) applies to long distance phone service charges. UUT ordinances enacted by other California cities which contain provisions referring to the FET (similar to that in Santa Barbara's current UUT ordinance) have faced legal challenges to the manner in which they collect their UUT.

Based on figures from the City's 2008 fiscal year, Santa Barbara receives about \$5.4 million a year in UUT revenues on telephone and Cable TV services. It uses half of these UUT revenues to support City general fund governmental services, such as police protection, fire fighting, emergency communications; parks; recreation and library services. It uses the other half of the UUT revenues to maintain the City street system.

Investment of Funds; City's Pooled Operating Investment Fund

The City Administrator/Treasurer of the City, in accordance with the Charter of the City, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the Finance Director and further delegated to the Treasury Manager of the City. The City is basically the only participant in the City Pool; the Redevelopment Agency of the City is the only other participant and its participation is limited to its surplus funds not invested in the State of California Local Agency Investment Fund (LAIF). The primary objectives, in priority order, of the City's investment activities are safety, liquidity and yield.

Oversight and Reporting Requirements. The Treasurer provides an investment report on a monthly basis to the City Administrative Officer and annually presents a Statement of Investment Policy (the "Investment Guidelines") to the City Administrative Officer and the City Council. In addition, any purchase or sale of investments by the Treasury Manager requires approval from the Finance Director, or in the Finance Director's absence, the Assistant Finance Director, an investment authorization form to the Finance Director that provides a description of the investment transaction. The Treasury Manager signs the Investment Authorization and attests that the trade is in compliance with the City Investment Policy. An Investment Authorization is submitted to the City Administrator/Treasurer who signs the Investment Authorization by the close of business on the business day following the investment purchase or sale.

On a monthly basis, the safekeeping agent provides to the City credit ratings and an independent market valuation on the City's holdings. This information is included in the monthly investment report presented to Finance Committee and City Council. Pursuant to the City's Statement of Investment Policy, which is adopted annually by the City Council, the City Treasurer submits to City Council, within 30 days following the end of the month, an investment report, which is prepared by the Treasury Manager, that summarizes all securities in the portfolio and a separate listing of investment transactions occurring during the month. The report includes issuer, type of investment, date of maturity, coupon, yield, par value, book value, market value and the source of the valuation, current book gains and/or losses, average days to maturity and quality rating of bonds. In addition, a narrative report accompanies the portfolio that addresses noteworthy items and any call features associated with the bonds in the portfolio.

On a quarterly basis, an independent investment advisory presents a comprehensive Investment Management Review to Finance Committee and City Council. The review covers the credit qualities, sector and maturity distribution liquidating information, investment performance against a customized benchmark comprised of three different indices, portfolio recommendations, and information as to compliance with investment policy and State law.

Authorized Investments. Investments in the City Pool are governed by State law and further restricted by the City's Statement of Investment Policy. The City has developed a formal investment policy that is more restrictive than the State of California Government Code. The policy is adopted annually by the City Council. The City has adhered to established policies for all investment activities. All of the City's deposits, except certain cash balances held by fiscal agents, are entirely insured or collateralized. The California Government Code requires California banks and savings and loans to secure the City's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal 110% of the City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes equal to 150% of the City's deposits. The City may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Permitted Investments include U.S. Treasury Securities, U.S. Agency Securities, Medium Term Notes having credit ratings of A or better, Banker's Acceptances eligible for purchase by the Federal Reserve System, Commercial Paper rated P1 or A1 by Moody's and S&P, with maturities of not more than 270 days, issued by companies that are U.S. organized companies and having total assets in excess of \$500 million and having long-term credit ratings of A or better, certain classes of negotiable certificates of deposit and time deposits issued by banks or savings and loan associations, repurchase agreements with certain high-quality counter parties and reverse repurchase agreements or securities lending agreements but only with the specific approval of the City Council, and the Local Agency Investment Fund (the "State Pool"), Reverse purchase agreements are restricted to 25% of the

base value of the portfolio and are governed by various maturity restrictions as well. (A reverse repurchase agreement is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the City Pool's use of the money.) In addition, without the specific approval of the City Council, investments may not have a final maturity of more than five years after its acquisition and the average maturity of the City's combined portfolio can exceed 2.5 years without prior approval of the City Council (for a specified period).

Cash temporarily idle during the year was invested in demand deposits, money market funds, certificates of deposit, corporate notes, federal agencies, treasuries, and the State of California's Local Agency Investment Fund (LAIF). As interest rates change, the market value of investments held was modified accordingly; however, because the City holds all securities to maturity, interim gains and losses are not realized as the securities are redeemed at par upon maturity. The City Pool does not engage in securities lending transactions.

Investments not approved include shares of investment companies (other than U.S. Government money market funds), mortgage backed securities, collateralized mortgage obligations, asset backed securities, reverse repurchase agreement used as a leveraging vehicle, "exotic" derivative structure such as range notes, dual index notes, first floating-rate notes, leveraged or deleveraged floating-rate notes, interest-only strips that are derived from a pool of mortgages and any security that can result in a zero interest accrual if held to maturity or any other complex, variable or structured within an usually high degree of volatility or risk. All variable rate notes, structured notes, derivatives or other security involving unusual characteristics as a risk require advance written approval by the City Council, and if approved, identified in a monthly report presented to the Finance Committee in the City Council.

At March 31, 2009, the City Pool did not hold any securities which were in default, issued by an entity currently in a bankruptcy proceeding or which was not investment grade. The average quality of the City Pool at such date was AA (as rated by S&P).

Pool Liquidity and Other Characteristics. As of March 31, 2009, the City's Pool had a weighted average maturity of 446 days and its weighted average yield was 3.581%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in LAIF maturing within one day. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

State Budget Information

The following information concerning the State of California's budgets has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

In recent years, the State of California has faced a chronic operating shortfall and rising expenses. Current projections are that the State would end Fiscal Year 2009–10 with a deficit of \$40 billion, absent corrective action. State and federal budgets and mandates have impacted and continue to impact the City's budget. Reductions of revenues to the City, however, have not had a significant impact on the City's General Fund. Under current budget conditions, the continuing risk for the City in the near term is in the area of several Public Safety payments that the State made to cities and counties as an offset to the so-called "ERAF" (Education Revenue Augmentation Fund) program of the 1990s. The Governor's May Revision to the Fiscal Year 2008-09 budget includes a contingency budget proposal to borrow eight percent of the property tax revenues received by cities, counties, and special districts in Fiscal Year 2008-09 authorized by Proposition 1A, which would generate approximately \$1.982 billion of revenue for the State. The City estimates its exposure under this proposal at approximately \$1.8 million, with such borrowing required under the terms of Proposition 1A to be repaid with interest within three years.

The national recession continues to drag the State's revenue projections downward. Without corrective action, the Schwarzenegger Administration now projects that the State would face a deficit of \$39.6 billion at the end of Fiscal Year 2009–10. On December 31, 2008, the Schwarzenegger Administration released the outline of its 2009–10 Governor's Budget, which proposes \$41.7 billion in budgetary solutions to close the gap and establish a

\$2.2 billion reserve. More than half of these solutions were originally proposed by the Governor in November when he first called a special session of the Legislature to address the crumbling Fiscal Year 2008–09 budget situation. Compared to its earlier November forecast, the Schwarzenegger Administration modestly lowered its outlook of the national and state economies. For instance, for 2009 an assumed State personal income growth was lowered from 2.2% to 2.0%, and an expected decline in employment was increased from 1.2% to 1.6%. The Schwarzenegger Administration’s revised economic forecast continues to reflect the consensus view that both the nation and the State will be in recession during the first half of 2009—with some firming up during the second half of 2009 and a recovery gaining momentum in 2010.

The Governor’s budget solutions increasingly rely on access to the credit markets in order to balance the State Budget. The budget effectively relies on issuance of debt during Fiscal Year 2009–10 and the approval of ballot measures at the special election including, the authorization to securitize California lottery revenues and to allow the State to redirect a combined \$500 million from Proposition 10’s cigarette tax and Proposition 63’s income tax surcharge to benefit the General Fund. A ballot measure would have eliminated the Proposition 10 State Commission and redirect half of local commission funding to offset General Fund child welfare and foster care costs and allow Proposition 63 funds to be used in lieu of General Fund dollars to cover mental health managed care costs rather than to expand services. On May 19, 2009 California voters rejected these budget-balancing measures that were proposed to keep a \$15 billion deficit from widening to \$21 billion. The passage of these measures was an approximately \$6 billion component of the current budget.

Second, there are legal questions regarding the ability of the State to issue revenue anticipation warrants to close a prior-year deficit in the manner proposed by the Schwarzenegger Administration. While issuing revenue anticipation warrants strictly for cash purposes is constitutional, Proposition 58 passed by the voters in 2004 restricted the State’s ability to borrow for budgetary purposes. Finally, the national credit market remains in turmoil, and investors’ confidence in the State has weakened. There is major uncertainty about the State’s ability to access the capital markets for anywhere close to this volume of financing over the next 18 months.

The current and proposed budget bills do not resolve the State’s structural budget deficit. Additionally, litigation challenging certain revenue enhancements provided in the current budget has restricted realization of revenue, and could result in future State budget deficits. It is therefore anticipated that there will be additional future legislation which addresses this situation. The City cannot predict what measures may be proposed or implemented for the current fiscal year or in the future. Given the limitations on the State’s ability to increase revenues in the event of future budgetary deficits, it is possible that future legislation could reduce or require additional payments from cities and/or redevelopment agencies, as has been imposed in prior years.

Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2007-08 State budget and the 2008-09 State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The Office of the Legislative Analyst is located at 925 L Street, Suite 1000, Sacramento, CA 95814. To request publications call (916) 445-4656. The information referred to is prepared by the respective 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 for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Changes in State Budget

The final State Budget, which requires approval by a two-thirds vote of each house of the State Legislature, may differ substantially from the Governor’s original budget proposal. Accordingly, the City cannot predict the impact that the May Revision to the Fiscal Year 2008-09 budget or the impact of subsequent budgets, will have on its finances and operations. The State Budget will be affected by State and national economic conditions and other factors over which the City will have no control.

APPENDIX B

BOOK-ENTRY SYSTEM

The following information concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources that the Authority, the City and the Underwriter believe to be reliable, but none of the Authority, the City or the Underwriter take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Official Statement and in Appendix E – “Summary of Certain Provisions of Principal Legal Documents.”

DTC will act as securities depository for the Bonds. The Series 2009 Bonds will be issued as fully-registered bonds, 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 Bond certificate will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (the “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 and Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and 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 highest rating: AAA. The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Information on these websites has not been reviewed or verified by the Authority or the City and is not incorporated by reference in this Official Statement.

Purchases of the Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2009 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 2009 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 the Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 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 the Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such securities 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 the Series 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2009 Bond documents. Beneficial Owners of the Series 2009 Bonds may wish to ascertain that the nominee holding the Series 2009 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 Trustee 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 2009 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's 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 the Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, and interest on, the Series 2009 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 nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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 responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have any outstanding Series 2009 Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Series 2009 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2009 Bonds on DTC's records to the Remarketing Agent. The requirement for physical delivery of Series 2009 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2009 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2009 Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Series 2009 Bond certificates are required to be printed and delivered as described in the Trust Agreement.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2009 Bonds will be printed and delivered as described in the Trust Agreement.

The Authority cannot and does not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of, interest and premium, if any, on the Series 2009 Bonds paid or any redemption or other notices or that they will do so on a timely basis or

will serve and act in the manner described in this Official Statement. Neither the Authority nor the Underwriter are responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2009 Bonds or any error or delay related thereto.

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APPENDIX C

**CITY OF SANTA BARBARA
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
THE FISCAL YEAR ENDED JUNE 30, 2008**

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City of Santa Barbara California



Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2008

City of Santa Barbara, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

Prepared Under the Supervision of

Robert D. Peirson
Finance Director



CITY OF SANTA BARBARA
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008

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Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

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City of Santa Barbara

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December 9, 2008

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Payroll

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Purchasing

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Warehouse

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Santa Barbara, CA

93102-1990

Honorable Mayor, Members of the City Council, and Citizens of the City of Santa Barbara

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Santa Barbara for the fiscal year ended June 30, 2008, in accordance with Section 1219 of the City Charter. The report was prepared by the City's Finance Department and responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City.

This report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP).

The City Charter requires an annual audit of the City's financial statements by an independent certified public accountant. Caporicci & Larson, Certified Public Accountants, has issued an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2008. The independent auditors' report is located on pages 9-10 within the financial section of this report. The CAFR has been prepared using the financial reporting requirements as prescribed by Government Accounting Standards Board (GASB) Statement No. 34. GASB 34 requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found beginning on page 11.

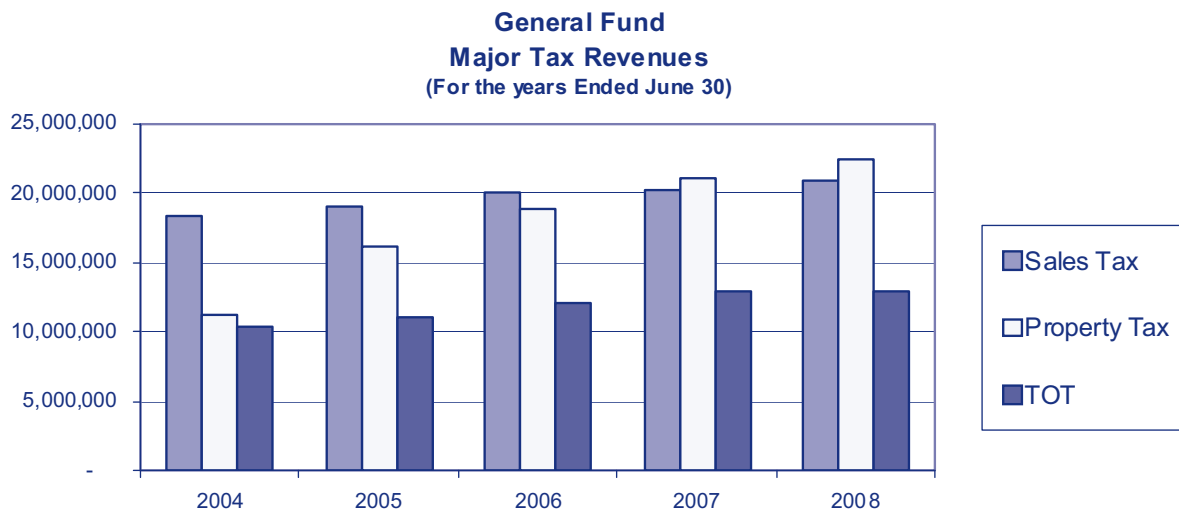
PROFILE OF THE CITY OF SANTA BARBARA

The City of Santa Barbara is located between the Santa Ynez Mountains and the Pacific Ocean. Santa Barbara offers year-round sunshine, miles of beaches, a colorful history dating back to the Chumash Indian tribes, a rich Spanish heritage, gourmet dining, and spectacular parks; it is often referred to as the American Riviera. The City was incorporated in August of 1850 and today serves a population of 90,305. The City provides a wide range of services to its citizens. These services include police and fire protection; the construction and maintenance of highways, streets, traffic signals and infrastructure; recreational activities and cultural events; parks; parking facilities; water; wastewater; library; airport; harbor; golf course; community development; and general administration.

The City also provides services through the Redevelopment Agency (RDA), which is a blended component unit of the City. Therefore, the RDA is included in the overall reporting entity presented in the accompanying CAFR. However, the RDA remains separate from the City for all legal purposes and also issues its own separate annual financial report. No express or implied assumption by the City of any liability for the RDA is to be inferred by its inclusion in the CAFR. The RDA's separately issued CAFR is available on the City's web site at: www.SantaBarbaraCa.gov/government/finance.

LOCAL ECONOMY

The City offers a wide range of cultural, recreational and leisure events and activities, set between a beautiful mountain range and spectacular beaches. It also offers a host of dining experiences, shops and accommodations. To the north, the Santa Ynez Valley is home to many wineries that draws thousands of people to Santa Barbara County each year interested in wine tasting and tours.



As a tourist destination, the City's key revenues that pay for basic services, including public safety, library, parks and recreation, are tied to the health of the national, state and local economies. For example, both sales tax and transient occupancy tax (TOT) revenues, which together make up one-third of total General Fund revenues, are directly tied to economic swings. Property tax revenues, making up 20% of total revenues, are also tied to economic conditions, but have traditionally been less volatile than sales tax and TOT revenues.

The entire country is now in the midst of one of the worst economic downturns in recent history, which has had a significant impact on state and local finances. This is the third economic downturn since 1990 and, in each case, City sales tax and TOT revenues either declined or grew well below historic growth rates. Property values are now declining as they did in the recession of the early 1990's. Consequently, we expect property tax revenues to grow just 3.7% next fiscal year compared to an average growth rate of 8% in the last eight fiscal years.

The mortgage crisis that has swept the nation has affected home sales, new construction and remodels, all of which boomed over the last few years when interest rates were low and financing was easy to obtain. With the demand for housing down, and financing options severely restricted, both residential and commercial development has dropped off dramatically. Home improvement projects, which were largely financed from loans secured by the increased value of homes, have also fallen sharply. All of this directly affects City revenues tied to building activities, including planning and building fees, which in the first quarter of fiscal year 2009 are well below budget and are expected to end the year almost \$1 million below budget.

The local economy and City operations are facing very challenging times. As with all economic recessions, this current crisis will eventually be resolved and the local economy will eventually recover. In the meantime, the City is facing significant projected deficits beginning in fiscal years 2009 caused by declines in revenues, as described above. These projected deficits will require reductions to services provided to the community to re-balance the General Fund. As always, the City will make adjustments in a manner that preserves critical services, such as police and fire, so that the community's safety is not compromised.

FINANCIAL CONTROLS

The City's management is responsible for establishing and maintaining a system of internal controls designed to ensure that the City's assets are protected from loss, theft or misuse. The City's system of internal controls must also ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The City's system of internal controls is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe that the City's system of internal controls adequately safeguards assets and provides reasonable assurance as to the proper recording of financial transactions. The City's internal controls are subject to periodic evaluation by the City's management.

Single Audit

As a recipient of federal assistance, the City is responsible for maintaining a system of internal controls that will ensure compliance with applicable laws and regulations related to those federal programs. As part of the City's federal single audit, tests are made to determine the adequacy of the internal controls, including that portion relating to federal financial assistance. The single audit also seeks to determine whether the City has complied with, in all material respects, all applicable laws and regulations that could have a direct or material effect on a "major" grant program. The single audit did not encounter any instances of non-compliance or material weaknesses in the City's internal controls over financial reporting.

Budgetary Controls

The City maintains budgetary controls designed to ensure compliance with the legal provisions contained in the annual budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is at the department level for the General Fund and at the fund level for all other legally adopted budgets.

The City maintains a formal, integrated encumbrance accounting system as one means of ensuring budgetary control. Purchase orders that would result in an overrun of department appropriations at a major object category level are not released until additional funds have been appropriated. Appropriations for encumbrances outstanding at year-end are carried over and re-appropriated in the following fiscal year.

OTHER INFORMATION

Cash Management

Cash temporarily idle during the year was invested in demand deposits, money market funds, certificates of deposit, corporate notes, federal agencies, treasuries, and the State of California's Local Agency Investment Fund (LAIF). On June 30, 2008, the City's investments had an average maturity of approximately 1.75 years and a book yield of 4.39%. As interest rates changed, the market value of investments held was modified accordingly; however, because the City holds all securities to maturity, interim gains and losses are not realized as the securities are redeemed at par upon maturity.

Risk Management

The City is partially self-insured for workers' compensation and general and automobile liability claims, and fully self-insured for unemployment claims. Insurable property is covered for all risks by policies with a pooled aggregate limit of \$1 billion per occurrence. An earthquake and flood limit of \$50 million per occurrence is included as well. Various unique risks such as airport liability, marine hull protection and indemnity, fidelity, and boiler and machinery are insured as well.

The City is a member of the Authority of California Cities Excess Liability (ACCEL) for the purpose of pooling various liability risks. The City's self-insured retention (SIR) for general and automobile liability is \$1 million. ACCEL pools the next \$4 million and members now jointly purchase \$30 million of coverage above their respective SIR's from the commercial market. The City's self-insured retention for workers' compensation is \$750,000. An indemnity policy provides limits of \$30 million in excess of the City's self-insured retention and a \$4 million pooled layer. Employers' Liability is also included with limits of \$5 million.

City management evaluates rates charged to user departments and adjusts them annually to fully accumulate the funds needed in the City's Self-Insurance Fund to meet catastrophic losses that may potentially arise.

Spending Limitation

Article XIII B of the California Constitution, also known as the Gann spending limit, restricts the amount of "proceeds of taxes" California governments may spend. As of June 30, 2008, the City had not reached its Article XIII B spending limitation.

AWARDS AND ACKNOWLEDGEMENTS


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Barbara California for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fifth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this CAFR could not have been accomplished without the hard work and team effort of the Finance Department. We would like to express appreciation to the Finance Department and other City departments that provided assistance and support.

Respectfully submitted,


James L. Armstrong
City Administrator/
Clerk/Treasurer


Robert D. Peirson
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Barbara
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF SANTA BARBARA
Directory of City Officials
June 30, 2008

Marty Blum
Mayor

Grant R. House
Councilmember

Helene Schneider
Councilmember

Roger L. Horton
Councilmember

Das Williams
Councilmember

Iya G. Falcone
Councilmember

Dale Francisco
Councilmember

James L. Armstrong
City Administrator/Clerk/Treasurer

Stephen P. Wiley
City Attorney

Robert D. Peirson
Finance Director

Karen S. Ramsdell
Airport Director

Nancy L. Rapp
Parks and Recreation Director

Irene Macias
Library Director

Camerino Sanchez
Police Chief

Ron A. Prince
Fire Chief

Paul A. Casey
Community Development Director

Christine Andersen
Public Works Director

Joan M. Kent
Assistant City Administrator

John N. Bradley
Waterfront Director

Marcelo Lopez
Administrative Services Director

CITY OF SANTA BARBARA
Advisory Boards and Commissions
June 30, 2008

Charter Boards and Commissions

Membership

Airport Commission	7
Architectural Board of Review	9
Civil Service Commission	5
Fire and Police Commission	5
Fire and Police Pension Commission	5
Harbor Commission	5
Historic Landmarks Commission	9
Library Board	5
Park Commission	5
Planning Commission	7
Recreation Commission	5
Water Commission	5

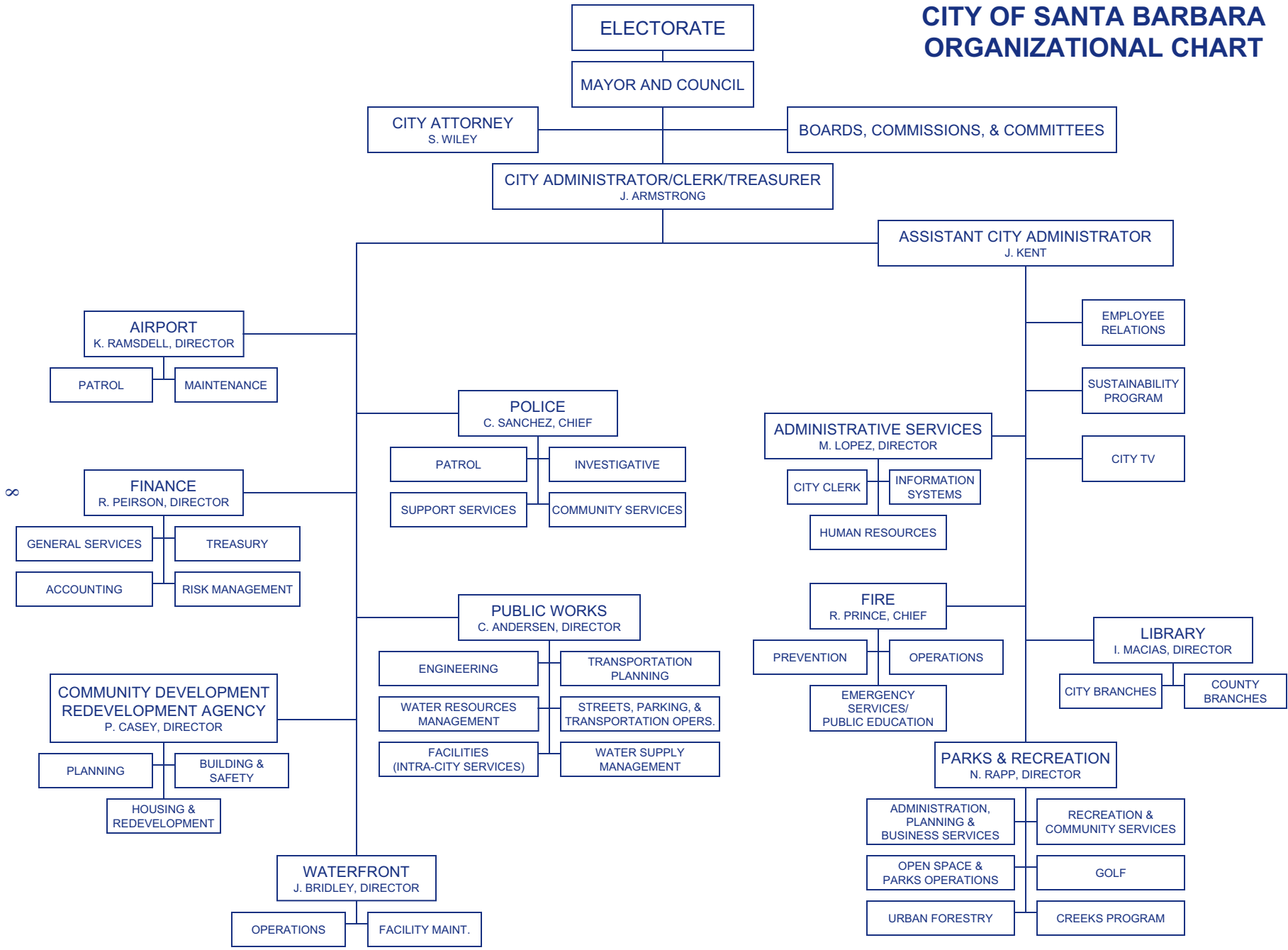
Committees and Commissions

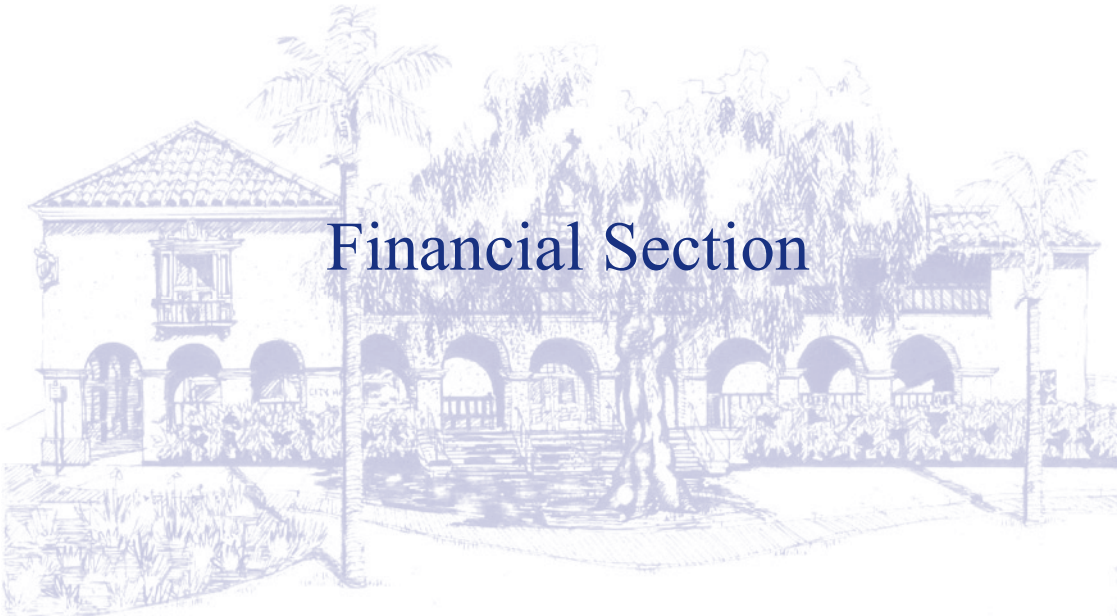
Arts Advisory Committee	7
Building and Fire Code Board of Appeals	8
Community Development and Human Services Committee	13
Community Events and Festivals Committee	7
Creeks Advisory Committee	7
Downtown Parking Committee	7
Franklin Center Advisory Committee	7
Living Wage Advisory Committee	7
Lower Westside Center Advisory Committee	7
Measure P Committee	7
Rental Housing Mediation Task Force	15
Sign Committee	5
Single Family Design Board	7
Sister Cities Board	3
Transportation and Circulation Committee	7
Westside Center Advisory Committee	7

Other Advisory Bodies

Central Coast Commission for Senior Citizens	1
Housing Authority Commission	7
Metropolitan Transit District Board	2
Mosquito and Vector Management District Board	1

CITY OF SANTA BARBARA
ORGANIZATIONAL CHART





Financial Section

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Santa Barbara
Santa Barbara, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Barbara, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Subsequent to the basic financial statement date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the City has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111

To the Honorable Mayor and Members of the City Council
of the City of Santa Barbara
Santa Barbara, California
Page 2

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit and express no opinion on the Required Supplementary Information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carson

Irvine, California
November 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2008

This section of the City's Comprehensive Annual Financial Report presents an overview of the City's financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have included in our letter of transmittal, which can be found on pages 1-4 of this report.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2008, net assets of the City totaled \$819.1 million, an increase of approximately \$39.9 million from the prior year. Of the total net assets, \$124.7 million is unrestricted and thus may be used to meet the City's ongoing obligations to citizens and creditors.
- As of June 30, 2008, the City's governmental funds reported combined ending fund balances of \$146.6 million, an increase of \$2.3 million from prior year.
- Approximately 14% of the combined fund balance of the governmental funds is unreserved and therefore available for spending at the City's discretion.
- As of June 30, 2008, unreserved fund balance in the General Fund was \$18 million, equating to approximately 17.3% of total General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements. Each of these sections is discussed below.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to present financial information about the City as a whole in a manner similar to the private sector, including the use of accrual-based accounting to recognize its revenues and expenses. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on user fees and charges to fund their operations. Governmental activities include those traditionally associated with local government, such as public safety (fire and police), community development, public works, library, parks and recreation, and general government (administrative) functions. Business-type activities include the City's utility operations (water and wastewater), the City's municipal airport, the waterfront/harbor, downtown parking, and golf course.

The Statement of Net Assets presents all City assets, including capital assets, and all related current liabilities and long-term debt obligations. The difference between total assets and total liabilities is presented as "Net Assets," which serves as a measure of the financial health of the City. Over time, an increase in net assets generally indicates that the financial health of the City is improving.

The Statement of Activities provides the details of how the City's net assets changed during the fiscal year. Decreases in net assets are presented as "Expenses;" increases in net assets are presented as "Revenues." Revenues directly attributable to a particular function or program within the City are presented as "Program Revenues." Tax revenues, including those restricted to a particular program function, are reported as "General Revenues" unless specifically required to be reported as program revenues (i.e. gas and transportation taxes).

Fund Financial Statements

The City, like other state and local governments, uses fund accounting for recording its financial activities. In general, fund accounting provides a mechanism to separately account for a variety of different funding sources and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and their purpose: Governmental,

Proprietary, or Fiduciary Funds. Note that the fund financial statements only present information on the most significant (i.e., “major”) funds on the face of the statement. Nonmajor funds are grouped and presented in total on the face of the statements. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the government-wide financial statements. This is designed to explain the differences created by the integrated approach.

Governmental Funds – Most of the City’s basic services are reported in governmental funds. Governmental funds include the General Fund, Special Revenue, Capital Projects, and Debt Service funds. In the fund financial statements, all governmental fund types are reported using the modified accrual basis of accounting, whereby revenues are generally recognized when measurable and available to finance current operating costs, and expenditures are recognized when the related liability is incurred. In addition, the focus is on inflow (revenue) and outflow (expenditures) of *current financial resources*. As such, the balance sheets of governmental funds are intended to present only short-term assets and liabilities.

The fund financial statements include separate columns, by fund type, for all “major” governmental funds of the City. All “nonmajor” governmental funds are consolidated into a single column labeled “Other Governmental Funds”. The details of these funds are included in the Combining and Individual Fund Statements and Schedules located in the Financial Section of this Report.

Proprietary Funds – Proprietary funds are used to account for services provided to external customers or other City departments and funds that are primarily funded from user fees and charges. Proprietary funds use the accrual basis of accounting and measure the balance and change in *total economic resources*. Accordingly, balance sheets of proprietary funds include *all* assets and liabilities, including long-term receivables, capital assets, and long-term liabilities. The basis of accounting and measurement focus used to prepare proprietary fund statements is the same that is used to prepare the government-wide statements. Thus, the proprietary fund statements provide the same, but more detailed, information about these funds, which are included in the “Business-Type Activity” column of the government-wide statements.

Proprietary funds include enterprise funds and internal service funds. The City uses enterprise funds to account for its Water, Wastewater, Airport, Golf, Downtown Parking, and Waterfront/harbor operations. Internal service funds are used by the City to account for its intra-city services (motor pool, building maintenance, custodial, and communications), information systems, and self-insurance funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held by the City as trustee on behalf of other agencies or individuals. Fiduciary funds are not presented in the government-wide statements, as their resources are not available to support the operations of the City.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements.

Other Information

In addition to the basic financial statements and related notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees; budgetary comparison schedules for the General Fund and each major special revenue fund; and schedules and disclosures of the modified approach for reporting the City’s infrastructure.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City has presented its financial statements under the reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34). The following analysis of the Government-Wide statements includes a comparison between current and prior year results of operations and year-end balances.

Governmental Activities

Statement of Net Assets

Table 1 below summarizes the Statement of Net Assets for Governmental Activities as of June 30, 2008, with comparative totals as of June 30, 2007.

Table 1 Statement of Net Assets Governmental Activities As of June 30, 2008 and 2007		
	2008	2007
Assets:		
Current and other assets	\$ 185,463,514	\$ 182,614,450
Capital assets (net of depreciation)	359,321,609	349,725,255
Total Assets	544,785,123	532,339,705
Liabilities:		
Current and other liabilities	18,679,103	17,150,626
Long-term liabilities	80,123,919	87,942,982
Total Liabilities	98,803,022	105,093,608
Net Assets:		
Invested in capital assets, net of related debt	319,070,084	305,449,066
Restricted	89,964,064	85,568,821
Unrestricted	36,947,953	36,228,210
Total Net Assets	\$ 445,982,101	\$ 427,246,097

As shown in Table 1, total assets of Governmental Activities were \$544.8 million at June 30, 2008, including \$359.3 million in capital assets (net of depreciation).

Of the total \$185.5 million in current assets, \$116.9 million consists of pooled cash and investments, as well as cash and investments with fiscal agents. All pooled cash is invested in accordance with State law and the City's investment policy, and includes funds legally and/or contractually restricted as to their use.

Long-term liabilities at June 30, 2008 include tax allocation bonds issued by the City's Redevelopment Agency, certificates of participation issued by the City, and estimated self-insurance claims payable (see the Capital Asset and Debt Administration section for more detailed discussion of outstanding long-term debt). Long-term liabilities decreased by \$7.8 million this year. This is primarily attributable to scheduled principal payments of \$5.1 million made on outstanding debt during the year and approximately \$3 million reduction in the City's self-insured claims liabilities.

Net assets totaling \$446 million include approximately \$90 million subject to external restrictions. Net assets also include approximately \$37 million in unrestricted net assets that are available for discretionary spending, although a portion is designated for emergencies and economic uncertainties pursuant to reserve policies adopted by City Council in 1996.

Statement of Activities

As discussed earlier, the Statement of Net Assets provides a measure of the financial health of an entity at a specific date in time (i.e., year end). The Statement of Activities provides details of how net assets changed from the beginning of the year to the end of the year. Thus, it indicates whether the governmental activities of the

City as a whole are better off at June 30, 2008, than they were at June 30, 2007. For the fiscal year ended June 30, 2008, total net assets increased by approximately \$18.7 million.

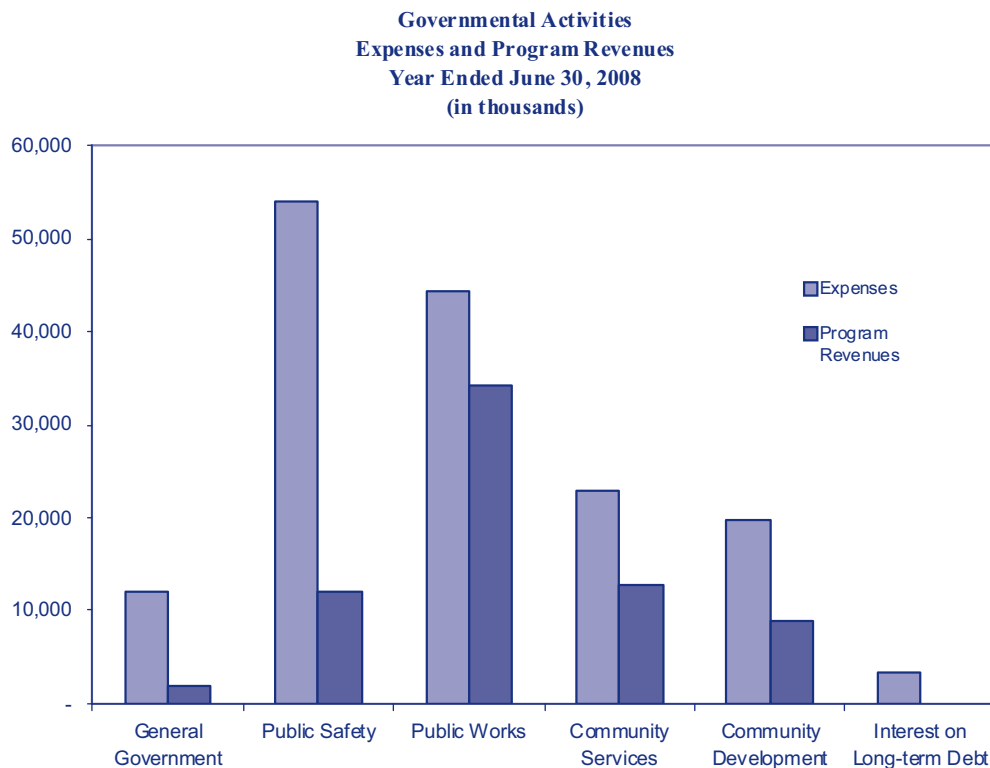
Table 2 below summarizes the Statement of Activities for Governmental Activities for the fiscal year ended June 30, 2008, with comparative totals for the fiscal year ended June 30, 2007.

Table 2 STATEMENT OF ACTIVITIES Governmental Activities Fiscal Years Ended June 30, 2008 and 2007		
	<u>2008</u>	<u>2007</u>
Revenues:		
Program Revenues:		
Charges for service	\$ 45,966,221	\$ 43,924,992
Operating grants and contributions	15,099,483	15,979,223
Capital grants and contributions	8,732,919	4,178,108
General Revenues:		
Taxes	92,109,877	89,199,765
Franchise fees	3,181,287	3,582,547
Motor vehicle license fees	417,569	853,447
Investment income	6,643,125	4,761,981
Other revenue	3,862,329	3,111,512
Total revenues	<u>176,012,810</u>	<u>165,591,575</u>
Expenses:		
Program Expenses:		
Administration	12,196,570	12,328,958
Public safety	54,394,795	51,186,323
Public works	44,527,891	45,284,471
Community services	22,982,993	22,031,786
Community development	19,948,382	17,939,197
Interest expense	3,408,205	3,809,541
Total expenses	<u>157,458,836</u>	<u>152,580,276</u>
Increase in Net Assets Before Transfers	18,553,974	13,011,299
Transfers in	<u>182,030</u>	<u>686,564</u>
Increase in Net Assets	18,736,004	13,697,863
Net Assets, July 1	427,246,097	413,548,234
Net Assets, June 30	<u>\$ 445,982,101</u>	<u>\$ 427,246,097</u>

Revenues of Governmental Activities totaled \$176 million for the fiscal year ended June 30, 2008. Of this total, \$92.1 million (52%) was derived from taxes, including sales tax, transient occupancy tax, utility user's tax, and property tax revenues. This is consistent with the nature of governmental activities, which includes services traditionally financed from general tax revenues. Approximately \$46 million (26%) of total revenues were derived from charges for services, representing fees charged for various services, such as recreation, planning, building, library, solid waste, and engineering, as well as services provided by General Fund departments to other funds. Revenues derived from fees and charges help support programs largely subsidized from general tax revenues and, thus, reduce the burden on these limited resources.

Total revenues increased by approximately \$10.4 million (6%) from the prior year, from \$165.6 million to \$176 million. Charges for services increased \$2 million, capital grants and contributions increased \$4.6 million, and tax revenues increased \$2.9 million from the prior year.

Expenses for the year totaled approximately \$157.5 million. The largest component of total expenses was for public safety (fire and police), representing \$54 million (34.5%) of the total. Community Services expenses, which include parks, recreation, and library services, totaled \$22.9 million, and Public Works expenses totaled \$44.5 million. Depreciation accounted for approximately \$3.7 million of the total Public Works expenses.



Overall expenses increased by approximately \$4.8 million from the prior year, which is primarily attributable to increased salary & benefit costs. Expenses for streets and road maintenance were comparable to the prior year. Under the Modified Approach (see page 85 of this report) used by the City for streets and road construction, maintenance and repairs, these expenses are not capitalized but shown as expenses on the Statement of Activities.

Business-Type Activities

Statement of Net Assets

Table 3 below summarizes the Statement of Net Assets of Business-Type Activities as of June 30, 2008, with comparative totals as of June 30, 2007.

As previously indicated, business-type activities include the City's operations in the Water, Wastewater, Airport, Golf, Waterfront, and Downtown Parking Enterprise Funds. These operations are highly capital intensive, devoting a significant portion of their financial resources to the maintenance and replacement of major capital equipment and facilities. This is evidenced by the higher proportion of capital assets to total assets in relation to funds included within the Government Activities category shown in Table 1. In fact, of the \$479.8 million in total assets at June 30, 2008, approximately \$366.9 million (76.5%) relate to capital assets. The increase of \$15.9 million is a result of capital improvements made during the year that were funded from capital grants, operating revenues, and/or accumulated reserves for several major projects including: renovations to the wastewater treatment & collection system, on-going water main replacements, and airport terminal expansion & safety improvement projects.

Table 3
Statement of Net Assets
Business-Type Activities
As of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current and other assets	\$ 112,953,816	\$ 116,199,476
Capital assets (net of depreciation)	<u>366,889,321</u>	<u>350,955,167</u>
Total Assets	<u>479,843,137</u>	<u>467,154,643</u>
Liabilities:		
Current and other liabilities	15,167,321	19,445,374
Long-term liabilities	<u>91,582,245</u>	<u>95,796,611</u>
Total Liabilities	<u>106,749,566</u>	<u>115,241,985</u>
Net Assets:		
Invested in capital assets, net of related debt	275,593,610	255,451,180
Restricted	9,783,482	12,302,261
Unrestricted	<u>87,716,479</u>	<u>84,159,217</u>
Total net Assets	<u>\$ 373,093,571</u>	<u>\$ 351,912,658</u>

In total, net assets of the business-type activities increased by \$21.2 million for the year ended June 30, 2008. All categories of net assets have a positive balance, which means that, as a whole, the individual funds comprising the business-type activities have sufficient current assets to satisfy both current and long-term liabilities, and still have assets remaining for discretionary spending. In short, the funds included within this category are in excellent financial condition. Overall, unrestricted net assets of the business-type activities increased \$3.6 million this fiscal year. While the unrestricted net asset change varies between funds, the increase is primarily due to activities in the Water and Wastewater Funds. Unrestricted net assets in the Water, Wastewater, and Nonmajor proprietary funds increased \$4.5 million, \$1.2 million, and \$960,000, respectively. These increases were offset by a \$6.6 million decrease in the Airport Fund. Unrestricted Airport net assets decreased due to the large construction projects that are under way for safety improvement areas and expansion of the airport terminal.

Statement of Activities

Table 4 summarizes the Statement of Activities for Business-Type Activities for the fiscal years ended June 30, 2008 and June 30, 2007.

Total revenues for the fiscal year ended June 30, 2008 were \$99 million, a decrease of \$524,000 (0.5%) from the prior year. Charges for services, the largest source of revenue, increased \$4 million (5.1%); however, this was offset by a \$5.3 million decrease in capital grants and contributions revenues. Charges for services include fees and charges for utilities, such as Water and Wastewater, as well as charges relating to the Airport, Waterfront, Downtown Parking and Golf enterprise funds. The increase in charges for services is the result of a combination of fee or rate increases and increased activity throughout the various funds. For example, the Water and the Wastewater Funds raised their rates in fiscal year 2008 by 3.5% and 6%, respectively. The rate increases, combined with higher usage due to extremely dry weather throughout the year, generated additional revenues of \$2.1 million and \$891,000, respectively in these two funds. Airport revenues increased \$590,000 primarily due to positive results in the terminal, commercial, and commercial aviation lease revenues.

Capital grant revenue includes \$11.9 million from the Federal Aviation Administration for several large capital projects at the airport, including the terminal expansion, runway relocation and improvements, and airport safety projects.

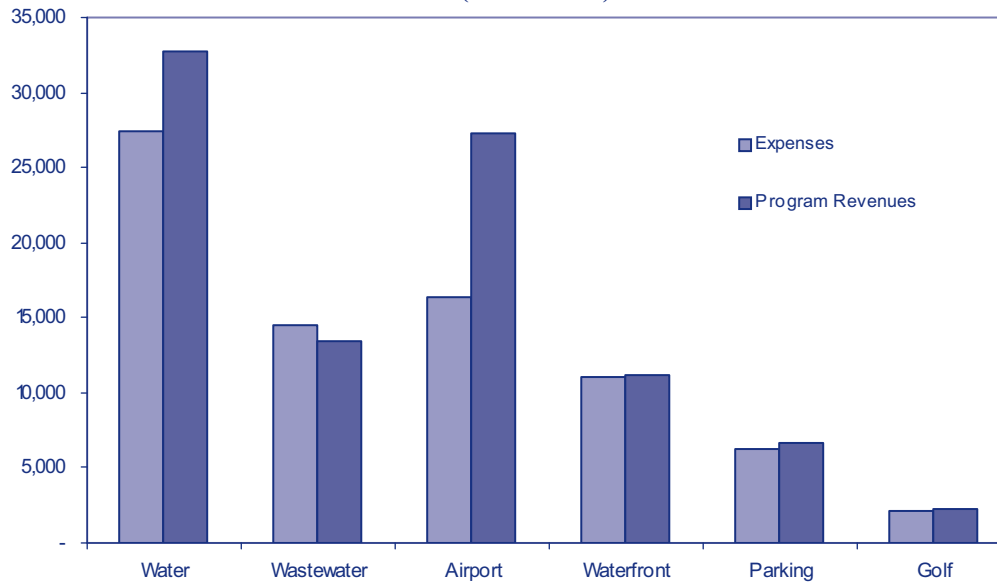
Table 4 STATEMENT OF ACTIVITIES Business-Type Activities Fiscal Years Ended June 30, 2008 and 2007		
REVENUES:	2008	2007
Program Revenues:		
Charges for Service	\$ 81,601,988	\$ 77,613,743
Operating Grants and Contributions	144,627	114,973
Capital Grants and Contributions	11,860,445	17,154,977
General Revenues:		
Investment Income	5,439,977	4,687,029
TOTAL REVENUES	99,047,037	99,570,722
EXPENSES:		
Business Activities:		
Water	27,414,971	27,310,533
Wastewater	14,559,771	13,252,490
Airport	16,307,247	14,862,294
Waterfront	11,053,907	11,004,206
Other Non-Major Funds	8,348,198	8,050,981
TOTAL EXPENSES	77,684,094	74,480,504
Change in Net Assets Before Transfers	21,362,943	25,090,218
Transfers	(182,030)	(686,564)
Change in Net Assets	21,180,913	24,403,654
Net Assets, July 1	351,912,658	327,509,004
Net Assets, June 30	\$ 373,093,571	\$ 351,912,658

Investment income increased \$753,000 from the prior year; however, \$545,000 of the increase is due to the annual adjustment required by GASB Statement No. 31 (GASB 31) to adjust the City's portfolio to fair market value. The actual increase in investment earnings of approximately \$208,000 was primarily due to an increased investment yield in the current fiscal year in relation to the prior year.

The City pools the cash of all funds, except bond funds held by fiscal agents, for investment purposes. All investments are subject to State law and the City's investment policy. The City's average yield on investments rose from 4.427% for the year ended June 30, 2007 to 4.819% for the year ended June 30, 2008. As noted in the previous paragraph, investment earnings increased \$545,000 to reflect the increase in fair market value of the City's proprietary funds' portfolio at June 30, 2008, pursuant to GASB Statement No. 31. This increase in market value represents only a "paper" gain, as the City holds all investments to maturity at which time they are redeemed at par value.

Expenses for the fiscal year ended June 30, 2008 totaled \$77.7 million, a \$3.2 million increase from the prior year. The increase is the net of varying increases in each fund and will be discussed in more detail later in the analysis of individual funds in this report. The business-type funds experienced approximately \$1.2 million increased salary and benefits costs due to negotiated salary increases, increased health care costs, and increased retirement costs. Additionally, these funds have a combined \$855,000 increase in depreciation expense, with \$580,000 of the increase attributable to the large capital projects at the Airport.

**Business-type Activities
Expenses and Program Revenues
For the Year Ended June 30, 2008
(in thousands)**



FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

The City uses fund accounting to demonstrate compliance with legal and contractual requirements. This section provides an analysis and discussion of individual funds and fund types presented in the financial statements.

Governmental Funds

Analysis of Year-End Balances

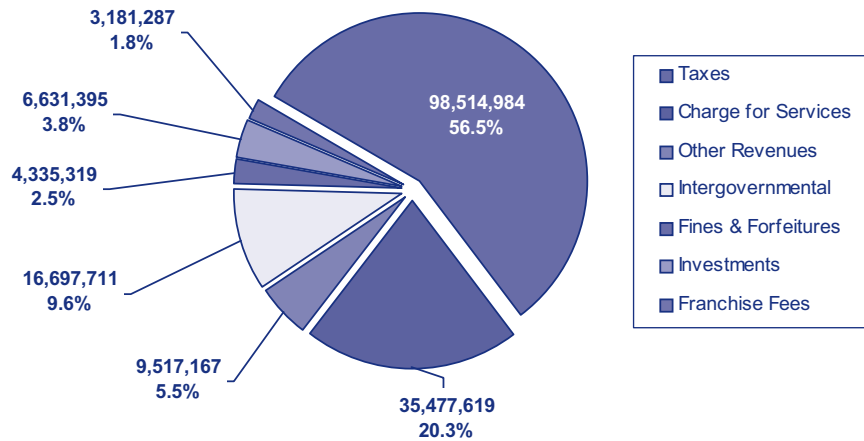
As previously noted, governmental funds use the modified accrual basis of accounting. As of June 30, 2008, governmental fund assets totaled \$170.1 million. Of this total, \$62.2 million consisted of cash and investments, and \$31.9 million consisted of cash and investments held with fiscal agents (bond trustees). An additional \$59.8 million represents outstanding loans receivable, of which the vast majority relates to the City's home rehabilitation loan program funded from the Community Development Block Grant program and the Redevelopment Agency's Housing Program.

Fund balance (assets minus liabilities) of governmental funds totaled \$146.6 million at June 30, 2008. Of this total, \$126 million was reserved, \$18 million was designated and \$2.6 was undesignated. The reserved portion of total fund balance includes \$31.3 million in bond proceeds held by fiscal agents in connection with the sale of the 2001, 2003A, and 2004A Tax Allocation Bonds by the Redevelopment Agency (RDA). These funds are restricted to projects for which the bonds were sold, including low-income housing and other redevelopment projects in the downtown area. Reserved fund balance also includes \$42 million for outstanding loans receivable in the RDA Housing Fund. Because these loans are long-term, the corresponding portion of fund balance is not currently available for appropriation and is thus reserved. The *designated* portion of fund balance consists of funds set aside in the General Fund, pursuant to City policy, for emergencies, contingencies, and revenue shortfalls caused by economic downturns. The policy requires that all operating funds, including the General Fund, set aside an amount equal to 25% of its operating budget (policy reserves). During the tough economic environment over the past several years a portion of the policy reserves have been used to balance the budget in the General Fund and, accordingly, reserves have fallen below the policy amount. This use of reserves was in accordance with the purpose of the policy reserves.

Results of Operations

Revenues of the governmental funds totaled \$174.4 million for the fiscal year ended June 30, 2008. As shown in the chart below, the largest component of total revenue was taxes at \$98.5 million, making up 56.5% of total revenue in the governmental funds. This is consistent with the nature and purpose of governmental funds, particularly the General Fund, in that they include programs that are largely supported by general taxes. Taxes received by the General Fund include sales, transient occupancy, utility users, and property taxes. The RDA is almost entirely funded from property tax revenues. This stems from the nature and purpose of redevelopment agencies in that improvements to “blighted” areas in the community are financed from the sale of bonds, which are repaid from the incremental property tax revenues that are generated as a result of the increased value of the properties after the improvements are made.

Governmental Funds Revenues

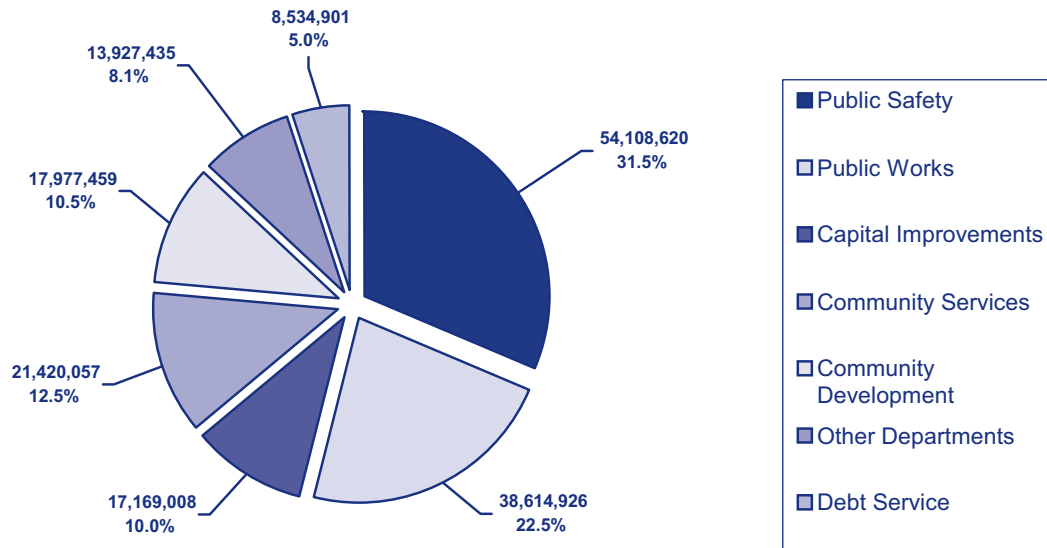


The adopted General Fund budget provided for \$105 million of expenditures, including transfers. Budget amendments and appropriation carryovers from the prior year of \$5.7 million increased the budget to \$110.7 million. Appropriations tied to outstanding encumbrances of \$3.1 million that were carried forward from fiscal year 2007. Amendments totaling \$2.6 million were approved by City Council during the year. The majority of these amendments were funded from additional revenues.

Total governmental expenditures were \$171.8 million for the fiscal year. As always, a large portion of overall expenditures (approximately 31.5%) relates to fire and police (public safety). Virtually all of the public safety costs are funded out of the General Fund, consuming 52% of total General Fund revenues. A total of \$21.4 million was expended for Community Services, which includes library, parks, and recreation; \$38.6 million was spent on Public Works, which includes streets maintenance, capital programs and improvements, and \$14.6 million in payments to the waste haulers.

In total, governmental funds ended the year with a net increase in fund balance of \$2.3 million. As such, the City's total available resources for financing next year's programs and services increased from the end of last year from \$144.2 million to \$146.6 million. The General Fund used approximately \$3.2 million of fund balance while fund balance in the RDA Special Revenue Fund and the RDA Capital Projects Fund increased by \$2.8 million and \$3 million, respectively. The increase in the RDA Special Revenue fund balance was primarily attributable to \$18.1 in tax increment revenues (a \$1.3 million increase from the prior year), less debt service, capital transfers, and operating expenditures. The increase in the RDA Capital Projects fund balance is attributable to transfers from the RDA fund for current and future capital projects.

Governmental Funds Expenditures



Proprietary Funds

Unlike governmental funds, proprietary funds use the full accrual basis of accounting for financial statement purposes. Accordingly, information reported for the individual fund statements is very similar to that presented as “business-type activities” in the government-wide statements. Government-wide reporting requires the inclusion of activities of the City’s internal service funds related to proprietary fund activities in the “business-type” activities. Therefore, the following analysis is very similar to that presented previously for Business-Type Activities.

Analysis of Year-End Balances

Assets of the proprietary funds totaled \$473.6 million as of June 30, 2008. Of this total, \$366.9 million (77.5%) consisted of capital assets used in the operations of the various funds. This is consistent with the nature and purpose of the services provided by proprietary funds, which include the Water, Wastewater, Airport, Golf, Waterfront, and Downtown Parking Funds. These services are highly capital intensive and require ongoing funding for capital maintenance and improvement.

Cash and investments (including cash with fiscal agents) is the second largest asset category, comprising almost 18.5% of total assets. As of June 30, 2008, total cash and investments (including cash and investments with fiscal agents) of proprietary funds totaled \$87.8 million, which is a \$2 million decrease from the prior year balance of \$89.8 million. Cash increased by \$3.7 million in the Water Fund, \$811,000 in the Downtown Parking Fund, and \$300,000 in the Golf Fund. Cash and investments decreased \$1.7 million in the Wastewater Fund and \$5 million in the Airport Fund.

As shown in the cash flow statement, Water Fund operations generated a \$10.5 million increase in cash, while investing activities provided \$2.2 million and debt service and capital expenditures consumed approximately \$8.9 million cash. An increase in water rates of 3.5% this year, combined with drought conditions, resulted in a \$1.9 million surplus in water revenues. Capital expenditures and debt service payments show a cash outflow of \$8.9 million. The capital expenditures were primarily due to planned water pipe & main replacements, renovations to the Cater Treatment Plant, and other improvements to the water distribution system this year.

The Wastewater Fund is in the process of performing capital renovations and improvements to the wastewater system that will occur over the next several years. Wastewater Fund cash decreased \$1.7 million as a result of

approximately \$5.1 million spent on capital projects and debt service payments during the year, offset by an increase of \$2.4 million in cash from the fund's operations and \$1 million increase from investment income.

The \$5 million net decrease in Airport cash was primarily due to Airport capital expenses which consumed approximately \$5.7 million of cash. Airport operations consumed an additional \$259,000 in cash, but investment earnings increased and provided approximately \$1 million in cash this fiscal year.

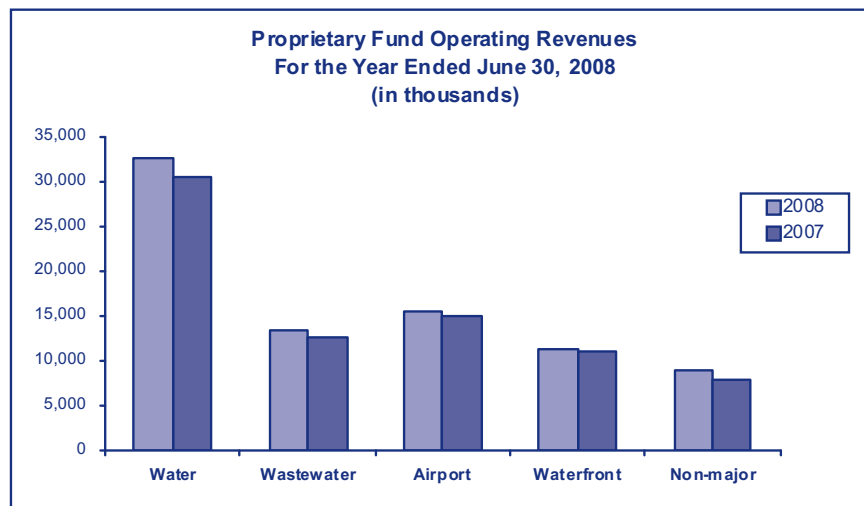
Net assets of proprietary funds totaled \$363.7 million as of June 30, 2008, an increase of \$17.6 million from the prior year. Net assets consist of amounts invested in capital assets net of net of related debt, amounts restricted for capital projects and debt service, as well as unrestricted amounts. As of June 30, 2008, the portion of net assets invested in capital assets (net of related debt) was \$275.6 million, a \$20.1 million increase from the prior year. This increase is due to capital expenditures in fiscal year 2008, as discussed previously, offset by current year depreciation and the amount of outstanding debt that was used to finance the capital expenditures. Net assets restricted for capital projects decreased \$2.5 million from \$7.7 million to \$5.1 million. Total proprietary fund net assets restricted for debt service and unrestricted net assets remained virtually the same as the prior year at \$4.6 million and \$78.3 million, respectively.

Results of Operations

Total fiscal year 2008 operating revenues of the proprietary funds were approximately \$80.8 million, an increase of approximately \$4.1 million (5.3%) from the prior year. Operating revenues increased in all funds, with the largest dollar increase of \$2.1 million (7%) occurring in the Water Fund. Wastewater Fund and Airport Fund operating revenues increased \$912,000 (7.3%) and \$590,000 (4%), respectively. Effective on July 1, 2007, water service rates were increased by 3.5% and wastewater charges were increased by 6%. The actual increase of revenue in the Water and Wastewater Funds is dependent on both the rates and water usage; therefore, it will not exactly mirror the rate increase percentage. Drought conditions continued this fiscal year, which resulted in higher than anticipated water usage and revenues. Since water usage impacts wastewater revenues, this extra water usage also resulted in increased wastewater revenues.

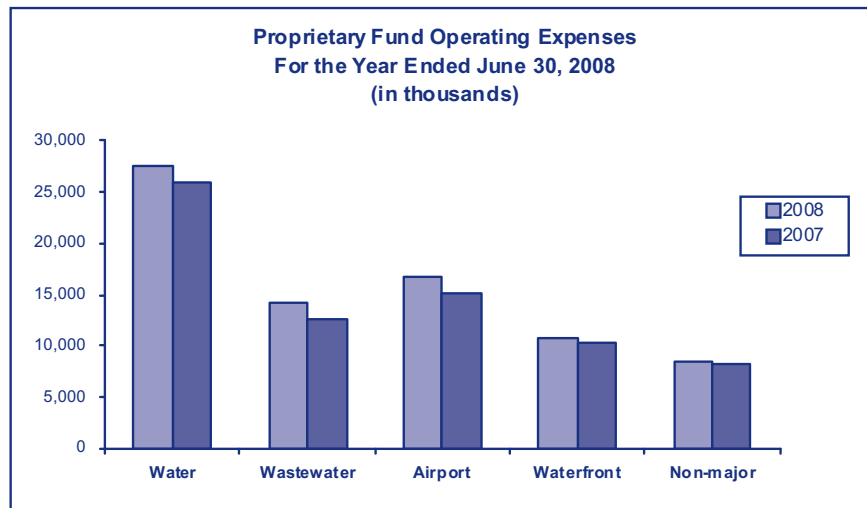
The increase in Airport operating revenues was primarily due to increases from all categories of leases. Waterfront operating revenues increased 3.2% (\$345,000) from fiscal year 2007. This increase is almost entirely due to increased lease revenues. Lease revenues improved due to tenant turnover with the new tenants generating more revenues, thus increasing the percentage lease payments to the City.

Operating expenses of proprietary funds totaled approximately \$77.5 million in fiscal year 2008, a \$5.3 million increase from the prior year. Depreciation accounted for \$855,000 of the increase while salary and benefit costs accounted for another \$1.2 million of the change. Materials, supplies, and services expenses accounted for \$ 3.2 million of the increase.



Proprietary fund operating expenses increased by \$1.5 million in the Water Fund, \$1.5 million in the Wastewater Fund, \$1.5 million in the Airport Fund, \$378,000 in the Waterfront Fund, and \$361,000 in the nonmajor proprietary funds this year. Salary and benefit costs increased by \$588,000 in the Water Fund, \$258,000 in the Wastewater Fund, \$140,000 in the Airport Fund, \$109,000 in the Waterfront Fund, and \$137,000 in the nonmajor proprietary funds.

Materials, supplies, and services expense increased by \$578,000 in the Water Fund, \$1.1 million in the Wastewater Fund, \$767,000 in the Airport Fund, \$433,000 in the Waterfront Fund, and \$266,000 increase in the non-major proprietary funds. These expenses are incurred as needed throughout the year and are not incurred evenly from year to year, accordingly; it is common to see variances from the prior year, which can be substantial in some years. The increase in the Wastewater Fund was primarily due to a \$378,000 increase in special projects, a \$380,000 increase in utility and disposal costs, a \$130,000 increase in facilities maintenance, and a \$108,000 increase in legal fees.



Non-operating revenues and expenses, which include downtown merchants' parking assessments, investment income, grants/contributions, interest expense, and other miscellaneous revenues, decreased \$16.5 million from the prior year. This large decrease is almost entirely due to a change in presentation of capital grants on the statement of Revenues, Expenses, and Changes in Fund Net Assets. Excluding this presentation change, non-operating revenues and expenses increased \$697,000 due to increased investment earnings. Capital contributions decreased \$5.3 million due to decreased Airport grants received from the FAA this year. These grants are dependent on the timing of projects at the Airport and cover multiple years so variances of this magnitude are not uncommon.

GENERAL FUND FINANCIAL AND BUDGETARY HIGHLIGHTS

The General Fund is the main operating fund of the City. Its revenues are primarily derived from taxes and intergovernmental sources, which are used to pay for the traditional services provided by local government - public safety, library, parks & recreation, community development (building and planning), and public works.

The originally adopted expenditure budget of the General Fund totaled \$105 million including \$2.5 million in transfers to other funds. Budgeted revenues (including transfers of \$902,000) were \$105.2 million, thus yielding a \$209,000 budgeted surplus. The amended budget, which includes unspent, but encumbered appropriations carried forward from fiscal year 2007, as well as Council-approved adjustments during the year, totaled \$110.7 million. The amended revenue budget was \$106.8 million, resulting in a \$3.9 million budgeted use of reserves.

Table 5
SUMMARY OF REVENUES
GENERAL FUND
For the Twelve Months Ended June 30, 2008
Comparison to Budget and Prior Year

	Current Year Analysis			Prior Year Analysis	
	Annual Budget	Actual	Budget Variance	Prior Year Actual	Variance From PY
Sales Tax	\$ 21,189,900	\$ 20,866,792	\$ (323,108)	\$ 20,210,822	\$ 655,970
Property Tax	21,985,200	22,438,713	453,513	21,040,618	1,398,095
UUT	6,846,800	6,844,081	(2,719)	6,566,440	277,641
TOT	13,581,500	12,935,553	(645,947)	12,840,766	94,787
Bus License	2,296,000	2,252,134	(43,866)	2,214,235	37,899
Prop Trans Tax	500,000	451,640	(48,360)	645,545	(193,905)
Total Taxes	<u>66,399,400</u>	<u>65,788,913</u>	<u>(610,487)</u>	<u>63,518,426</u>	<u>2,270,487</u>
Licenses & Permits	128,995	165,451	36,456	131,259	34,192
Fines & Forfeitures	3,228,937	2,543,831	(685,106)	2,293,369	250,462
Franchise Fees	2,968,600	2,829,559	(139,041)	2,812,297	17,262
Use of Money	1,978,395	2,600,533	622,138	2,255,017	345,516
Intergovernmental	2,717,245	2,678,225	(39,020)	2,455,426	222,799
Fee & Services	18,881,619	18,749,956	(131,663)	17,650,947	1,099,009
Miscellaneous	7,310,278	7,504,313	194,035	7,375,043	129,270
Budgeted year-end Var	2,311,793	-	(2,311,793)	-	-
Total Other	<u>39,525,862</u>	<u>37,071,868</u>	<u>(2,453,994)</u>	<u>34,973,358</u>	<u>2,098,510</u>
Total Revenues	<u><u>\$ 105,925,262</u></u>	<u><u>\$ 102,860,781</u></u>	<u><u>\$ (3,064,481)</u></u>	<u><u>\$ 98,491,784</u></u>	<u><u>\$ 4,368,997</u></u>

General Fund revenues ended the year \$3.1 million under budget; however this included a \$2.3 million anticipated year-end variance. While no revenues were to be recognized for the anticipated year-end variance, the net year-end variances in expenditures and revenues were expected to equal or exceed this amount. In fact the combination of the \$753,000 negative revenue variance and the \$4.1 million positive expenditure variance exceeded the budgeted \$2.3 million year-end variance.

Excluding the budgeted year-end variance, revenues ended the year \$753,000 under budget. Tax revenues ended the year approximately \$610,000 below budget with sales tax and transient occupancy tax revenues approximately \$323,000 and \$646,000, respectively, below the budget. Property tax revenues exceeded budget by \$454,000. Non-tax revenues (excluding the budgeted year-end variance) were \$142,000 below budget. Use of money and miscellaneous revenues exceeded the budget by \$622,138 and \$194,035, respectively. As discussed in other areas of this document, investment revenues (a component of use of money revenue) exceeded budget due to the GASB 31 adjustment to reflect the increase of over \$500,000 in the market value of the portfolio. This positive variance was offset by fines & forfeitures, franchise fees, and fees & services revenues which ended the year below budget by \$685,000, \$139,000, and \$132,000, respectively.

As shown in Table 6, General Fund expenditures for the year ended June 30, 2008, were \$104 million, resulting in a \$4.1 million (3.8%) favorable budget variance. All departments kept within their legal spending authority.

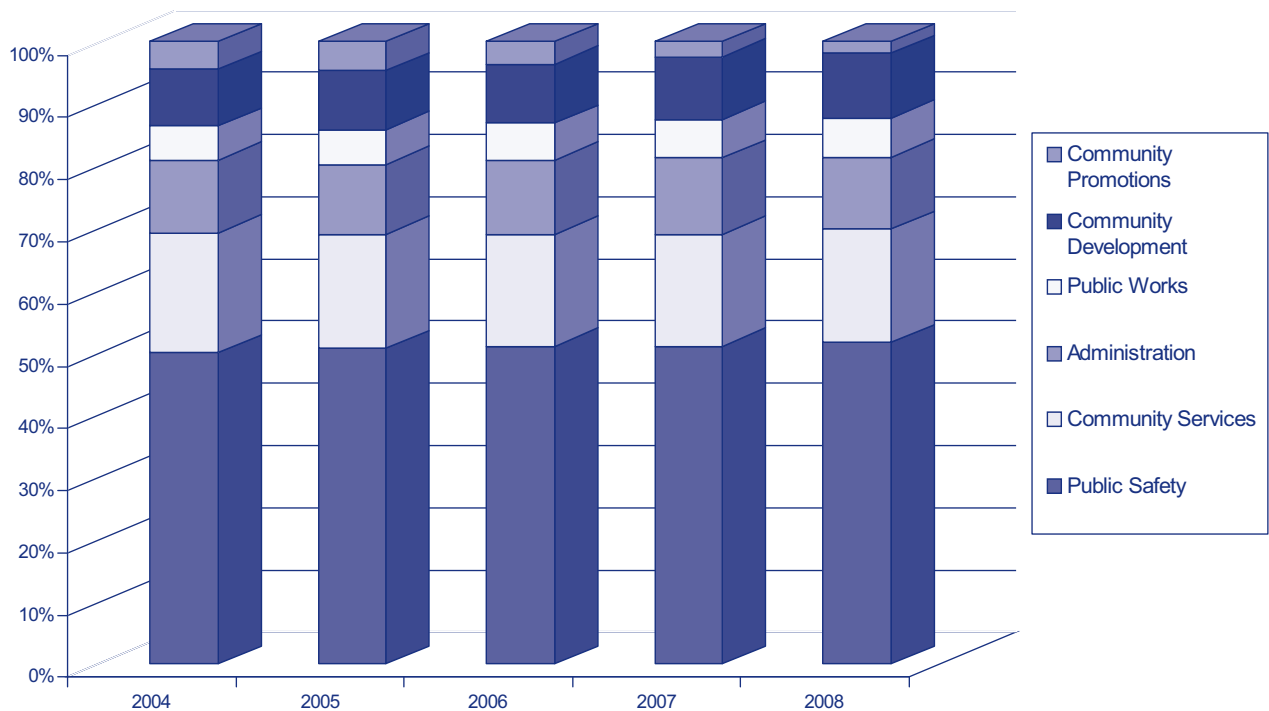
Table 6
SUMMARY OF EXPENDITURES
GENERAL FUND
For the Fiscal Year Ended June 30, 2008

Department	Annual Budget	YTD Actual	Variance Favorable (Unfavorable)	
			\$	%
Mayor & Council	\$ 862,001	\$ 800,738	\$ 61,263	7.1%
City Attorney	2,203,476	2,109,104	94,372	4.3%
City Administrator	2,241,360	2,163,842	77,518	3.5%
Administrative Svs.	2,480,806	2,272,640	208,166	8.4%
Finance	4,822,039	4,660,727	161,312	3.3%
Police	32,923,965	32,859,337	64,628	0.2%
Fire	20,961,632	20,820,299	141,333	0.7%
Public Works	6,925,793	6,498,273	427,520	6.2%
Parks & Recreation	15,225,358	14,685,244	540,114	3.5%
Library	4,649,994	4,325,912	324,082	7.0%
Community Dev.	12,951,504	10,905,192	2,046,312	15.8%
Non-Departmental	1,884,114	1,884,114	-	0.0%
Total	<u>\$ 108,132,042</u>	<u>\$ 103,985,422</u>	<u>\$ 4,146,620</u>	3.8%

Salaries and benefits savings accounted for \$696,000 of this positive variance. Materials, supplies, and services expenditures were \$2.6 million under budget with \$2.2 million in savings on professional and non-professional services. Specials projects expenditures produced a \$503,000 favorable variance while capital expenditures were \$408,000 under budget. These expenditures are budgeted many months before the start of the fiscal year based on historical information and estimates of future operations. Unspent appropriations for projects that will be needed in future years will be carried forward as encumbrances; the General Fund had \$2.5 million encumbered at June 30, 2008.

The largest General Fund variance is in the Community Development Department, primarily due to \$1.5 million encumbered but unspent for the City's General Plan update process and these encumbered funds will be used throughout the process. Expenditures in the Public Works Department were \$427,520 under budget with approximately \$175,000 in salary & benefits savings and \$161,000 in encumbrances that will be carried forward into next fiscal year. The remaining \$91,000 budget variance in Public Works is mostly due to unspent special projects costs, \$41,000 of which will be carried over to next year for underground fuel tank abatement. Parks & Recreation Department expenditures were \$540,114 under budget with \$386,000 due to encumbrances that will be carried forward into next year and the remaining variance is in salaries & benefits expenses. Library expenditures were \$324,082 under budget with \$184,000 attributable to salary & benefit savings and \$83,000 in encumbrances that will be carried forward to next year. The remaining budget variance is due to unspent professional service costs. Administrative Service Department budget savings are attributable to \$47,000 in salary & benefits savings, \$79,000 in supplies & services, \$40,000 in special projects, and \$22,000 encumbrances that will be carried forward into next year.

General Fund Expenditures by Activity



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 7 on the following page summarizes the City's capital assets by class and by type of activity. It is important to note that capital assets are reported at historical cost, net of accumulated depreciation. These amounts do not represent the market value or replacement cost of City assets, which would be significantly higher. Historical cost is used, pursuant to accounting standards, to provide an objective basis for reporting capital assets.

As shown in Table 7, capital assets totaled \$726.2 million. Net capital assets (i.e. net of depreciation) in governmental funds increased \$9.6 million and the increase in business-type funds was \$15.9 million. The additions in the governmental funds were primarily due to infrastructure improvements (\$471,000), construction in progress (\$5.5 million), and land (\$1.4 million) in the General Fund, as well as additions of \$1.1 million for land, \$845,000 for infrastructure, and \$1.6 million in Construction in Progress in the RDA. Accumulated depreciation increased by \$3.5 million in the General Fund and \$2 million in the RDA.

The \$15.9 million net capital asset additions in the business-type funds are spread across all of the funds with capital additions of \$4.2 million in the Water Fund, \$3.7 million in the Wastewater Fund, \$22.3 million in the Airport Fund, \$1.4 million in the Waterfront Fund, and \$406,000 in the Downtown Parking and Golf Funds. The capital additions were offset by the change in accumulated depreciation in the Water Fund (\$6.1 million), Wastewater Fund (\$3.5 million), Airport Fund (\$4.3 million), Waterfront Fund (\$1.6 million), Downtown Parking (\$348,000), and Golf Fund (\$214,000).

TABLE 7
SUMMARY OF CAPITAL ASSETS
(Net of Accumulated Depreciation)
As of June 30, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Non-depreciating assets:			
Construction in Progress	\$ 21,200,393	\$ 50,619,691	\$ 71,820,084
Land	50,759,518	19,201,133	69,960,651
Streets	160,101,179	-	160,101,179
Depreciating assets:			
Buildings	33,087,192	10,950,480	44,037,672
Building Improvements	4,125,334	5,270,268	9,395,602
Equipment	8,017,448	12,287,410	20,304,858
Improvements Other Than Buildings	16,874,454	171,136,731	188,011,185
Infrastructure	65,156,091	8,585,251	73,741,342
Underground Piping	-	88,838,357	88,838,357
TOTALS	<u><u>\$ 359,321,609</u></u>	<u><u>\$ 366,889,321</u></u>	<u><u>\$ 726,210,930</u></u>

Renovations to the water treatment and distribution systems, including \$1.4 million of water main replacements, accounted for the capital additions in the Water fund. The Wastewater Fund additions include the annual sewer line replacements and continuation of the renovations to the sewer system and plant. Airport Fund net additions totaled \$18 million for various projects, including the terminal expansion, air field safety projects, t-hangar construction, and construction of the rental car storage and maintenance facility.

By far, the largest class of assets in the Governmental and Business Type Activities is Infrastructure (which is comprised of “Streets” and “Infrastructure”). The next largest classes of assets are “Improvements Other Than Buildings” and “Underground Piping” which total approximately \$188 million and \$88.8 million, respectively. Improvements Other Than Buildings include improvements to land, parking structures, and other improvements to assets other than buildings. Underground piping primarily includes water and sewer lines. The majority of these assets is included in the business type activities and is an integral part of their operations.

Infrastructure assets, totaling \$233.8 million of total net capital assets, include roads, curbs, gutters, storm drains, street lights, bridges, etc. Governmental funds have been required to capitalize the costs of acquiring or constructing infrastructure assets acquired or constructed after 1982. Where information was readily available, or if a value could be reasonably estimated, the City capitalized infrastructure assets acquired or constructed prior to 1982.

The City has elected to use the “modified approach” pursuant to GASB Statement No. 34 in accounting for streets so these assets have been reported separately from other infrastructure in Table 7. The City has established a pavement condition assessment process where approximately one-third of the entire street system is assessed on a rotating basis each year. Each road segment is rated and given a pavement condition index (PCI) value from zero to one hundred (0-100), where PCI’s of 41 or higher are considered to be in “Fair” or better condition, and roads with PCI’s of 56 or higher are considered to be in “Good” or better condition. Pursuant to the modified approach, depreciation is not reported for this subsystem and all costs, except for betterments and major improvements made to the subsystem, are expensed rather than capitalized. At June 30, 2008, the average PCI for City streets was 71, which is defined as “very good”. Ninety one percent of the City’s streets were considered to be in “good to excellent” condition, four percent of the streets were rated in “fair” condition, and only five percent were considered to be in “poor to substandard” condition.

Additional information on the City of Santa Barbara’s capital assets can be found in Notes 1 and 5, and Required Supplementary Information of this report.

Long-Term Debt

Table 8 below summarizes outstanding long-term debt, excluding outstanding claims payable, associated with both Governmental Activities and Business-Type Activities. As shown in Table 8, the City had approximately \$164.1 million in long-term debt outstanding at June 30, 2008, a net decrease of \$9.3 million from the prior year.

TABLE 8
SUMMARY OF OUTSTANDING DEBT
Fiscal Year Ended June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Certificates of Participation	\$ 2,838,000	\$ 30,557,000	\$ 33,395,000
Revenue Bonds	-	22,470,000	22,470,000
Tax Allocation Bonds	69,265,000	-	69,265,000
Loans	750,000	38,268,711	39,018,711
	<u>\$ 72,853,000</u>	<u>\$ 91,295,711</u>	<u>\$ 164,148,711</u>

With respect to the Governmental Activities, the outstanding \$2.8 million in certificates of participation (COP's) were issued in fiscal year 2002 to refund the 1993 COP's, thereby capturing more favorable interest rates and lowering interest costs. These COP's are the only debt of the General Fund and total just 2.8% of total General Fund revenues. The outstanding \$69.3 million tax allocation bonds relate to the City's Redevelopment Agency. This includes the 2001, 2003A, and 2004A Tax Allocation Bonds issued in July 2001, December 2003, and July 2004, respectively, to fund the construction of the Granada Garage, senior affordable housing, and other redevelopment projects.

Of the outstanding \$38.3 million in loans payable in the Business-type activities, \$35.9 million relates to the Water Fund. The Water Fund loans are low-interest loans from the State Department of Water Resources (SDWR), primarily for the Sheffield Reservoir Project and the Cater Water Treatment Plant Project. Approximately 40% of the SDWR loans will be reimbursed by the Montecito Water District and the Carpinteria Water District. The Water Fund also had \$4.4 million in 1994 Series A revenue bonds outstanding at June 30, 2008. The \$18.1 million in outstanding sewer revenue bonds were issued by the Wastewater Fund 2004 to fund renovations to the City's wastewater collection and treatment systems. The Waterfront and Water Funds have outstanding COP's totaling \$16.1 million and \$13 million, respectively.

Additional information on the City of Santa Barbara's long-term debt can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal year 2008 adopted budget was developed based on the assumption of moderate growth in key revenues, such as sales taxes, property taxes, and transient occupancy taxes. In fact, the adopted budget included a capital program entirely funded from current revenues, and still provided for a budgeted surplus of over \$200,000.

During the second half of fiscal year 2008, the national, state and local economies began to falter, and key revenues in the City's General Fund began to show the effects of what would arguably become the worst national (and international) economic downturns since the Great Depression more than 70 years ago.

By the end of the year, key revenues were below budget, partially offset by favorable variances in expenditures. Still, a total of over \$3.1 million in reserves were consumed as a result of revenue shortfalls.

The development of the fiscal year 2009 budget was developed based on a projected \$4 million deficit. Given the uncertainty at that time as to the depth and duration of the economic downturn, a strategy that used equal parts one-time revenues and on-going adjustments was used to close the projected deficit. This strategy recognized that if the economic downturn lasted more than 12-18 months, or was more profound than expected, we would have to make larger and more permanent adjustments in fiscal year 2010 to re-balance the General Fund. It also recognized the possibility that the downturn could be short-lived, and thereby avoiding larger cuts that would later prove unnecessary.

Unfortunately, the economic downturn has now become a national financial crisis: large, long-standing institutions have failed; the federal government approved a \$152 billion economic stimulus package that included tax rebates to most taxpayers, and is now debating the details of a proposed \$750 billion bail-out plan called the Troubled Assets Relief Program (TARP) designed to infuse cash into the credit markets and potentially provide some relief to homeowners that are in jeopardy of losing their homes to foreclosure; and more recently, it is possible that one or more of our nation's three largest auto manufacturers will fall into bankruptcy.

As a tourist destination and a city that relies on revenues that are directly impacted by economic swings, the impacts from the current economic crisis on the General Fund's key revenues have been significant. For example, sales tax revenues for the quarter ended June 30, 2008 declined by over 7% - the largest decline in over a decade. While to date there has been a small increase in transient occupancy tax revenues, the growth rate has declined, and the revenues may well decline in fiscal year 2009. Property tax revenues, which were unaffected by the economic recession following "9-11" and, in fact, grew at historically high rates, are now growing well below the average of the last 10 years. As a result, the fiscal year 2009 the General Fund structural imbalance of \$2 million that was included in the adopted budget has now grown to a projected \$5.5 million in just 6 months.

The City has already developed a strategy to re-balance the current year budget that will include on-going adjustments to expenditures and a modest amount of one-time measures, but no use of reserves. The more challenging task, however, will be in addressing the even larger projected deficit in fiscal year 2010. Undoubtedly, with such a significant projected deficit, the City will have to make significant changes to services provided to its residents in a manner that recognizes the priorities of our community and ensures basic and essential services are maintained, including those related to public safety.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report, separate reports of the City's component unit (Redevelopment Agency), or need any additional financial information, please access the City's internet web site at www.SantaBarbaraCa.gov/government/finance/CAFR. You may also contact the City's Finance Department at PO Box 1990 (735 Anacapa Street), Santa Barbara, California, 93110, (805) 564-5334, or email Rudolf Livingston CPA, Accounting Manager at RLivingston@SantaBarbaraCa.gov or Robert Samario, Assistant Finance Director at BSamario@SantaBarbaraCa.gov.

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CITY OF SANTA BARBARA
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 85,123,627	\$ 78,025,555	\$ 163,149,182
Accounts receivable, net	9,554,631	5,270,182	14,824,813
Accrued interest receivable	1,780,359	-	1,780,359
Due from other agencies	455,952	302,564	758,516
Due from fiduciary funds	327,081	-	327,081
Internal balances	(6,277,521)	6,277,521	-
Inventory	791,813	-	791,813
Prepaid assets and deposits	62,855	3,960,312	4,023,167
Deferred charges	1,960,675	3,080,967	5,041,642
Loans receivable	59,832,567	6,253,234	66,085,801
Restricted assets:			
Cash and investments with fiscal agents	31,851,475	9,783,481	41,634,956
Capital assets not being depreciated:			
Construction in progress	21,200,393	50,619,691	71,820,084
Land	50,759,518	19,201,133	69,960,651
Streets	160,101,179	-	160,101,179
Capital assets, net of accumulated depreciation:			
Buildings	33,087,192	10,950,480	44,037,672
Building improvements	4,125,334	5,270,268	9,395,602
Equipment	8,017,448	12,287,410	20,304,858
Infrastructure	65,156,091	8,585,251	73,741,342
Other improvements and drainage systems	16,874,454	171,136,731	188,011,185
Underground piping	-	88,838,357	88,838,357
Total capital assets	359,321,609	366,889,321	726,210,930
Total assets	544,785,123	479,843,137	1,024,628,260
LIABILITIES			
Current liabilities:			
Accounts payable	4,630,331	3,649,188	8,279,519
Accrued interest payable	835,981	618,240	1,454,221
Salaries and benefits payable	4,653,139	1,179,374	5,832,513
Other accrued liabilities	247,229	-	247,229
Deposits	1,087,605	1,610,593	2,698,198
Unearned revenue	1,110,242	6,895,025	8,005,267
Compensated absences payable	5,310,164	1,214,901	6,525,065
Total current liabilities	17,874,691	15,167,321	33,042,012
Noncurrent liabilities:			
Due within one year	7,678,537	4,358,677	12,037,214
Due in more than one year	70,844,364	86,937,034	157,781,398
Long-term portion compensated absences	590,018	134,989	725,007
Other post employment benefits (OPEB) obligation	1,011,000	-	1,011,000
Unamortized debt premium	804,412	151,545	955,957
Total noncurrent liabilities	80,928,331	91,582,245	172,510,576
Total liabilities	98,803,022	106,749,566	205,552,588
NET ASSETS			
Invested in capital assets, net of related debt	319,070,084	275,593,610	594,663,694
Restricted for capital projects	20,799,662	5,133,979	25,933,641
Restricted for specific projects and programs	69,164,402	-	69,164,402
Restricted for debt service	-	4,649,503	4,649,503
Unrestricted	36,947,953	87,716,479	124,664,432
Total net assets	\$ 445,982,101	\$ 373,093,571	\$ 819,075,672

See accompanying notes to the basic financial statements

CITY OF SANTA BARBARA
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2008

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Current:							
Administration	\$ 12,196,570	\$ 1,845,045	\$ -	\$ -	\$ (10,351,525)	\$ -	\$ (10,351,525)
Public safety	54,394,795	9,400,891	2,643,924	65,889	(42,284,091)	-	(42,284,091)
Public works	44,527,891	23,901,539	6,566,853	3,761,092	(10,298,407)	-	(10,298,407)
Community services	22,982,993	5,210,760	2,765,009	4,794,197	(10,213,027)	-	(10,213,027)
Community development	19,948,382	5,607,986	3,123,697	111,741	(11,104,958)	-	(11,104,958)
Interest on long term debt	3,408,205	-	-	-	(3,408,205)	-	(3,408,205)
Total governmental activities	157,458,836	45,966,221	15,099,483	8,732,919	(87,660,213)	-	(87,660,213)
Business activities:							
Water	27,414,971	32,610,140	69,328	-	-	5,264,497	5,264,497
Wastewater	14,559,771	13,449,287	9,236	-	-	(1,101,248)	(1,101,248)
Airport	16,307,247	15,450,676	-	11,860,445	-	11,003,874	11,003,874
Waterfront	11,053,907	11,177,283	66,063	-	-	189,439	189,439
Parking	6,262,293	6,669,214	-	-	-	406,921	406,921
Golf course	2,085,905	2,245,388	-	-	-	159,483	159,483
Total business-type activities	77,684,094	81,601,988	144,627	11,860,445	-	15,922,966	15,922,966
Total	\$ 235,142,930	\$ 127,568,209	\$ 15,244,110	\$ 20,593,364	(87,660,213)	15,922,966	(71,737,247)
General revenues:							
Taxes:							
Property					40,519,674	-	40,519,674
Sales & use					20,838,406	-	20,838,406
Transient occupancy					15,522,708	-	15,522,708
Utility users					12,525,315	-	12,525,315
Business license					2,252,134	-	2,252,134
Real property transfer					451,640	-	451,640
Franchise fees					3,181,287	-	3,181,287
Unrestricted motor vehicle license-in-lieu					417,569	-	417,569
Investment income					6,643,125	5,439,977	12,083,102
Other revenue					3,862,329	-	3,862,329
Transfers					182,030	(182,030)	-
Total general revenues and transfers					106,396,217	5,257,947	111,654,164
Change in net assets					18,736,004	21,180,913	39,916,917
Net assets, beginning of fiscal year					427,246,097	351,912,658	779,158,755
Net assets, end of fiscal year					\$ 445,982,101	\$ 373,093,571	\$ 819,075,672

See accompanying notes to the basic financial statements

**CITY OF SANTA BARBARA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

	General Fund	Special Revenue Funds Redevelopment Agency	Solid Waste	Community Dev Block Grant	Capital Projects Fund Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>							
Cash and investments	\$ 16,356,784	\$ 12,874,109	\$ 1,902,150	\$ 1,197	\$ 8,315,611	\$ 22,846,575	\$ 62,296,426
Cash and investments with fiscal agents	-	549,442	-	-	30,740,754	561,279	31,851,475
Accounts receivable	5,993,032	-	1,092,245	409,965	-	1,941,985	9,437,227
Accrued interest receivable	1,633,454	146,905	-	-	-	-	1,780,359
Loans receivable	3,692,282	41,973,405	-	6,886,066	2,300,000	4,980,814	59,832,567
Due from fiduciary funds	327,081	-	-	-	-	-	327,081
Due from other agencies	-	-	-	-	-	455,952	455,952
Interfund receivable	981,176	-	-	-	-	-	981,176
Advances to other funds	3,102,617	-	-	-	-	-	3,102,617
Prepaid assets and deposits	41,139	-	-	-	-	21,716	62,855
Total assets	<u>\$ 32,127,565</u>	<u>\$ 55,543,861</u>	<u>\$ 2,994,395</u>	<u>\$ 7,297,228</u>	<u>\$ 41,356,365</u>	<u>\$ 30,808,321</u>	<u>\$ 170,127,735</u>
<u>Liabilities and Fund Balances</u>							
<u>Liabilities:</u>							
Accounts payable	\$ 1,042,338	\$ 11,456	\$ 287,382	\$ 61,853	\$ 741,116	\$ 1,764,236	\$ 3,908,381
Salaries and benefits payable	4,015,128	-	37,043	9,613	-	297,418	4,359,202
Interest payable	-	209,120	-	-	-	40,456	249,576
Interfund payables	-	-	-	339,696	-	641,480	981,176
Deposits	934,746	14,000	-	-	-	138,859	1,087,605
Unearned revenue	1,110,242	-	-	-	-	-	1,110,242
Deferred revenue	-	-	-	6,883,719	-	4,980,814	11,864,533
Total liabilities	<u>7,102,454</u>	<u>234,576</u>	<u>324,425</u>	<u>7,294,881</u>	<u>741,116</u>	<u>7,863,263</u>	<u>23,560,715</u>
<u>Fund balances:</u>							
Reserved	7,059,969	55,309,285	87,755	2,347	40,615,249	22,945,058	126,019,663
Unreserved:							
Designated	17,965,142	-	-	-	-	-	17,965,142
Undesignated, reported in: Special revenue funds	-	-	2,582,215	-	-	-	2,582,215
Total fund balances	<u>25,025,111</u>	<u>55,309,285</u>	<u>2,669,970</u>	<u>2,347</u>	<u>40,615,249</u>	<u>22,945,058</u>	<u>146,567,020</u>
Total liabilities and fund balances	<u>\$ 32,127,565</u>	<u>\$ 55,543,861</u>	<u>\$ 2,994,395</u>	<u>\$ 7,297,228</u>	<u>\$ 41,356,365</u>	<u>\$ 30,808,321</u>	<u>\$ 170,127,735</u>

See accompanying notes to the basic financial statements

CITY OF SANTA BARBARA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS
June 30, 2008

Total Governmental fund balances (page 32)		\$ 146,567,020
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities, that are not included in internal service funds, are not financial resources and, therefore, are not reported in the funds. (Note 5)		354,006,732
Deferred issuance costs on a bond refunding must be amortized in the statement of activities over the life of the new bond issue.		1,156,263
Governmental long-term debt is not due and payable in the current period and, therefore, are not reported in the funds. (Note 7)		(72,853,000)
Compensated absences that are not due and payable in the current period and, therefore, are not reported in the funds. (Note 1Q)		(5,583,730)
OPEB obligation is not due and payable in the current period and, therefore, are not reported in the funds. (Note 18)		(1,011,000)
Interest on long-term debt is reported as an expenditure of the governmental funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred in the government-wide financial statements.		(835,981)
Internal service funds are used by management to charge the costs of management of fleet maintenance, printing and reproduction, worker's compensation, employee benefits, and personal injury and property damage to individual funds. The assets and liabilities are included in the governmental activities in the statement of net assets. (See Statement of Net Assets Proprietary Funds, p. 37)		
Internal Service Funds fund balance	\$ 16,182,680	
Less business-type portion	<u>(3,570,777)</u>	12,611,903
CDBG and HOME loans made or repaid throughout the year are not available for use in the current period and, therefore, are deferred in the funds. (Note 3)		11,866,880
Certain sales tax receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		<u>57,014</u>
Net assets of governmental activities (page 30)		<u>\$ 445,982,101</u>

See accompanying notes to the basic financial statements

CITY OF SANTA BARBARA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2008

	General	Special Revenue Funds			Capital Projects Fund	Other	Total
	Fund	Redevelopment Agency	Solid Waste	Community Dev Block Grant	Redevelopment Agency	Governmental Funds	Governmental Funds
Revenues:							
Taxes	\$ 65,788,913	\$ 18,080,961	\$ 435,536	\$ -	\$ -	\$ 14,209,574	\$ 98,514,984
Franchise fees	2,829,559	-	-	-	-	351,728	3,181,287
Intergovernmental	2,678,225	-	91,591	1,454,357	111,741	12,361,797	16,697,711
Fines and forfeitures	2,709,282	-	-	-	-	1,626,037	4,335,319
Use of money and property	2,600,533	1,378,942	-	-	1,875,805	776,394	6,631,674
Charges for services	18,749,956	54,615	16,000,741	-	-	672,307	35,477,619
Program income	-	-	-	279,991	-	3,344	283,335
Other revenues	7,504,313	477,673	200,302	-	1,312	1,050,232	9,233,832
Total revenues	102,860,781	19,992,191	16,728,170	1,734,348	1,988,858	31,051,413	174,355,761
Expenditures:							
Current:							
Mayor and council	800,738	-	-	-	-	-	800,738
City attorney	2,109,104	-	-	-	-	-	2,109,104
City administration	2,163,842	-	-	-	-	-	2,163,842
Administrative services	2,272,640	-	-	-	-	-	2,272,640
Finance	4,660,727	-	-	-	-	-	4,660,727
Public safety	53,679,636	-	-	-	-	428,984	54,108,620
Public works	6,498,273	-	16,973,500	-	-	15,143,153	38,614,926
Community services	19,011,156	-	-	-	-	2,408,901	21,420,057
Community development	10,905,192	4,051,481	-	1,732,756	-	1,324,579	18,014,008
Community promotions	1,884,114	-	-	-	-	-	1,884,114
Capital improvements	-	-	-	-	4,689,297	12,479,711	17,169,008
Debt service:							
Principal	-	440,000	-	-	1,140,000	3,496,000	5,076,000
Interest	-	228,825	-	-	2,910,984	319,092	3,458,901
Total expenditures	103,985,422	4,720,306	16,973,500	1,732,756	8,740,281	35,600,420	171,752,685
Excess (deficiency) of revenues over (under) expenditures	(1,124,641)	15,271,885	(245,330)	1,592	(6,751,423)	(4,549,007)	2,603,076
Other financing sources (uses):							
Transfers in	499,546	-	-	-	9,750,351	6,041,451	16,291,348
Transfers out	(2,557,633)	(12,504,339)	(16,035)	(1,592)	(2,093)	(1,472,052)	(16,553,744)
Total other financing sources (uses)	(2,058,087)	(12,504,339)	(16,035)	(1,592)	9,748,258	4,569,399	(262,396)
Net change in fund balances	(3,182,728)	2,767,546	(261,365)	-	2,996,835	20,392	2,340,680
Fund balances, beginning of fiscal year	28,207,839	52,541,739	2,931,335	2,347	37,618,414	22,924,666	144,226,340
Fund balances, end of fiscal year	\$ 25,025,111	\$ 55,309,285	\$ 2,669,970	\$ 2,347	\$ 40,615,249	\$ 22,945,058	\$ 146,567,020

See accompanying notes to the basic financial statements

**CITY OF SANTA BARBARA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
Fiscal Year Ended June 30, 2008**

Amounts reported for governmental activities in the statement of activities (page 31) are different because:

Net change in fund balances - total governmental funds (page 34)		\$ 2,340,680
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for general capital assets, infrastructure, and other related capital	\$ 15,006,798	
Less current year depreciation	<u>(5,609,153)</u>	9,397,645
Repayment of debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		5,076,000
Loans made and repayments received are expenditures or revenues in the governmental funds, but the repayments reduce, and new loans increase, loans receivable in the Statement of net Assets.		377,690
Amortization of deferred debt costs in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(16,286)
Governmental funds report interest on long-term debt as expenditures when paid, whereas these amounts are deferred and reported in the period when the liability exists in the statement of activities		66,982
OPEB obligation costs in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(1,011,000)
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue of certain activities of internal service funds is reported as governmental activities. (See Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds p. 38)		
Change in net assets - Internal service funds	6,345,137	
Less: amount related to enterprise funds	<u>(3,570,777)</u>	2,774,360
Governmental liabilities for compensated absences are not due until payable in the governmental funds, therefore, the changes in the liability are not reported as as expenditures in the governmental funds.		(241,680)
Certain sales tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(28,387)
Adjusted change in net assets of governmental activities (page 31)		<u><u>\$ 18,736,004</u></u>

See accompanying notes to the basic financial statements

**CITY OF SANTA BARBARA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008**

	Water	Wastewater	Airport
Assets			
Current assets:			
Cash and investments	\$ 32,654,600	\$ 11,609,125	\$ 15,109,113
Accounts receivable, net	3,992,074	1,271,110	-
Due from other agencies	-	-	302,564
Inventory	-	-	-
Prepaid assets	3,960,312	-	-
Total current assets	40,606,986	12,880,235	15,411,677
Non-current assets:			
Other assets:			
Restricted assets:			
Cash and investments with fiscal agents	1,890,324	6,499,464	-
Unamortized bond issuance costs, net	298,522	394,778	-
Deferred charge-loss on defeasance, net	940,158	-	-
Loans receivable	6,253,234	-	-
Total other assets	9,382,238	6,894,242	-
Capital Assets:			
Land	2,218,187	3,508,672	7,310,000
Buildings	6,262,226	13,953,411	3,964,543
Building improvements	1,307,478	453,788	2,432,486
Improvements other than building	122,465,447	32,836,500	103,201,645
Equipment	7,827,586	11,587,645	4,411,853
Underground piping	101,607,930	72,699,240	-
Other Infrastructure	-	-	14,885,287
Construction in progress	6,783,337	15,152,754	26,499,716
Less: accumulated depreciation	(109,184,573)	(69,405,507)	(47,660,843)
Total capital assets, net	139,287,618	80,786,503	115,044,687
Total non-current assets	148,669,856	87,680,745	115,044,687
Total assets	189,276,842	100,560,980	130,456,364
Liabilities			
Current liabilities:			
Accounts payable	800,726	797,869	1,746,650
Accrued interest payable	284,923	129,000	-
Salaries and benefits payable	298,172	204,987	209,555
Deposits	149,034	-	910,769
Deferred revenue	6,253,233	-	436,005
Compensated absences payable	344,933	231,909	221,249
Current portion claims payable	-	-	-
Current portion long term debt	2,990,660	580,000	98,917
Total current liabilities	11,121,681	1,943,765	3,623,145
Non-current liabilities:			
Long-term debt, net of current portion	50,271,843	17,520,000	2,257,291
Compensated absences payable	38,326	25,768	24,583
Unamortized bond premium	-	-	-
Advances from other funds	-	-	-
Estimated claims liability, net of current portion	-	-	-
Total noncurrent liabilities	50,310,169	17,545,768	2,281,874
Total liabilities	61,431,850	19,489,533	5,905,019
Net Assets			
Unreserved - designated:			
Other			
Invested in capital assets, net of related debt	86,025,115	62,686,503	112,688,479
Restricted for capital projects	1,805	5,131,743	-
Restricted for debt service	1,888,519	1,367,721	-
Unrestricted	39,929,553	11,885,480	11,862,866
Total net assets	\$ 127,844,992	\$ 81,071,447	\$ 124,551,345
Adjustment to reflect the consolidation of internal service activities related to enterprise funds			
Net assets of business-type activities			

See accompanying notes to the basic financial statements

Waterfront	Nonmajor Proprietary Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
\$ 9,126,807	\$ 9,525,910	\$ 78,025,555	\$ 22,827,201
(500)	7,498	5,270,182	60,390
-	-	302,564	-
-	-	-	791,813
-	-	3,960,312	-
9,126,307	9,533,408	87,558,613	23,679,404
1,393,693	-	9,783,481	-
542,800	-	1,236,100	-
798,070	106,639	1,844,867	-
-	-	6,253,234	-
2,734,563	106,639	19,117,682	-
878,201	5,286,073	19,201,133	-
3,690,671	5,876,451	33,747,302	105,889
3,246,573	90,749	7,531,074	162,584
45,448,619	6,645,365	310,597,576	257,165
1,043,352	1,186,533	26,056,969	18,072,058
-	-	174,307,170	-
-	-	14,885,287	-
381,204	1,802,680	50,619,691	174,477
(35,726,981)	(8,078,977)	(270,056,881)	(13,457,296)
18,961,639	12,808,874	366,889,321	5,314,877
21,696,202	12,915,513	386,007,003	5,314,877
30,822,509	22,448,921	473,565,616	28,994,281
134,474	169,469	3,649,188	721,950
202,739	1,578	618,240	-
243,109	223,551	1,179,374	293,937
510,118	40,672	1,610,593	-
189,485	16,302	6,895,025	-
270,249	146,561	1,214,901	316,452
-	-	-	2,337,637
565,000	124,100	4,358,677	-
2,115,174	722,233	19,525,998	3,669,976
15,550,000	1,337,900	86,937,034	-
30,028	16,284	134,989	-
151,545	-	151,545	-
3,002,617	100,000	3,102,617	-
-	-	-	3,332,264
18,734,190	1,454,184	90,326,185	3,332,264
20,849,364	2,176,417	109,852,183	7,002,240
-	-	-	-
2,846,639	11,346,874	275,593,610	5,314,877
431	-	5,133,979	-
1,393,263	-	4,649,503	-
5,732,812	8,925,630	78,336,341	16,677,164
\$ 9,973,145	\$ 20,272,504	363,713,433	\$ 21,992,041
		9,380,138	
		\$ 373,093,571	

CITY OF SANTA BARBARA
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2008

	Water	Wastewater	Airport
Operating Revenues:			
Charges for sales and services			
Sales	\$ 29,448,078	\$ 12,797,802	\$ -
Service charges	3,125,017	659,231	2,282,685
Leases and rents	-	-	12,872,959
Other revenues	37,045	13,758	295,032
Total operating revenues	<u>32,610,140</u>	<u>13,470,791</u>	<u>15,450,676</u>
Operating Expenses:			
Salaries, wages and benefits	6,602,876	4,718,892	4,485,030
Materials, supplies and services	14,680,769	5,966,509	7,886,362
Depreciation	6,126,607	3,514,001	4,294,191
Other expenses	37,368	32,950	5,092
Total operating expenses	<u>27,447,620</u>	<u>14,232,352</u>	<u>16,670,675</u>
Operating income (loss)	<u>5,162,520</u>	<u>(761,561)</u>	<u>(1,219,999)</u>
Non-operating Revenues (Expenses):			
Taxes	-	-	-
Investment income	2,151,331	1,037,851	1,031,359
Interest expense	(1,847,988)	(786,108)	(124,583)
Other, net	36,592	(21,504)	-
Total non-operating revenues (expenses)	<u>339,935</u>	<u>230,239</u>	<u>906,776</u>
Income (loss) before contributions and transfers	5,502,455	(531,322)	(313,223)
Capital Contributions	32,736	9,236	11,860,445
Transfers in	-	-	-
Transfers out	<u>(106,202)</u>	<u>(69,464)</u>	<u>(14,042)</u>
Change in net assets	5,428,989	(591,550)	11,533,180
Net assets, beginning of year	<u>122,416,003</u>	<u>81,662,997</u>	<u>113,018,165</u>
Net assets, end of year	<u>\$ 127,844,992</u>	<u>\$ 81,071,447</u>	<u>\$ 124,551,345</u>

Adjustment to reflect the consolidation of internal service activities related to enterprise funds
Change in net assets of business-type activities (page 31)

See accompanying notes to the basic financial statements

Waterfront	Nonmajor Proprietary Funds	Total Proprietary Funds	Governmental Activities - Internal Service Funds
\$ -	\$ -	\$ 42,245,880	\$ -
6,807,794	7,732,078	20,606,805	18,632,525
4,314,203	310,213	17,497,375	-
117,217	7,640	470,692	219,348
<u>11,239,214</u>	<u>8,049,931</u>	<u>80,820,752</u>	<u>18,851,873</u>
5,096,152	4,534,546	25,437,496	6,361,349
3,972,941	3,411,833	35,918,414	6,508,907
1,579,956	561,933	16,076,688	1,210,894
-	-	75,410	-
<u>10,649,049</u>	<u>8,508,312</u>	<u>77,508,008</u>	<u>14,081,150</u>
<u>590,165</u>	<u>(458,381)</u>	<u>3,312,744</u>	<u>4,770,723</u>
-	864,671	864,671	-
659,075	560,361	5,439,977	1,089,072
(922,297)	(65,887)	(3,746,863)	-
(61,931)	-	(46,843)	40,916
<u>(325,153)</u>	<u>1,359,145</u>	<u>2,510,942</u>	<u>1,129,988</u>
265,012	900,764	5,823,686	5,900,711
66,063	-	11,968,480	-
-	36,420	36,420	474,324
<u>(14,803)</u>	<u>(13,939)</u>	<u>(218,450)</u>	<u>(29,898)</u>
316,272	923,245	17,610,136	6,345,137
<u>9,656,873</u>	<u>19,349,259</u>		<u>15,646,904</u>
<u>\$ 9,973,145</u>	<u>\$ 20,272,504</u>		<u>\$ 21,992,041</u>
		3,570,777	
		<u>\$ 21,180,913</u>	

CITY OF SANTA BARBARA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2008

	<u>Water</u>	<u>Wastewater</u>	<u>Airport</u>
Cash flows from operating activities:			
Cash received from services	\$ 32,014,094	\$ 13,339,985	\$ 2,277,593
Cash received from rents and leases	-	-	12,764,614
Cash payments for goods and services	(14,962,451)	(6,213,775)	(11,105,438)
Cash payments to employees for services	(6,588,658)	(4,672,843)	(4,452,994)
Cash received (returned) for deposits	14,689	-	(37,457)
Other operating receipts	37,045	13,758	295,032
Other operating disbursements	(37,368)	(32,950)	-
Net cash provided (used) by operating activities	<u>10,477,351</u>	<u>2,434,175</u>	<u>(258,650)</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	(106,202)	(69,464)	(14,042)
Transfers from other funds	-	-	-
Cash received from taxes and assessments	-	-	-
Other, net	36,592	-	-
Net cash provided (used) by non-capital financing activities	<u>(69,610)</u>	<u>(69,464)</u>	<u>(14,042)</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	-	-	(94,131)
Proceeds from capital grants and contributions	32,736	9,236	16,791,627
Payments on long term debt	(2,801,656)	(546,201)	-
Acquisition of capital assets	(4,223,740)	(3,717,457)	(22,293,774)
Disposition of capital assets	-	-	-
Interest paid on debt	(1,863,615)	(810,612)	(124,583)
Net cash used for capital and related financing activities	<u>(8,856,275)</u>	<u>(5,065,034)</u>	<u>(5,720,861)</u>
Cash flows from investing activities:			
Cash received on investments	<u>2,151,331</u>	<u>1,037,851</u>	<u>1,031,359</u>
Net increase (decrease) in cash and cash equivalents	3,702,797	(1,662,472)	(4,962,194)
Cash and cash equivalents, beginning of fiscal year	<u>30,842,127</u>	<u>19,771,061</u>	<u>20,071,307</u>
Cash and cash equivalents, end of fiscal year	<u><u>\$ 34,544,924</u></u>	<u><u>\$ 18,108,589</u></u>	<u><u>\$ 15,109,113</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 5,162,520	\$ (761,561)	\$ (1,219,999)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	6,126,607	3,514,001	4,294,191
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(559,001)	(117,048)	-
(Increase) decrease in inventories	-	-	-
(Increase) decrease in prepaid assets	139,088	-	-
Increase (decrease) in accounts payable	(420,770)	(247,266)	(3,219,076)
Increase (decrease) in accrued salaries payable	49,655	26,862	32,164
Increase (decrease) in deferred revenue	-	-	(108,345)
Increase (decrease) in accrued compensated absences	(35,437)	19,187	(128)
Increase (decrease) in accrued claims	-	-	-
Increase (decrease) in deposits	14,689	-	(37,457)
Net cash provided (used) by operating activities	<u><u>\$ 10,477,351</u></u>	<u><u>\$ 2,434,175</u></u>	<u><u>\$ (258,650)</u></u>

See accompanying notes to the basic financial statements

Waterfront	Nonmajor Proprietary Funds	Total Proprietary Funds	Governmental Activities Internal Service Funds
\$ 6,820,775	\$ 1,948,557	\$ 56,401,004	\$ 18,621,105
4,315,886	6,120,556	23,201,056	-
(4,101,975)	(3,447,497)	(39,831,136)	(9,026,078)
(5,041,887)	(4,491,808)	(25,248,190)	(6,265,025)
8,445	4,741	(9,582)	-
117,217	7,640	470,692	219,348
-	-	(70,318)	-
<u>2,118,461</u>	<u>142,189</u>	<u>14,913,526</u>	<u>3,549,350</u>
(14,803)	(13,939)	(218,450)	(29,898)
-	36,420	36,420	474,324
-	864,671	864,671	-
<u>(61,931)</u>	<u>-</u>	<u>(25,339)</u>	<u>-</u>
<u>(76,734)</u>	<u>887,152</u>	<u>657,302</u>	<u>444,426</u>
(122,148)	-	(216,279)	-
66,063	-	16,899,662	-
(490,533)	(119,000)	(3,957,390)	-
(1,369,515)	(406,355)	(32,010,841)	(1,409,603)
-	-	-	40,916
<u>(927,767)</u>	<u>(53,645)</u>	<u>(3,780,222)</u>	<u>-</u>
<u>(2,843,900)</u>	<u>(579,000)</u>	<u>(23,065,070)</u>	<u>(1,368,687)</u>
<u>659,075</u>	<u>660,361</u>	<u>5,539,977</u>	<u>1,089,072</u>
(143,098)	1,110,702	(1,954,265)	3,714,161
<u>10,663,598</u>	<u>8,415,208</u>	<u>89,763,301</u>	<u>19,113,040</u>
<u>\$ 10,520,500</u>	<u>\$ 9,525,910</u>	<u>\$ 87,809,036</u>	<u>\$ 22,827,201</u>
\$ 590,165	\$ (458,381)	\$ 3,312,744	\$ 4,770,723
1,579,956	561,933	16,076,688	1,210,894
12,981	10,520	(652,548)	(11,420)
-	-	-	(59,070)
-	-	139,088	-
(129,034)	(35,664)	(4,051,810)	519,684
32,455	33,302	174,438	56,661
1,683	16,302	(90,360)	-
21,810	9,436	14,868	39,663
-	-	-	(2,977,785)
<u>8,445</u>	<u>4,741</u>	<u>(9,582)</u>	<u>-</u>
<u>\$ 2,118,461</u>	<u>\$ 142,189</u>	<u>\$ 14,913,526</u>	<u>\$ 3,549,350</u>

CITY OF SANTA BARBARA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	Pension Trust Funds	Private Purpose Trust Funds	Agency Funds
<u>Assets</u>			
Current assets:			
Cash and investments	\$ -	\$ 2,491,144	\$ 1,082,641
Accounts receivable, net	-	303	20,713
Loans receivable	-	-	2,007,133
Total current assets	-	2,491,447	3,110,487
Capital assets:			
Equipment	-	-	878,164
Less: accumulated depreciation	-	-	(866,164)
Capital assets, net	-	-	12,000
Other assets:			
Cash and investments with fiscal agents:			
Cash and cash equivalents	55,625	-	96,460
Other investments	459,688	-	-
Total other assets	515,313	-	96,460
Total assets	515,313	2,491,447	\$ 3,218,947
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	-	578	2,412
Accrued benefits payable	5,132	-	-
Due to other Governments	320,432	-	6,649
Total current liabilities	325,564	578	9,061
Noncurrent liabilities:			
Trust liabilities	-	-	255,501
Contributions	-	-	2,954,385
Total noncurrent liabilities	-	-	3,209,886
Total liabilities	325,564	578	\$ 3,218,947
<u>Net Assets</u>			
Held in trust for pension benefits and other purposes:			
Employees' pension benefit	189,749	-	-
Police	-	23,389	-
Library	-	2,465,942	-
Parks and recreation	-	1,538	-
Total net assets	\$ 189,749	\$ 2,490,869	

See accompanying notes to the basic financial statements

CITY OF SANTA BARBARA
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
Fiscal Year Ended June 30, 2008

	Pension Trust Funds	Private Purpose Trust Funds
Additions		
Contributions:		
Private donations	\$ -	\$ 73,973
Investment earnings:		
Interest	12,710	106,235
Dividends	10,353	-
Net change in fair value of investments	(15,900)	-
Refund of investment fees	37,058	-
Total investment earnings	44,221	106,235
Less investment expense	23,359	-
Net investment income	20,862	106,235
Total additions	20,862	180,208
Deductions		
Benefits	242,424	-
Community services	-	65,566
Total deductions	242,424	65,566
Net increase (decrease)	(221,562)	114,642
Net assets, beginning of fiscal year	411,311	2,376,227
Net assets, end of fiscal year	\$ 189,749	\$ 2,490,869

See accompanying notes to the basic financial statements



Notes To The Basic Financial Statements

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Santa Barbara (City) conform to generally accepted accounting principles. The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

A. Description of the Financial Reporting Entity

The City's reporting entity includes the City (the primary government) and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," which the City adopted effective July 1, 1993. The basic, but not the only, criterion for including a potential component unit within the City's reporting entity is whether the City Council, as the City's governing body, has financial accountability for the potential component unit. The most significant manifestations of financial accountability include the ability of the Council to appoint a voting majority of the organization's governing body and the ability to impose its will on the organization; or that there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be deemed to be financially accountable if an organization is fiscally dependent on the City regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board. In addition to those organizations for which the City may be financially accountable, other organizations for which the City is not financially accountable, but for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete, may also be component units. Component units are presented on a "blended" basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Based upon the application of these criteria, the following is a brief review of the City and each component unit within the City's reporting entity.

City of Santa Barbara

The City of Santa Barbara (the primary government) was incorporated on August 26, 1850. The City is a charter city under the laws of the State of California and operates under a Council-Administrator form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. The current City Charter was adopted on May 2, 1967 and provides for the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise and Fiduciary funds, operated in a manner similar to a private business, include water, wastewater, airport, parking, golf and waterfront.

Redevelopment Agency of the City of Santa Barbara

The Redevelopment Agency of the City of Santa Barbara (Agency), a blended component unit of the City, was established in 1968 and is a separate governmental entity as prescribed in the State of California's Community Redevelopment law as set forth in the State's Health and Safety Code.

The liabilities of the Agency are mutually exclusive from those of the City. The inclusion of the Agency's operations in the accompanying basic financial statements does not express or imply any assumption of liability by the City, either now or in the future. The City Council of the City of Santa Barbara and the Board of Directors of the Agency are legally separate boards; however, they share common membership. The Agency Board consists of members of the City Council. The City also provides all support staff and performs all administrative functions for the Agency under the terms of a written agreement between the two entities. Accordingly, although it is legally separate from the City, the Agency is reported as if it were part of the City because its sole purpose is to provide for redevelopment activities within the City and it has the same governing body. Separate component unit financial statements for the Agency may be obtained on

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

the City's web site at: www.SantaBarbaraCa.gov/Government/Finance/CAFR. California Community Redevelopment law provides that, upon adoption of a redevelopment plan for a specific area, future incremental tax revenues attributable to increases in the tax base within the project area shall be paid to finance the project. Accordingly, for purposes of its comprehensive annual financial report, the City records the Agency's operating fund as a special revenue fund.

Santa Barbara Public Facilities Corporation

The Santa Barbara Public Facilities Corporation ("Corporation") was incorporated in 1986 and organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was created solely for the purpose of providing financial assistance to the City by acquiring, constructing, improving, developing and installing certain real and personal property for the use, benefit and enjoyment of the City. The activities of the Corporation are included within the Water Enterprise Fund of the City. For further information, please contact the City's Finance Department.

B. Government-wide and Fund Financial Statements

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

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

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

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets (i.e., fund balances) as presented in these statements to the net assets presented in the Government-wide financial statements.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets, and a Statement of Cash Flows for each proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, a portion of the internal service balances and activities have been combined with the governmental activities in the Government-wide financial statements.

The following are the major governmental funds of the City:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Redevelopment Agency Special Revenue Fund*, a blended component unit of the City, accounts for all financial activities of the Agency, except for those required for debt service and housing activity.

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

- The *Solid Waste Special Revenue Fund* accounts for refuse revenues received from customers, payments remitted to the trash haulers, and franchise and recycling fees paid by haulers that are used for recycling programs in the City.
- The *Redevelopment Agency Capital Projects Fund* accounts for all capital projects, including some related debt, financed by the Agency.
- The *Community Development Block Grant Special Revenue Fund* accounts for the financial resources provided by the federal government for housing and rental needs, housing and rehabilitation loans and grants, as well as low and moderate income housing programs.

The following are the major proprietary funds of the City:

- The *Water Fund* accounts for the provisions of water services to the residents of the City and some residents of the County.
- The *Wastewater Fund* accounts for the provision of sewer services to the residents of the City and some residents of the County.
- The *Airport Fund* accounts for the operation of the municipal airport and the administration of leases of airport property.
- The *Waterfront Fund* accounts for the operation of the City managed waterfront that includes a public wharf, a small craft harbor, and parking facilities.

Additionally, the City reports the following fund types:

- *Internal Service Funds* account for 1) a maintenance facility for fleet and motor pool equipment used by all City departments and City-wide building maintenance operations, 2) Information Systems and computer support services, and 3) self-insurance operations of workers' compensation, unemployment, and general liability insurance coverage.
- *Private Purpose Trust Funds* are used to account for resources legally held in trust for use by a not-for-profit organization devoted to library book replacement and promoting junior golf. All resources of the funds, including any earnings on invested resources, may be used to support the organization's activities. There is no requirement that any portion of these resources be preserved as capital.
- The *Pension Trust Fund* accounts for the activities of the Safety Retirement Fund and the Service Retirement Fund that accumulates resources for pension benefit payments to qualified safety employees.
- *Agency Funds* are used to report resources held by the City in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary funds' financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the granting agency have been met.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period.

Property and sales taxes, utility users' taxes, transient occupancy taxes, franchise taxes, licenses and other charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as "other financing sources."

For its *business-type activities* and enterprise funds, the City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the Primary Government. Year-end encumbrances are re-appropriated in the following year and expended as the related liability is incurred. Outstanding encumbrances at year-end are recorded as reservations of fund balance.

E. Capital Assets

Capital assets which include land, buildings, improvements to buildings, improvements other than buildings, equipment, construction in progress, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide basic financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year and an initial individual cost of \$10,000 or more for equipment, \$25,000 or more for building improvements and other improvements, \$50,000 or more for buildings and \$100,000 or more for infrastructure. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in results of operations.

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2008.

Capital assets (except land, works of art and construction in progress) of the primary government, as well as the component unit of the Redevelopment Agency, are depreciated using the straight-line method using the estimated useful lives listed below.

	<u>Years</u>
Buildings	40-50
Building Improvements	40-50
Improvements other than Buildings	25-50
Equipment	5-20
Infrastructure (except for the maintained pavement subsystem)	10-100

The City has networks of infrastructure assets such as roads, water and wastewater treatment plants, drainage systems and sidewalks. The streets pavement subsystem of the road network is reported using the modified approach. The City has established a pavement condition assessment process. Approximately one-third of the entire sub-system is assessed on a rotating basis each year. The City's streets pavement subsystem has been classified as roads with or without formal structural sections. Each road segment is rated and given a Pavement Condition Index (PCI) value from zero to one hundred (0-100), where PCI's of 40 or higher are assigned to be in "Fair" or better condition, and roads with PCI's of 55 or higher to be in "Good" or better condition. Accordingly, depreciation is not reported for this subsystem and all costs, except for betterments and major improvements made to the subsystem, are expensed rather than capitalized.

The City completed capitalization of infrastructure assets pursuant to GASB 34 in the fiscal year ended June 30, 2006.

F. Assets Available for Resale

Assets available for resale within the City's Redevelopment Agency are recorded in the Agency's fund at the lower of cost or realizable value. Realizable value is determined by an agreed-upon sale price with a developer. Capitalized costs include all moneys expended in the redevelopment process that can be properly attributed to properties to be resold to developers. There were no assets held for resale at June 30, 2008.

G. Description of Program Revenue

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes except special assessments, which are program revenues.

H. Definition of Operating and Non-operating Revenues

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The principal operating revenues of the water, wastewater, parking, golf, airport and waterfront enterprise funds and the City's internal service funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue service charges, leases and rents, and miscellaneous revenue. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

I. Cash and Cash Equivalents

The cash flow statements require presentation of "cash and cash equivalents." For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as "cash and cash equivalents," as such funds

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are available to the various funds as needed. With respect to cash and investments with fiscal agents, the City considers all investments with an original maturity of less than three months to be cash equivalents.

J. Restricted Assets

The City has funds held by trustees or fiscal agents pledged to the payment or security of bonds and certificates of participation and are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The California Government Code provides that these funds, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments the trustees or fiscal agents may make.

K. Flow Assumption for Restricted Resources

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

L. Budgetary Principles

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Miscellaneous Grants fund and the FEMA Reimbursement Storm special revenue fund. Annual budgets are also adopted for the enterprise and internal service funds. Effective fiscal control for debt service is achieved through bond indenture provisions. While budgets are prepared for the City's capital projects funds, capital projects generally span more than one year and are effectively controlled at the project level.

In early February of each year, departments submit their proposed budgets to the City Administrator. These proposals are reviewed and considered, and adjusted as necessary based on funding limitations and priorities. In April, the City Administrator presents a recommended budget to the City Council. From April through mid-June, public hearings are held and the recommended budget is reviewed in detail with the Council Finance Committee and City Council. The budget is adopted by June 30.

There were no violations of the budget in fiscal year 2008.

M. Investment Policies

Effective July 1, 1997, the City adopted the provisions of GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investments Pools*, which requires that governmental entities, including governmental external investment pools, report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

The fair value of pooled investments is determined annually and is based on current market prices received from the City's securities custodian. The Local Agency Investment Fund (LAIF) is required to invest in accordance with State statutes. At June 30, 2008, the fair value of the City's position in LAIF is the same as the value of the pool shares. Investments held in the Pension Trust Funds are stated at fair value. Short-term investments are reported at cost, which approximates fair value.

The City has developed a formal investment policy that is more restrictive than the State of California Government Code. The policy is adopted annually by the City Council. The City has adhered to established policies for all investment activities.

All of the City's deposits, except certain cash balances held by fiscal agents, are entirely insured or collateralized. The California Government Code requires California banks and savings and loans to secure the City's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal 110% of the City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes equal

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to 150% of the City's deposits. The City may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

N. Receivables and Payables (Inter-fund Transactions)

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not currently available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

O. Property Tax Calendar

In 1978, a State constitutional amendment (Article XIII A) provided that the ad valorem real property tax rate be limited to 1% of market value and be levied only by the county and shared with all other jurisdictions. The County of Santa Barbara collects the property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdictions' assessed valuations, subject to adjustments for voter-approved debt. Property taxes are formally due on November 1 and February 1 and become delinquent as of December 10 and April 10 respectively. Taxes become a lien on the property effective March 1 of the preceding year.

P. Inventories and Prepaid Assets

Inventories are stated at cost (first-in, first-out basis) for governmental funds and lower of average cost or market for proprietary funds. Governmental fund inventories are recorded as expenses when consumed rather than when purchased. Proprietary fund inventories consist primarily of materials and supplies held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Q. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. For fire safety employees the value of the sick pay benefit is converted to additional years of service for purposes of calculating retirement benefits provided by the Public Employees Retirement System (PERS) and the employee is, therefore, compensated through an increased retirement benefit. All other employees upon retirement and with a minimum of 500 hours of accumulated sick pay benefits may elect to have an annuity or the cash value of an annuity for the value of those accumulated hours, calculated based on comparable actuarial assumptions used by PERS.

Governmental funds recognize the cost of vacation benefits when payments are made to employees. As shown in the table below, 90 percent of the liability for compensated absences in both the governmental activities and the business-type activities at June 30, 2008, is deemed current and expected to be paid within the next 12 months with current financial resources. The total amount outstanding at June 30, 2008, was \$5,900,182 and \$1,349,890 for governmental and business-type activities, respectively.

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	Beginning Balance July 1, 2007	Additions	Deductions	Ending Balance June 30, 2008	Due Within One Year	Due in More Than One Year
Governmental Activities:						
Governmental funds	\$ 5,342,049	\$ 5,371,658	\$ 5,129,977	\$ 5,583,730	\$ 5,025,357	\$ 558,373
Internal service funds	276,789	305,464	265,801	316,452	284,807	31,645
Compensated Absences	<u>\$ 5,618,838</u>	<u>\$ 5,677,122</u>	<u>\$ 5,395,778</u>	<u>\$ 5,900,182</u>	<u>\$ 5,310,164</u>	<u>\$ 590,018</u>
Business-Type Activities:						
Compensated Absences	<u>\$ 1,335,021</u>	<u>\$ 1,296,891</u>	<u>\$ 1,282,022</u>	<u>\$ 1,349,890</u>	<u>\$ 1,214,901</u>	<u>\$ 134,989</u>

R. Long-term Obligations and Refunding of Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and gains and losses on defeasance, are deferred and amortized over the life of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and gains and losses on defeasance, during the current period. The proceeds of long-term debt issued are reported as "other financing sources," net of issuance costs. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Effective July 1, 1993, the City implemented GASB Statement No. 23, "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities." Consequently, amounts which previously would have been reported as an accounting "loss on defeasance of debt" are now deferred and amortized as a component of interest expense over the remaining life of the new debt.

S. Use of Estimates

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

T. Allocated Costs Policy

Expenses reported for functional activities include allocated indirect expenses pursuant to a cost allocation plan prepared in accordance with OMB Circular A-87.

NOTE 2. DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 163,149,182
Cash and investments with fiscal agents	41,634,956
Fiduciary funds:	
Cash and investments	3,573,785
Cash and investments with fiscal agents	611,773
Total cash and investments	<u>\$ 208,969,696</u>

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Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 51,925
Demand deposit accounts with financial institutions	3,635,555
Investments	205,282,216
Total cash and investments	<u>\$ 208,969,696</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the **investment types** that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	15%	3%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	5%
U.S. Government Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$40 million**	N/A

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

** Per each account for the City and the City's Redevelopment Agency.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the **investment types** that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

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Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity its fair value will be to changes in market interest rates. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity to 2 ½ years. In addition, the City employs a “buy and hold” investment strategy whereby investments are held to maturity at which time the investment is redeemed at par. This strategy limits the City’s exposure to declines in fair value to unforeseen emergencies when the need for cash beyond that which is planned and anticipated may arise.

Portfolio diversification is also employed as a way to control risk, including those associated with market changes or issuer default. To control market price risks, volatile investments are avoided, and to control risks of illiquidity, a minimum of 10% of the total portfolio is held in highly marketable U.S. Treasury Bills and Notes and/or the State of California Local Agency Investment Fund (LAIF) and/or Money Market Funds and/or securities maturing within 90 days.

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
U.S. Treasury Obligations	\$ 4,053,750	0.8
U.S. Agency Securities	102,826,246	2.5
Corporate Medium Term Notes	19,457,217	1.5
Certificates of Deposit	2,000,000	0.4
Local Agency Investment Fund (LAIF)	34,698,273	N/A
Held by Bond Trustee:		
Money Market Funds	10,662,669	N/A
Investment Contracts	31,584,061	N/A
Total	<u>\$ 205,282,216</u>	

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

None of the City’s investments (including investments held by bond trustees) are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year end for each investment type:

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<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Not Required To Be Rated</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>AA+</u>	<u>Unrated</u>
U.S. Treasury Obligations	\$ 4,053,750	N/A	\$ 4,053,750	\$ -	\$ -	\$ -
U.S. Agency Securities	102,826,246	N/A	-	102,826,246	-	-
Corporate Med Term Notes	19,457,217	A	-	13,409,517	6,047,700	-
Certificates of Deposit	2,000,000	Collateralized	-	-	-	2,000,000
State Investment Pool (LAIF)	34,698,273	N/A	-	-	-	34,698,273
Held by Bond Trustee:						
Money Market Funds	10,662,669	A	-	10,662,669	-	-
Investment Contracts	31,584,061	N/A	31,584,061	-	-	-
Total	<u>\$ 205,282,216</u>		<u>\$ 35,637,811</u>	<u>\$ 126,898,432</u>	<u>\$ 6,047,700</u>	<u>\$ 36,698,273</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>%</u>
Federal Farm Credit Bank	U.S. Agency Securities	\$ 16,271,270	7.9
Federal Home Loan Bank	U.S. Agency Securities	49,284,786	24.0
Federal Home Loan Mortgage Corp.	U.S. Agency Securities	27,164,550	13.2

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2008, \$6,661,036 was collateralized in accordance with Section 53652 of the California Government Code by the pledging financial institution in the City's name.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance

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available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3. DEFERRED AND UNEARNED REVENUE

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when earned. Therefore, the government-wide statement of net assets as well as governmental and proprietary funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. Assets recognized in connection with a transaction before the earnings process is complete are offset by a corresponding liability for unearned revenue. Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized in the current period. Revenue must also be susceptible to accrual (i.e. measurable and available to finance expenditures of the current period). Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period.

At June 30, 2008 the various components of unearned revenue reported are as follows:

	Unearned	Deferred (Unavailable)	Total Unearned
Governmental funds:			
General Fund:			
Deferred business license tax	\$ 1,110,242	\$ -	\$ 1,110,242
Nonmajor Governmental Funds:			
Advances on federal grants for low-income housing	-	11,864,534	11,864,534
Total governmental funds	<u>\$ 1,110,242</u>	<u>\$ 11,864,534</u>	<u>\$ 12,974,776</u>
Business-type activities:			
Water fund:			
Advances to local water districts	\$ -	\$ 6,253,233	\$ 6,253,233
Airport fund:			
Prepaid lease revenue	436,005	-	436,005
Golf Fund:			
Golf gift cards	-	16,302	16,302
Waterfront fund:			
Prepaid lease and slipholder revenue	<u>189,485</u>	<u>-</u>	<u>189,485</u>
Total business-type activities	<u>\$ 625,490</u>	<u>\$ 6,269,535</u>	<u>\$ 6,895,025</u>

NOTE 4. SPECIAL ASSESSMENTS

On August 1, 1992, the City issued \$10,794,799 of seismic improvement special assessment bonds. The proceeds of the bonds were used to finance the construction and installation of seismic resistance improvements to certain commercial properties within the boundaries of the City of Santa Barbara Seismic Safety Assessment District No. 1. The bonds are limited obligations payable solely from annual assessments to be levied and collected in semi-annual installments on properties within the Assessment District. The City is not obligated to advance funds, other than the bond proceeds placed in a Reserve Fund, in the event of delinquencies in the payment of assessment installments.

Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds or the interest thereon, and no owner of the bonds may compel the exercise of the taxing power by the City or the forfeiture of any of its property.

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The principal of, and any interest on, the bonds are not a legal debt of the City. The City is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to the fiscal agent for payment to bondholders and initiating foreclosure proceedings, if appropriate. At June 30, 2008, the amount of bonds outstanding was \$165,000.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance July 1, 2007	Increases	Decreases	Ending Balance June 30, 2008	Internal Service Fund Activity	Total Governmental Capital Assets
Governmental Activities:						
Non-depreciating capital assets:						
Construction in progress	\$ 13,929,593	\$ 9,452,300	\$ (2,355,977)	\$ 21,025,916	\$ 174,477	\$ 21,200,393
Land	48,228,969	2,530,549	-	50,759,518	-	50,759,518
Streets	160,101,179	-	-	160,101,179	-	160,101,179
Total non-depreciating capital assets	<u>222,259,741</u>	<u>11,982,849</u>	<u>(2,355,977)</u>	<u>231,886,613</u>	<u>174,477</u>	<u>232,061,090</u>
Depreciating capital assets:						
Buildings	45,325,655	-	-	45,325,655	105,889	45,431,544
Building improvements	6,320,729	375,370	-	6,696,099	162,584	6,858,683
Improvements other than buildings	37,745,775	600,839	-	38,346,614	257,165	38,603,779
Equipment	8,108,087	766,635	(116,958)	8,757,764	18,072,058	26,829,822
Infrastructure	113,548,304	3,637,082	-	117,185,386	-	117,185,386
Total depreciating capital assets	<u>211,048,550</u>	<u>5,379,926</u>	<u>(116,958)</u>	<u>216,311,518</u>	<u>18,597,696</u>	<u>234,909,214</u>
Less accumulated depreciation:						
Buildings	11,248,893	998,836	-	12,247,729	96,623	12,344,352
Building improvements	2,514,698	207,169	-	2,721,867	11,482	2,733,349
Improvements other than buildings	20,094,313	1,608,661	-	21,702,974	26,351	21,729,325
Equipment	5,132,698	473,794	(116,958)	5,489,534	13,322,840	18,812,374
Infrastructure	49,708,602	2,320,693	-	52,029,295	-	52,029,295
Total accumulated depreciation	<u>88,699,204</u>	<u>5,609,153</u>	<u>(116,958)</u>	<u>94,191,399</u>	<u>13,457,296</u>	<u>107,648,695</u>
Total capital assets, being depreciated, net	<u>122,349,346</u>	<u>(229,227)</u>	<u>-</u>	<u>122,120,119</u>	<u>5,140,400</u>	<u>127,260,519</u>
Total governmental capital assets, net	<u>\$ 344,609,087</u>	<u>\$ 11,753,622</u>	<u>\$ (2,355,977)</u>	<u>\$ 354,006,732</u>	<u>\$ 5,314,877</u>	<u>\$ 359,321,609</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Administration	\$ 40,811
Administrative services	23,998
Finance	13,036
Public safety	119,136
Public works	3,706,527
Community services	407,684
Community development	<u>1,297,961</u>
General governmental depreciation	5,609,153
Capital assets held by the city's internal service funds are charged to the various functions based on usage of the assets	<u>1,210,894</u>
Total depreciation expense - governmental activities	<u>\$ 6,820,047</u>

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

	Beginning Balance July 1, 2007	Increases	Decreases	Ending Balance June 30, 2008
Business Type Activities:				
Non-depreciating capital assets:				
Land	\$ 19,201,133	\$ -	\$ -	\$ 19,201,133
Construction in progress	48,856,424	26,019,943	(24,256,676)	50,619,691
Total non-depreciating capital assets	68,057,557	26,019,943	(24,256,676)	69,820,824
Depreciating capital assets:				
Buildings	33,747,302	-	-	33,747,302
Building improvements	7,531,074	-	-	7,531,074
Other improvements and drainage	284,188,574	26,409,001	-	310,597,575
Equipment	23,605,318	2,451,653	-	26,056,971
Underground piping	172,920,249	1,386,921	-	174,307,170
Infrastructure	14,885,287	-	-	14,885,287
Total depreciating capital assets	536,877,804	30,247,575	-	567,125,379
Less accumulated depreciation:				
Buildings	22,080,183	716,639	-	22,796,822
Building improvements	2,053,806	207,000	-	2,260,806
Other improvements and drainage	130,103,759	9,357,085	-	139,460,844
Equipment	12,239,412	1,530,149	-	13,769,561
Underground piping	81,491,967	3,976,846	-	85,468,813
Infrastructure	6,011,067	288,969	-	6,300,036
Total accumulated depreciation	253,980,194	16,076,688	-	270,056,882
Net depreciating capital assets	282,897,610	14,170,887	-	297,068,497
Total business-type activities				
Capital assets, net	\$ 350,955,167	\$ 40,190,830	\$ (24,256,676)	\$ 366,889,321
Depreciation expense was charged to functions/programs of the business-type activities as follows:				
Business-type activities:				
Water		\$ 6,126,607		
Wastewater		3,514,001		
Airport		4,294,191		
Waterfront		1,579,956		
Downtown parking		348,238		
Golf		213,695		
Total depreciation expense - business-type activities		\$ 16,076,688		

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

NOTE 6. INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of inter-fund balances as of June 30, 2008, is as follows:

<u>Due to/from other funds</u>		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Activities:	Governmental Activities:	
General Fund	Other Governmental Funds	\$ 641,480
General Fund	Community Development Block Grant Fund	339,696
	Total Governmental Activities	<u>\$ 981,176</u>
Governmental Activities:	Fiduciary Funds:	
General Fund	California Law Enforcement	
	Telecommunications System Agency Fund	\$ 6,649
General Fund	Safety Retirement Fund	320,432
	Total Fiduciary Activities	<u>\$ 327,081</u>
<u>Advances to/from other funds</u>		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Activity:	Business Type Activity:	
General Fund	Golf Course Fund	\$ 100,000
General Fund	Waterfront	3,002,617
	Total Business Type Activities	<u>\$ 3,102,617</u>

The interfund balances at June 30, 2008, are generally short-term loans to cover temporary cash deficits in various funds.

The City's General Fund has periodically advanced money to the Waterfront Enterprise Fund. These advances, totaling \$3,002,617 at June 30, 2008, were for the purposes of rehabilitation of the Stearns Wharf, development of a waterfront parking program, and construction of administrative offices and remodel of the Chandlery Building. The advances for the Stearns Wharf and parking program bear no interest and are repayable as the Waterfront Fund's results of operations permit. The advance for construction of administrative offices and remodel of the Chandlery Building bears interest at 6%, with payments due annually.

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

A summary of interfund transfers during the year follows:

<i>Fund Transferred From</i>	<i>Fund Transferred To</i>						Total
	Governmental Activities			Nonmajor		Internal	
	General Fund	Redevelopment Agency Capital Project	Other Governmental Funds	Proprietary Funds	Subtotal	Service Funds	
Governmental Funds							
General Fund	\$ -	\$ -	\$ 2,291,679	\$ 36,420	\$ 2,328,099	\$ 229,534	\$ 2,557,633
Redevelopment Agency							
Special Revenue	-	9,750,351	2,740,669	-	12,491,020	13,319	12,504,339
Capital Projects	-	-	2,093	-	2,093	-	2,093
Solid Waste	-	-	13,894	-	13,894	2,141	16,035
CDBG	-	-	-	-	-	1,592	1,592
Other Governmental Funds	499,546	-	952,188	-	1,451,734	20,318	1,472,052
Total Governmental Funds	499,546	9,750,351	6,000,523	36,420	16,286,840	266,904	16,553,744
Internal Service Funds	-	-	-	-	-	29,898	\$ 29,898
Total Governmental Activities	<u>\$ 499,546</u>	<u>\$ 9,750,351</u>	<u>\$ 6,000,523</u>	<u>\$ 36,420</u>	<u>\$ 16,286,840</u>	<u>\$ 296,802</u>	<u>\$ 16,583,642</u>
Business-Type Activities							
Water	\$ -	\$ -	\$ 28,584	\$ -	\$ 28,584	\$ 77,618	\$ 106,202
Wastewater	-	-	12,344	-	12,344	57,120	69,464
Airport	-	-	-	-	-	14,042	14,042
Waterfront	-	-	-	-	-	14,803	14,803
Other Enterprise Funds	-	-	-	-	-	13,939	13,939
Total Business - Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,928</u>	<u>\$ -</u>	<u>\$ 40,928</u>	<u>\$ 177,522</u>	<u>\$ 218,450</u>
Net Transfers	<u>\$ 499,546</u>	<u>\$ 9,750,351</u>	<u>\$ 6,041,451</u>	<u>\$ 36,420</u>	<u>\$ 16,327,768</u>	<u>\$ 474,324</u>	<u>\$ 16,802,092</u>

The interfund transfers are generally made for the purpose of debt service payments made from a debt service fund but funded from an operating fund or subsidy transfers, and for capital projects expenditures funded by the City's General Fund. There were no significant transfers during the fiscal year that were either non-routine in nature or inconsistent with the activities of the fund making the transfer. The net transfers of \$40,000 from the Fiduciary Funds to the governmental activities represent transfers from the Library Trust Fund to the General Fund and County Library Special Revenue Fund primarily to purchase library books.

NOTE 7. LONG-TERM DEBT

The City has issued debt in both the governmental and business-type activities to provide funds for the acquisition and construction of major capital facilities. The types of debt include (1) Revenue Bonds where the City pledges income derived from a business-type activity to pay debt service, (2) tax allocation bonds where property tax allocations of the Redevelopment Agency are pledged to pay debt service, (3) certificates of participation that pledge general government revenue to pay base rent payments to the Santa Barbara Public Financing Corporation for real property and improvements owned by the City, and (4) loans from other governmental agencies. Long-term liability activity for the year ended June 30, 2008, is as follows:

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

	Beginning Balance July 1, 2007	Additions	Deductions	Ending Balance June 30, 2008	Due Within One Year	Due in More Than One Year
<u>Governmental Activities</u>						
Certificates of participation	\$ 3,069,000	\$ -	\$ 231,000	\$ 2,838,000	\$ 240,900	\$ 2,597,100
Tax allocation bonds	74,110,000	-	4,845,000	69,265,000	5,100,000	64,165,000
Loans	750,000	-	-	750,000	-	750,000
Governmental funds debt issues	77,929,000	-	5,076,000	72,853,000	5,340,900	67,512,100
Claims liability	8,647,686	3,188,589	6,166,374	5,669,901	2,337,637	3,332,264
Governmental activity						
Long-term liabilities	86,576,686	3,188,589	11,242,374	78,522,901	7,678,537	70,844,364
<u>Business-Type Activities</u>						
Revenue Bonds	23,545,000	-	1,075,000	22,470,000	1,115,000	21,355,000
Certificates of participation	31,656,000	-	1,099,000	30,557,000	1,134,100	29,422,900
Loans	40,302,987	-	2,034,276	38,268,711	2,109,577	36,159,134
Business-type activity						
Long-term liabilities	95,503,987	-	4,208,276	91,295,711	4,358,677	86,937,034
Total debt activity	\$ 182,080,673	\$ 3,188,589	\$ 15,450,650	\$ 169,818,612	\$ 12,037,214	\$ 157,781,398

A description of long-term obligations outstanding at June 30, 2008, by category follows:

Governmental Activities

Tax Allocation Bonds

Redevelopment Agency:

\$7,150,000 - 2004 Redevelopment Agency Tax Allocation Housing Bonds, Series A. Proceeds to provide funds to finance redevelopment activities in the Central City Redevelopment Project Area. Remaining annual principal installments on serial bonds range from \$455,000 to \$620,000 through July 1, 2018. Interest rates range from 2.00% to 5.00% payable semi-annually on January and July 1st.

Amount
Outstanding
June 30, 2008

\$ 5,810,000

\$34,810,000 - 2003 Redevelopment Agency Tax Allocation Refunding Bonds, Series A. Proceeds to provide funds to finance redevelopment activities in the Central City Redevelopment Project Area. Remaining annual principal installments on serial bonds range from \$1,860,000 to \$2,835,000 through March 1, 2019. Interest rates range from 2.00% to 5.00% payable semi-annually on September and March 1st.

25,150,000

\$38,855,000 - 2001 Redevelopment Agency Tax Allocation Refunding Bonds, Series A. Proceeds to provide funds to finance redevelopment activities in the Central City Redevelopment Project Area. Remaining annual principal installments on serial bonds range from \$2,785,000 to \$4,340,000 beginning March 1, 2009 through March 1, 2019. Interest rates range from 4.00% to 5.00% payable semi-annually on September and March 1st.

38,305,000

Total tax allocation bonds

69,265,000

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

Certificates of Participation

General Fund:

\$4,184,400 - 2002 Refunding Municipal Certificates of Participation. Certificates issued to provide funds in order to refund the outstanding City of Santa Barbara Refunding Certificates of Participation Series 1993, which were used to finance capital improvements in the City's Municipal Improvements Program. Remaining annual installments range from \$240,900 to \$339,900 beginning August 1, 2007 through 2017. Interest rates range from 3.0% to 4.625% payable semi-annually.

2,838,000

Loans Payable

Redevelopment Agency:

\$750,000 - California Housing Finance Agency Loan issued November 15, 1999. Due in 10 years with payment deferred until then. Interest rate 3% simple per annum.

750,000

Total Governmental Activities

\$ 72,853,000

Business-Type Activities

Revenue Bonds

Water Fund:

\$9,780,000 - 1994A water revenue refunding serial bonds. Bonds issued to provide funds in order to refund the outstanding City of Santa Barbara Water Revenue and Refunding Bonds of 1979, which were used to finance capital improvements to the water distribution system. Remaining annual installments range from \$535,000 to \$720,000 through September 1, 2014. Interest rates range from 4.3% to 4.8% payable semi-annually on March 1st and September 1st.

\$ 4,370,000

Wastewater Fund:

\$20,410,000 - 2004A sewer revenue serial bonds. Bond proceeds are used to provide funds for the acquisition of certain capital improvements to the Wastewater system. Remaining annual installments range from \$580,000 to \$1,290,000 through May 1, 2029. Interest rates range from 2.4% to 4.7% payable semi-annually.

18,100,000

Total revenue bonds

22,470,000

Certificates of Participation

Waterfront Fund:

19,405,000 - 2002 Waterfront Refunding Certificates of Participation. Certificates issued to provide funds in order to refund the outstanding City of Santa Barbara 1992 Certificates of Participation, which were used to finance capital improvements at the waterfront. Remaining annual installments range from \$535,000 to \$1,230,000 through October 1, 2027. Term certificates of \$16,090,000 are due on October 2027. Interest rates range from 3.75% to 6.75% payable semi-annually.

16,115,000

Golf Fund:

\$2,155,600 - 2002 Refunding Municipal Certificates of Participation. Certificates issued to provide funds in order to refund the outstanding City of Santa Barbara Refunding Certificates of Participation Series 1993, which were used to finance capital improvements at the golf course. Remaining annual installments range from \$124,100 to \$175,100 through August 1, 2017. Interest rates range from 3.0% to 4.625% payable semi-annually.

1,462,000

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

Water Fund:

\$15,535,000 - 2002 Refunding Water Certificates of Participation. Certificates issued to provide funds in order to refund the outstanding City of Santa Barbara 1992 Certificates, which were used to finance capital improvements to the water distribution system. Remaining annual installments range from \$445,000 to \$1,030,000 through September 1, 2026. Interest rates range from 3.0% through 4.75% payable semi-annually.

12,980,000

Total certificates of participation

30,557,000

Loans Payable

Water Fund:

\$2,000,000 - State Department of Water Resources Loan. Funds used to finance capital improvements to the water distribution system. Due in 20 annual payments of \$150,894 each on April 30. Interest is 4.0128% per annum. The final payment is due April 30, 2009.

159,980

\$5,000,000 - State Department of Water Resources Loan. Funds used to finance capital improvements to the water distribution system. Due in 20 annual payments of \$342,477 on April 30. Interest is 3.1% per annum. The final payment is due April 30, 2012.

1,149,104

\$17,900,849 - California Department of Health Services Safe Drinking Water State Revolving Fund loan. Funds used to assist in financing construction of a project which will enable the City to meet safe drinking water standards. Due in semiannual payments of \$572,123. Interest is 2.5132% per annum. The final payment is due July 1, 2025.

15,751,217

\$19,997,929 - California Department of Health Services Safe Drinking Water State Revolving Fund loan. Funds used to assist in financing construction of a project which will enable the City to meet safe drinking water standards. Due in semiannual payments commencing January 1, 2007. Interest is 2.7934% per annum. The final payment is due January 1, 2027.

18,852,202

Airport Fund:

\$2,450,339 - State Department of Transportation Loan. Funds used to finance capital improvements at the airport. Due in 17 annual payments of \$218,714. Interest is 3.0% per annum. The final payment is due June 30, 2024.

2,356,208

Total loans payable

38,268,711

Total Business-type Activities

\$ 91,295,711

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. The claims liability item is generally liquidated by the general fund (see note 12).

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

The annual requirements to amortize all long-term debt outstanding, as of June 30, 2008, are as follows:

Fiscal Year Ending	Governmental Activities			Business-type Activities			
	Principal Payments						
	Tax Allocation Bonds	Certificates of Participation	Other Loans	Revenue Bonds	Certificates of Participation	Other Loans	Total
2009	\$ 5,100,000	\$ 240,900	\$ -	\$ 1,115,000	\$ 1,134,100	\$ 2,109,576	\$ 9,699,576
2010	5,285,000	247,500	750,000	1,155,000	1,182,500	2,005,426	10,625,426
2011	5,470,000	254,100		1,200,000	1,140,900	2,062,914	10,127,914
2012	5,705,000	264,000	-	1,250,000	1,191,000	1,985,533	10,395,533
2013	5,925,000	273,900	-	1,310,000	1,236,100	1,836,363	10,581,363
2014 - 2018	33,985,000	1,557,600	-	5,065,000	7,117,400	9,993,901	57,718,901
2019 - 2023	7,795,000	-	-	4,480,000	8,135,000	11,503,089	31,913,089
2024 - 2028	-	-	-	5,605,000	9,420,000	6,771,909	21,796,909
2029	-	-	-	1,290,000	-	-	1,290,000
Total Principal	\$ 69,265,000	\$ 2,838,000	\$ 750,000	\$ 22,470,000	\$ 30,557,000	\$ 38,268,711	\$ 164,148,711
Fiscal Year Ending	Interest Payments						Total
2009	\$ 3,052,734	\$ 115,044	\$ -	\$ 972,468	\$ 1,480,193	\$ 1,074,185	\$ 6,694,624
2010	2,869,352	106,068	220,370	930,527	1,435,017	1,011,878	6,573,212
2011	2,679,979	96,345	-	885,078	1,388,587	954,393	6,004,382
2012	2,443,030	85,983	-	836,213	1,341,267	892,650	5,599,143
2013	2,220,460	75,225	-	784,193	1,292,019	838,467	5,210,364
2014 - 2018	6,741,733	183,143	-	3,183,863	5,504,141	3,380,245	18,993,125
2019 - 2023	350,530	-	-	2,292,775	3,543,369	1,871,059	8,057,733
2024 - 2028	-	-	-	1,168,950	1,130,381	326,843	2,626,174
2029	-	-	-	64,500	-	-	64,500
Total Interest	\$ 20,357,818	\$ 661,808	\$ 220,370	\$ 11,118,567	\$ 17,114,974	\$ 10,349,720	\$ 59,823,257
Total Debt	\$ 89,622,818	\$ 3,499,808	\$ 970,370	\$ 33,588,567	\$ 47,671,974	\$ 48,618,431	\$ 223,971,968

GASB 48 Disclosure – Pledging of revenues: Annual principal and interest payments on the RDA tax allocation bonds are expected to require approximately 45% of net tax increment revenues. The total principal and interest remaining to be paid on the Bonds is \$90,593,188 as of June 30, 2008. For the current year, principal and interest paid on the Bonds was \$8,180,709 and property tax increment net revenues were \$18,080,961. The Bonds required 45% of net revenues.

The City has complied with all bond covenants.

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

NOTE 8. CONTINGENCIES

Litigation and Claims

The City is presently involved in matters of litigation and claims that have arisen in the normal course of conducting City business. City management believes that, based upon consultation with the City Attorney, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City.

Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of non-compliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

NOTE 9. SEGMENT INFORMATION

Summary financial information, as of and for the fiscal year ended June 30, 2008 for the City's enterprise funds is presented below:

Condensed Statement of Net Assets:

	<u>Golf Course</u>
Assets:	
Current assets	\$ 1,421,657
Capital assets	2,953,834
Other non-current assets	<u>106,639</u>
Total assets	<u>4,482,130</u>
Liabilities:	
Current liabilities	262,208
Non-current liabilities	<u>1,443,234</u>
Total liabilities	<u>1,705,442</u>
Net assets:	
Invested in capital assets, net of related debt	1,491,834
Unrestricted	<u>1,284,854</u>
Total net assets	<u><u>\$ 2,776,688</u></u>

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

Condensed Statement of Revenues, Expenses, and Changes in Net Assets:

	Golf Course
Charges for services pledged	
-against bonds	\$ 2,245,388
-not pledged against bonds	-
Depreciation expense	(213,695)
Other operating expenses	(1,867,728)
Operating income (loss)	163,965
Non-operating revenues (expenses):	
Investment earnings	74,162
Interest expense	(65,887)
Other	(4,416)
Change in net assets	167,824
Beginning net assets	2,608,864
Ending net assets	\$ 2,776,688

Condensed Statement of Cash Flows:

	Golf Course
Net cash provided (used) by:	
Operating activities	\$ 392,616
Noncapital financing activities	(4,416)
Capital and related financing activities	(262,738)
Investing activities	174,162
Net increase (decrease)	299,624
Beginning cash and equivalents	1,122,033
Ending cash and equivalents	\$ 1,421,657

NOTE 10. RETIREMENT COMMITMENTS

Employee Retirement Systems and Pension Plans

Plan Description

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

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
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Funding Method

The actuarial funding method used for the Retirement Program is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces a level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and 10% of the net unamortized gain or loss will be amortized each year. Finally, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

Funding Policy

PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. Under GASB 27, the City reports its annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the actual plan contributions for the year. The cumulative difference is the net pension obligation (NPO). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. Employer rates for each of the City's three (3) retirement plans is as follows: the miscellaneous, non-safety, members' rate is 18.589%, the safety police plan rate is 26.791%, and the safety fire plan rate is 29.317% of payroll. Miscellaneous, non-safety, members contribute 8% and safety members contribute 9% of their annual covered salary. The City makes a portion of the contributions required of City employees on their behalf and for their account. The City paid 1.3% of the miscellaneous, non-safety employees' required contribution in the fiscal year ended June 30, 2008. The contribution requirements of the City and plan members are established and may be amended by PERS.

A CalPERS member, safety and non-safety, becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements).

Annual Pension Cost

For fiscal year ended June 30, 2008, the City's annual pension costs for all of the retirement plans, in the amount of \$21,513,692 for PERS, was equal to the City's and employees' required and actual contributions. The required contribution for fiscal year 2008 was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include:

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

(a) Valuation date	June 30, 2005
(b) Amortization method	level percent of payroll
(c) Average remaining period	24 years (non-safety), 32 years (safety) as of the valuation date
(d) Asset valuation method	15 years smoothed market
(e) Actuarial assumptions:	
-investment rate of return	7.75% (net of administrative expenses)
-projected salary increases	3.25% to 13.15% depending on age, service and type of employment – safety
	3.25% to 14.45% depending on age, service, and type of employment – non-safety
-inflation	3.00%
-payroll growth	3.25%
-individual salary growth	a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. Three-year trend information for the City's Annual Pension Cost for all plans follows:

Three-year Trend Information (all Plans):

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
06/30/06	\$ 20,364,574	100%	\$0
06/30/07	20,681,841	100%	\$0
06/30/08	21,513,692	100%	\$0

Funded Status of the Plans

The tables below display a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability (or Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UUAL) as a percentage of that covered payroll. The following data is based upon the most recent actuarial valuation dated June 30, 2005 as provided by CalPERS.

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Rates Applicable to Fiscal Year	Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded (Over-funded) Liability as a % of Payroll
<u>Miscellaneous Plan:</u>							
2004	06/30/01	\$ 155,405,646	\$ 180,581,042	\$ (25,175,396)	116.2%	\$ 38,839,327	(64.8%)
2005	06/30/02	172,996,353	169,784,872	3,211,481	98.1%	43,147,673	7.4%
2006	06/30/03	200,205,019	172,606,727	27,598,292	86.2%	44,387,254	62.2%
2007	06/30/04	236,356,262	183,267,479	53,088,783	77.5%	45,499,938	116.7%
2008	06/30/05	255,720,658	198,200,895	57,519,763	77.5%	46,712,874	123.1%
<u>Safety Fire Plan:</u>							
2004	06/30/01	79,281,892	76,974,607	2,307,285	97.1%	7,655,484	30.1%
2005	06/30/02	85,100,613	71,982,755	13,117,858	84.6%	7,387,092	177.6%
2006	06/30/03	89,536,901	72,602,869	16,934,032	81.1%	7,531,518	224.8%
2007	06/30/04	94,816,120	76,722,184	18,093,936	80.9%	7,758,265	233.2%
2008	06/30/05	101,575,435	82,519,834	19,055,601	81.2%	8,195,490	232.5%
<u>Safety Police Plan:</u>							
2004	06/30/01	97,930,578	92,469,858	5,460,720	94.4%	11,194,160	48.8%
2005	06/30/02	104,007,310	86,387,932	17,619,378	83.1%	11,193,527	157.4%
2006	06/30/03	109,523,544	88,493,786	21,029,758	80.8%	11,815,759	178.0%
2007	06/30/04	116,822,430	94,867,540	21,954,890	81.2%	12,369,163	177.5%
2008	06/30/05	125,487,092	102,700,503	22,786,589	81.8%	13,246,248	172.0%

City Fire and Police Pension Plans

Plan Description

In addition to the California PERS, the City provides two additional single-employer, defined benefit pension plans. One, the Safety Retirement Plan, was established to account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 1937 and May 1965. The second plan, the Service Retirement Plan, was established to account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 1937 and May 1965, and who were disabled due to job related injuries. A total of eighteen (18) former public safety (police and fire) employees receive a monthly pension retirement benefit in the form of a cash stipend directly from the City. Both plans have been closed to all other employees as of May 1965 and contributions from the employer and employees also ceased on that date. The City administers the plans in compliance with and under the authority of Article XVA of the City Charter. The costs of administering the plans are financed with investment earnings. As of June 30, 2008, ten (10) retirees (or beneficiaries) are receiving benefits from the Safety Retirement Pension Trust Fund, and eight (8) retirees (or beneficiaries) are receiving benefits from the Service Retirement Pension Trust Fund.

Funding Policy

All of the pensioners are retirees. The annual required contribution (ARC) for the City was \$131,011 for fiscal year 2008. The City paid the entire ARC and has no net pension obligation (NPO) for the year ended June 30, 2008.

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Information regarding these plans is as follows:

	Safety Retirement Plan	Service Retirement Plan
Authority	Charter	Charter
Date of valuation	June 30, 2005	June 30, 2005
Asset valuation	Fair value as measured by the market price of investments. This plan has an equity share in the City's investment pool	Fair value as measured by the market price of investments. This plan has an equity share in the City's investment pool
Actuarial cost method*	Aggregate	Aggregate
Number of participants	10	8
Actuarial assumptions:		
Interest Rate	7%	7%
Cost of Living Increases	4%	4%
Mortality	GAM 1994 Mortality Table for males and females	

*The aggregate actuarial cost method does not identify or separately amortize un-funded actuarial liabilities.

Financial statements for the funds are available from the City of Santa Barbara Finance Director. All members of the plan are retired. The plans were closed as of 1965.

Deferred Compensation Plan

The City offers two deferred compensation plans for regular employees and one for hourly employees created in accordance with Internal Revenue Code Section 457. Under the terms of these plans, employees may defer amounts of income up to a maximum of \$15,500 per year or one-hundred percent (100%) of includable compensation, whichever is less. Amounts so deferred may be withdrawn or directed for future payment at separation of employment but may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue and unforeseen financial hardship for the employee.

Effective January 1, 1999, Federal legislation (Small Business Job Protection Act of 1996) requires the Section 457 plan assets to be placed in trust for the exclusive use of the plan participants and their beneficiaries. The City's deferred compensation administrator qualifies as the plan trustee to meet Federal requirements. Since the plan assets are no longer considered the property and rights of the City, such assets are no longer reflected in the accompanying basic financial statements.

NOTE 11. CLASSIFICATION OF NET ASSETS

In the Government-wide financial statements, net assets are classified as the following:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- *Restricted Net Assets* – this category presents all external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Specific Projects and Programs, and Debt Service as established by the City Council.
- *Unrestricted Net Assets* – This category represents the net assets of the City, which are not restricted for any project or other purpose.

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In the Fund financial statements, reserves and designations segregate portions of the fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions. The components of the City's fund balances at June 30, 2008, consist of the following:

	Special Revenue Funds				Capital Projects Fund	Other Governmental Funds
	General Fund	Redevelopment Agency	Solid Waste	Community Dev block Grant	Redevelopment Agency	
Reserved:						
Encumbrances	\$ 2,841,132	\$ 2,862,071	\$ 87,755	\$ -	\$ 34,989,005	\$ 12,865,024
Non-current receivables	4,218,837	42,021,751	-	-	2,310,341	-
Due from other agencies	-	-	-	-	-	61,451
Redevelopment projects	-	10,425,463	-	-	3,315,903	-
Debt service	-	-	-	-	-	561,279
Public safety	-	-	-	-	-	207,865
Community development	-	-	-	2,347	-	198,560
Community services	-	-	-	-	-	969,654
Future projects	-	-	-	-	-	5,285,158
Street improvements	-	-	-	-	-	2,796,067
Total reserved	7,059,969	55,309,285	87,755	2,347	40,615,249	22,945,058
Designated:						
Capital	1,000,000	-	-	-	-	-
Economic Contingency/Emergencies	16,013,476	-	-	-	-	-
Future Years' Budget	951,666	-	-	-	-	-
Total designated	17,965,142	-	-	-	-	-
Unreserved - undesignated	-	-	2,582,215	-	-	-
Total fund balances	\$ 25,025,111	\$ 55,309,285	\$ 2,669,970	\$ 2,347	\$ 40,615,249	\$ 22,945,058

NOTE 12. SELF-INSURANCE FUND

The City is partially self-insured for workers' compensation and general and automobile liability claims, and fully self-insured for unemployment claims. The City has been partially self-insured for workers' compensation since 1974, and partially self-insured for general and automobile liability since 1978. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in any of the past fiscal years.

The City's self-insured retention for workers' compensation is \$750,000. An indemnity policy provides limits of \$250 million in excess of the City's self-insured retention and a \$5 million pooled layer. Employers' Liability is also included with the limits of \$5 million. The City's self-insured retention for general and automobile liability is \$1,000,000. Excess liability coverage is purchased from the commercial market. Coverage provides limits of \$40 million in excess of the City's self-insured retention and a \$4 million pooled layer.

Insurable property is covered for all risks by policies with a pooled aggregate limit of \$1,000,000,000. Earthquake and flood coverage have designated limits of \$50 million per peril. Unique risks such as airport liability, marine hull protection and indemnity, and boiler and machinery are fully insured. The City also maintains a faithful performance bond. There were no claims made against any of these policies during the past fiscal year.

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The City joined the Authority of California Cities Excess Liability (ACCEL) in May 1986. ACCEL is a public entity risk pool created for the purpose of pooling various public sector risks. ACCEL began its twentieth program year July 2007 with membership totaling twelve (12) cities. ACCEL was formed under the Joint Powers Agreement (JPA) provisions of State Law (Government Code Sections 990, 990.4, 990.8 and 6500-6515). In addition to the joint powers agreement, ACCEL is governed by bylaws and an investment policy adopted by the ACCEL members.

ACCEL settlements have not exceeded coverage in any of the past fiscal years. ACCEL now transfers most of its risk sharing exposures through the purchase of a four layer commercial policy underwritten by various carriers. ACCEL members have a \$1 million self-insured retention. ACCEL pools the next \$4 million and commercial carriers provide \$40 million above that level.

A Memorandum of Coverage acts as the instrument by which member cities are protected against covered losses above their self-insured retention (SIR). This document also serves as the manuscript form for which the commercial carriers provide coverage. Coverage includes comprehensive general and automobile liability protecting against bodily injury, property damage, public officials errors and omissions, personal injury, employment practices, as well as damages arising from owned, non-owned, and hired automobiles.

A Board of Directors consisting of one representative from each member city governs ACCEL. This Board controls all aspects of ACCEL policy including budgeting and finance. ACCEL conducts annual financial, claims, and payroll audits, with an actuarial review performed every two years. A retrospective rating is performed each year on the program year ended five years earlier. The retrospective rating determines each member's share of losses and deposit return.

ACCEL members share pool losses above their self-insured retention. Losses are paid from a pool of funds comprised of member deposits. Deposits are actuarially determined to ensure that funds are available to pay pool losses. ACCEL collects a deposit from each member for each program year in which the member participates. Separate deposit accounts are set for each member for each year of participation. Deposits are invested into pre-approved vehicles and each member account is credited monthly with investment income at the rate earned by the investment vehicle. ACCEL adopted its investment policy in accordance with existing government code criteria.

The City's self-insurance fund is financed through contributions made by the City's General and Enterprise Funds. A cost allocation plan is used to apportion self-insurance fund costs. An actuarial study is performed every two-years. Actuarially determined liabilities in the fund include provisions for "incurred but not reported" claims. As of June 30, 2008, the estimated outstanding liabilities are \$4,593,289 for workers' compensation and \$1,076,612 for general and automobile liability. These liabilities are based on an actuarial valuation as of June 30, 2006. There are no unpaid claims for which annuity contracts have been purchased.

The City is self-insured for unemployment claims. At June 30, 2008, the liability for unemployment claims was \$37,689.

A summary of changes in claims liabilities is shown below:

	2008	2007
Claims liabilities, July 1	\$ 8,647,686	\$ 9,410,301
Incurred claims	3,188,589	2,007,546
Actuarial adjustment	(2,977,785)	(762,615)
Payments on claims attributable to events of current and prior years	(3,188,589)	(2,007,546)
Claims liabilities, June 30	<u>\$ 5,669,901</u>	<u>\$ 8,647,686</u>

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NOTE 13. JOINT VENTURES

In 1991, the City's electorate approved participation in the State Water Project (SWP). As a result, the City joined in the formation of the Central Coast Water Authority (CCWA) in September 1991. The purpose of the Central Coast Water Authority is to provide for the financing, construction, operation and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County.

Each Santa Barbara Project participant, including the City of Santa Barbara, has entered into a Water Supply Agreement in order to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreement is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by: (1) requiring CCWA to sell, and the Santa Barbara Project participants to buy, a specified amount of water from CCWA ("take or pay"); and (2) assigning the Santa Barbara Project participant's entitlement rights in the State Water Project to CCWA. Although the City does have an ongoing financial responsibility pursuant to the Water Supply Agreement between the City and CCWA, the City does not have an equity interest as defined by GASB Cod. Sec. J50.105.

Each Santa Barbara Project participant is required to pay to CCWA an amount equal to its share of the total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the Santa Barbara Project participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs.

Each Santa Barbara Project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payments required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity's pro-rata share of the water provided by the project. The City's share of the project, based upon number of acre-feet of water, is 7.7%. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

On October 1, 1992, CCWA sold \$177,200,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users within Santa Barbara County, and certain local improvements to the water systems of some of the participating purveyors.

On November 1, 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of CCWA facilities.

On September 28, 2006, CCWA sold \$123,190,000 of revenue bonds at an average interest rate of 4.24% to refund \$142,985,000 of outstanding 1996 Revenue Bonds with an average interest rate of 5.47%.

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Pursuant to the Water Supply Agreement, the City of Santa Barbara's payments to CCWA includes its share of DWR's fixed and variable costs, the debt service requirements on the CCWA Bonds, CCWA's fixed operating and maintenance costs, and variable costs, as shown in the table below:

Fiscal Year	DWR Costs		CCWA Costs				Total CCWA Cost	Total CCWA and DWR Costs
	Fixed	Variable (1)	Fixed	Variable (1)	Debt Service (2)			
2008-09	\$ 2,129,879	\$ 228,073	\$ 221,978	\$ 85,115	\$ 1,629,522	\$ 1,936,615	\$ 4,294,567	
2009-10	2,549,799	116,384	247,170	21	1,758,764	2,005,954	\$ 4,672,137	
2010-11	2,839,403	66,047	261,883	(19)	1,758,741	2,020,605	4,926,056	
2011-12	2,431,590	83,159	274,806	(20)	1,761,677	2,036,463	4,551,212	
2012-13	2,443,597	-	283,051	-	1,739,285	2,022,336	4,465,933	
Thereafter	51,292,487	-	9,461,380	-	15,528,598	24,989,978	76,282,464	
Total	\$ 63,686,754	\$ 493,664	\$ 10,750,268	\$ 85,097	\$ 24,176,587	\$ 35,011,951	\$ 99,192,369	

(1) Variable costs only shown through fiscal year 2011-12 because delivery information is not available thereafter.

Additional information and complete financial statements for the CCWA are available for public inspection in the Finance Department at City Hall, 735 Anacapa Street, between the hours of 7:30 am and 5:30 p.m., Monday through Thursday.

NOTE 14. PROPOSITION 218 IMPACTS

Proposition 218, which was approved by the state's voters in November 1996, will regulate the City's ability to impose, increase and extend taxes, assessments and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the City's ability to finance the services for which the taxes, assessments, and fees were imposed may be significantly impaired.

The taxes, fees, and assessments that are subject to the provisions of Proposition 218 that the City currently imposes for its own benefit or as an agent for a special district, or receives from other governmental agencies potentially include business license fees. At this time, it is uncertain how Proposition 218 will affect the City's ability to establish new, or increase existing, revenues it receives from taxes, assessments and fees. All other taxes, fees and assessments were approved by vote prior to the effective date of Proposition 218.

NOTE 15. CONDUIT DEBT

On January 1, 1996, the City of Santa Barbara issued \$16,805,000 in Insured Revenue Certificates of Participation for the benefit of FACT Retirement Services, a nonprofit public benefit corporation organized and existing under the laws of the State of California to provide care to persons over 62 years of age. The Certificates were issued to enable FACT Retirement System to purchase certain real property and improvements located within the City of Santa Barbara.

The Certificates do not constitute a debt or liability of the City of Santa Barbara. Neither the execution and delivery of the Certificates, nor the execution of the related trust agreement or installment agreement, shall directly, indirectly or morally obligate the City to levy or to pledge any form of taxation whatever, or to make any appropriation for their payment.

As of June 30, 2008, the outstanding balance on the Certificates is \$12,165,000.

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NOTE 16. EMPLOYEE MORTGAGE LOAN ASSISTANCE PROGRAM

On October 2, 2001 the City Council created an Employee Mortgage Loan Assistance Program ("EMLAP"). The purpose of the program is to help the City attract and retain highly qualified employees by providing assistance in dealing with the high cost of home ownership in the Santa Barbara area. The goals of the program include establishing a more stable workforce and, by promoting local homeownership, reducing commuting distances and times. The program is open to all permanent employees who are "first-time homebuyers" (defined as not having owned a home on the South Coast of Santa Barbara County within the last three years). Homes purchased under the City's EMLAP must be located on the South Coast of Santa Barbara County. The City's EMLAP is structured using a combination of an employee down payment, traditional bank mortgage financing, and City-provided financing as follows:

Employee down payment (minimum)	5%
Bank-provided 1st Deed of Trust loan	80%
City-funded 2nd Deed of Trust loan (maximum)	<u>15%</u>
Total financing	<u>100%</u>

Under the terms of the EMLAP, City participation is limited to a purchase price of \$1,250,000. Therefore, the maximum second deed of trust loan available to an employee is \$187,500 (15% of \$1,250,000). Interest on the City loan is variable, adjusted annually, and is set equal to the most recent quarterly interest rate paid the City on its State of California Local Agency Investment Fund ("LAIF rate") balances. The loan is repayable over 15 years, with interest only due for the first five years, converting to a thirty year amortization schedule payable over 10 years with a balloon payment due at the end of 15 years. Payment is made by payroll deduction. To assist the employee, the City will also pay up to four (4) points to the bank on the employee's first deed of trust loan up to \$40,000 in order to "buy down" the interest rate on the first trust deed. The points paid by the City are to be repaid when the second trust deed is refinanced or if the home is sold. However, if the employee maintains continuous employment with the City for 5 years from the date of the loan, 25% of the value of the points loan obligation will be forgiven, and after 10 years 50% will be forgiven. Upon termination of employment the second deed of trust loan, and any related points, are payable either on the fifth anniversary of the loan, or 180 days from the last day of employment, whichever is longer.

As of June 30, 2008, the City has \$3,692,282 in employee loans outstanding.

NOTE 17. DEFICIT FUND EQUITY

The Safety Retirement Pension Trust Fund has a deficit fund balance of (\$325,564) as of June 30, 2008. The deficit will be eliminated through contributions from the City's General Fund. The FEMA Reimbursement Storm Fund has a deficit fund balance of (\$54,401) as of June 30, 2008. Staff is working with FEMA and California State Office of Emergency Services to close out the disaster project. Once all of the accounting and reimbursable project costs are finalized the City will receive a final reimbursement and the remaining project costs are expected to be reimbursed.

NOTE 18. OTHER POST-EMPLOYMENT BENEFITS

Retiree Medical Care Benefits

Plan Description. The City provides a retiree medical insurance contribution benefit, in accordance with employee Memorandum of Understanding, to retired employees. The benefit is applicable to employees who retire from City service and,

1. Have 15 or more years of classified or unclassified service; or
2. Retire from City with an industrial disability.

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The City contributes an amount each month towards the purchase of medical insurance for the retiree and his/her spouse or domestic partner registered with the City Clerk or the Secretary of State, if applicable. The monthly amount is determined by the applicable Memorandum of Agreement of the retired employee. The payment is based upon the employees' years of service up to a maximum of 35 years, multiplied by the annual amount for the respective employee unit. The City will continue to make its contribution until the retiree reaches age 65 or dies, whichever occurs first, provided however, that if the retiree dies before reaching the age of 65 and there is a surviving spouse or registered domestic partner, the City's contribution shall cease when the retiree would have reached age 65. Thereafter, the spouse may remain on the insurance plan, at his/her own cost, subject to the conditions set forth by the insurance company.

For the Police bargaining unit only: The City will continue the normal retiree medical allowance past the age of 65 for the six (6) specified employees named in the Police Memorandum of Understanding who retire after December 23, 2006 and thereafter certify, on an annual basis, that they are not eligible to apply for Medicare Part A (hospitalization) coverage on the basis of their City service, other covered employment, through a spouse's covered employment, or through any other means.

Funding Policy. The City currently administers its retiree medical plan. There is no requirement to contribute any amount beyond the pay-as-you-go contributions. If retirees elect medical insurance coverage through the City, the retiree pays the entire cost of the premiums, less the City's monthly payment to the retiree.

The City is evaluating various options for funding the post retirement health benefits liability. The City has not set up a trust for purposes of funding the required retiree medical payments but has elected to continue funding the benefit on a pay-as-you-go basis in the current year. The City plans to fund the Annual Required Contribution each year based upon projections from the April 21, 2008 actuarial valuation study performed by Aon Consultants. This study was conducted in accordance with GASB Statement 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 45).

Annual OPEB Cost and Net OPEB Obligation. The City's annual Other Post Employment Benefit (OPEB) cost (expense) is calculated based upon the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 1,842,000
Interest on net OPEB obligation	-
Adjustments to annual required contribution	-
Annual OPEB cost (expense)	1,842,000
Contributions made	(831,000)
Increase (decrease) in net OPEB obligation	1,011,000
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 1,011,000</u></u>

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The City Retiree Medical annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Percentage Contribution</u>	<u>OPEB Obligation</u>
6/30/2008	\$ 1,842,000	\$ 831,000	45%	\$ 1,011,000

Funded Status and Funding Progress. The funding status of the City's OPEB plan is as follows:

Schedule of Funding Progress (000s Omitted)

<u>Type of Valuation</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>	<u>Interest Rate</u>	<u>Salary Scale</u>
Actual	7/1/2007	\$ -	\$ 19,627	\$ 19,627	0%	\$ 69,293	28.30%	5.00%	3.25%

Schedule of Employer Contributions (000s Omitted)

<u>Fiscal Year Ending</u>	<u>Annual OPEB Costs</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$ 1,842	\$ 831	45.10%	\$ 1,011

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities and benefits. Since this is the first year of including this information in the financial report, the data presented is limited.

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

Actuarial Cost Method - In the June 30, 2008 actuarial valuation, the actuarial cost shown in the report were developed using two different funding methods:

Under the Aggregate cost method, the ARC equals an amortization of the unfunded present value of future benefits, based on the following:

- Period equal to the average future working lifetime of active participants
- Level percentage of future payroll amounts

The Entry Age Normal (EAN) - Level Percentage of Pay cost method spreads plan costs for each participant from entry date (assuming the plan existed on the employee's hire date) to the expected retirement date. Under this method, the plan's

CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2008

normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The Actuarial Accrued liability (AAL) is the present value of all projected benefits less the present value of all future normal costs. For retirees, the AAL is simply the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL based on the following:

- Specific amortization period (10, 20, or 30 years are shown)
- Level percentage of future payroll amounts

The plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

Discount Rate - 5.00% - This is based upon the assumption that benefits will be paid from general City assets, or paid from a separate trust where assets are invested relatively conservatively.

Payroll Increases - 3.25% - This is the annual rate at which total payroll (\$69 million) is expected to increase and is used in the cost method to calculate the ARC as a level percent of payroll.

Mortality, Disability, Retirement Age, & Turnover - Mortality, disability, retirement age, and turnover rates developed in the CalPERS 1997-2002 Experience Study were used in the valuation.

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

BUDGETARY INFORMATION

A two-year financial plan is prepared from which annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Effective fiscal control for debt service is achieved through bond indenture provisions. While budgets are prepared for the City's capital projects, capital projects generally span more than one year and are effectively controlled at the project level.

In early January of each year, departments submit their proposed budgets to the City Administrator. These proposals are reviewed and considered, and adjusted as necessary based on funding limitations and priorities. In early April, the City Administrator presents a recommended budget to the City Council. From April through late June, public hearings are held and the recommended budget is reviewed in detail with the Council Finance Committee. The budget is adopted by June 30.

The appropriated budget is prepared by fund, department and program. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed appropriations at the department level for the General Fund and at the fund level for all other legally budgeted funds. Department heads may make transfers of appropriations between line items within a program and across programs lines as long as they are within the same major object category (i.e., Salaries & Benefits, Supplies & Services, Capital, etc.). All other adjustments to appropriations that change the total of a department (within the General Fund) or fund must be approved by Council. Budgeted amounts, as shown, reflect the originally adopted budget and the final budget that includes re-appropriated prior year encumbrances as well as any approved revisions as detailed below. Except for the General Fund, individual amendments were not material in relation to the original appropriations. The original and amended operating budget for the General Fund is shown in the table below.

Originally Adopted Budget	\$ 104,976,295
Re-appropriated Prior Year Encumbrances	3,109,256
Amendments	<u>2,651,708</u>
Amended Budget	<u><u>\$ 110,737,259</u></u>

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. Budget appropriations for governmental funds lapse at year-end unless they are encumbered. Budget appropriations for capital projects and other multi-year projects do not lapse at fiscal year-end and are carried forward through completion of the project.

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 66,399,400	\$66,399,400	\$ 65,788,913	\$ (610,487)
Franchise fees	2,968,600	2,968,600	2,829,559	(139,041)
Intergovernmental	1,117,631	2,717,245	2,678,225	(39,020)
Fines and forfeitures	3,357,932	3,357,932	2,709,282	(648,650)
Use of money and property	1,978,395	1,978,395	2,600,533	622,138
Charges for services	18,842,319	18,881,619	18,749,956	(131,663)
Other revenues	9,619,171	9,622,071	7,504,313	(2,117,758)
Total revenues	104,283,448	105,925,262	102,860,781	(3,064,481)
Expenditures:				
Current:				
Mayor and council	861,972	\$862,001	\$800,738	61,263
City attorney	2,175,121	2,203,476	2,109,104	94,372
City administration	2,185,157	2,241,360	2,163,842	77,518
Administrative services	2,365,566	2,480,806	2,272,640	208,166
Finance	5,017,295	4,822,039	4,660,727	161,312
Fire	18,886,215	20,961,632	20,820,299	141,333
Police	32,206,702	32,923,965	32,859,337	64,628
Public works	6,643,826	6,925,793	6,498,273	427,520
Parks and recreation	14,663,066	15,225,358	14,685,244	540,114
Library	4,561,679	4,649,994	4,325,912	324,082
Community development	11,003,853	12,951,504	10,905,192	2,046,312
Community promotions	1,895,168	1,884,114	1,884,114	-
Total expenditures	102,465,620	108,132,042	103,985,422	4,146,620
Excess (deficiency) of revenues over (under) expenditures	1,817,828	(2,206,780)	(1,124,641)	1,082,139
Other financing sources (uses):				
Transfers in	901,927	901,927	499,546	(402,381)
Transfers out	(2,510,675)	(2,605,217)	(2,557,633)	47,584
Total other financing sources (uses)	(1,608,748)	(1,703,290)	(2,058,087)	(354,797)
Net change in fund balances	209,080	(3,910,070)	(3,182,728)	727,342
Fund balances, beginning of fiscal year	28,207,839	28,207,839	28,207,839	-
Fund balances, end of fiscal year	\$ 28,416,919	\$ 24,297,769	\$ 25,025,111	\$ 727,342

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 17,325,000	\$ 17,325,000	\$ 18,080,961	\$ 755,961
Use of money and property	663,000	663,000	1,378,942	715,942
Charges for services	-	-	54,615	54,615
Other revenues	-	-	477,673	477,673
Total revenues	<u>17,988,000</u>	<u>17,988,000</u>	<u>19,992,191</u>	<u>2,004,191</u>
Expenditures:				
Current:				
Community development	4,189,714	7,316,210	4,051,481	3,264,729
Debt service:				
Principal	440,000	440,000	440,000	-
Interest	195,075	195,075	228,825	(33,750)
Total expenditures	<u>4,824,789</u>	<u>7,951,285</u>	<u>4,720,306</u>	<u>3,230,979</u>
Excess of revenues over expenditures	<u>13,163,211</u>	<u>10,036,715</u>	<u>15,271,885</u>	<u>5,235,170</u>
Other financing uses:				
Transfers out	<u>(13,225,203)</u>	<u>(13,225,203)</u>	<u>(12,504,339)</u>	<u>720,864</u>
Net change in fund balances	(61,992)	(3,188,488)	2,767,546	5,956,034
Fund balances, beginning of fiscal year	<u>52,541,739</u>	<u>52,541,739</u>	<u>52,541,739</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 52,479,747</u>	<u>\$ 49,353,251</u>	<u>\$ 55,309,285</u>	<u>\$ 5,956,034</u>

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SOLID WASTE FUND
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 419,916	\$ 419,916	\$ 435,536	\$ 15,620
Intergovernmental	226,000	295,503	91,591	(203,912)
Charges for services	15,968,863	15,968,863	16,000,741	31,878
Other revenues	190,000	190,000	200,302	10,302
Total revenues	<u>16,804,779</u>	<u>16,874,282</u>	<u>16,728,170</u>	<u>(146,112)</u>
Expenditures:				
Current:				
Public works	<u>16,867,804</u>	<u>17,021,383</u>	<u>16,973,500</u>	<u>47,883</u>
Deficiency of revenues under expenditures	(63,025)	(147,101)	(245,330)	(98,229)
Other financing uses:				
Transfers out	<u>(2,141)</u>	<u>(16,035)</u>	<u>(16,035)</u>	<u>-</u>
Net change in fund balances	(65,166)	(163,136)	(261,365)	(98,229)
Fund balances, beginning of fiscal year	<u>2,931,335</u>	<u>2,931,335</u>	<u>2,931,335</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 2,866,169</u>	<u>\$ 2,768,199</u>	<u>\$ 2,669,970</u>	<u>\$ (98,229)</u>

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
COMMUNITY DEVELOPMENT BLOCK GRANT
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ 1,106,707	\$ 2,692,611	\$ 1,454,357	\$ (1,238,254)
Program income	350,000	350,000	279,991	(70,009)
Total revenues	<u>1,456,707</u>	<u>3,042,611</u>	<u>1,734,348</u>	<u>(1,308,263)</u>
Expenditures:				
Current:				
Community development	<u>1,455,115</u>	<u>3,041,019</u>	<u>1,732,756</u>	<u>1,308,263</u>
Excess of revenues over expenditures	<u>1,592</u>	<u>1,592</u>	<u>1,592</u>	<u>-</u>
Other financing uses:				
Transfers out	<u>(1,592)</u>	<u>(1,592)</u>	<u>(1,592)</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of fiscal year	<u>2,347</u>	<u>2,347</u>	<u>2,347</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 2,347</u>	<u>\$ 2,347</u>	<u>\$ 2,347</u>	<u>\$ -</u>

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

MODIFIED APPROACH FOR CITY STREETS INFRASTRUCTURE CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City is required to account for and report infrastructure capital assets. The City defines infrastructure as the basic physical assets including the streets system, water and wastewater treatment plants, drainage systems, bridges, and sidewalks. Each major infrastructure network can be divided into subsystems. For example, the street network can be divided into concrete and asphalt pavements, curbs and gutters, sidewalks, streetlights, traffic control devices, landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

The City has elected to use the “Modified Approach” as defined by GASB Statement No. 34 for infrastructure reporting for its Streets Pavement System. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The City manages the eligible infrastructure capital assets using an asset management system with the characteristics of (1) an up-to-date periodic inventory is performed; (2) condition assessments and summary of results using a measurement scale is completed, and (3) annual amounts to maintain and preserve the eligible infrastructure capital assets at the established condition assessment level are estimated.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The pavement network within the City has approximately 238 miles of paved surfaces, comprised of 127 miles of residential streets, 40 miles of principal arterial and arterial streets and 71 miles of collector streets. This equates to almost 40,000,000 square feet of pavement.

The City has developed a Pavement Management System to inventory and document the physical condition assessment of the City’s street network, including a pavement preservation program. Every two years the study is updated and identifies and records the updated condition assessment of all of the City’s streets. The streets, which are primarily concrete and asphalt pavement, were defined as the physical features associated with the operation of motorized vehicles that exist within the limits of the right of way. City owned streets are classified based on land use, access, and traffic utilization into the following four classifications: residential, principal arterial, arterial, and collector. It is anticipated the condition assessment will be performed every two years covering at least one-third of the City’s streets on a rotating basis. As part of the study, each street was assigned a physical condition based on a variety of potential defects. A Pavement Condition Index (PCI), a nationally recognized index, is assigned to each street and expressed in a continuous scale from 0 to 100, with 100 being a brand new street and 0 being a badly deteriorated street with virtually no remaining life. The following conditions were assigned:

<u>Condition</u>	<u>Rating</u>
Excellent	86-100
Very Good	71-85
Good	56-70
Fair	41-55
Poor	26-40
Very Poor	11-25
Substandard	0-10

The City’s preservation program and maintenance estimates were developed to maintain the current infrastructure of streets at or above the average actual condition levels of the streets at the time each of the studies was conducted in 2001, 2002, 2004, 2006 and 2008 which were 74, 75, 72, 71 and 71 (“Very Good”), respectively. The City’s formal policy with regard to preservation levels is to maintain a minimum average rating of no less than 60 (“Good”) for all streets. This rating level allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speeds. As of June 30, 2008, the City’s street system was rated an average PCI index value of 71 (“Very Good”) with the detail condition as follows:

CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2008

<u>Condition</u>	<u>Approximate % of Streets</u>
Excellent to Good	91%
Fair	4%
Poor to Substandard	5%

In general, streets are constantly deteriorating resulting from the following four factors: (1) traffic using the streets; (2) the sun's ultra-violet rays drying out and breaking down the top layer of pavement; (3) utility company/private development interests trenching operations; and (4) water damage from natural precipitation and other urban runoff. The City is continuously taking actions to minimize the deterioration through short-term maintenance activities such as pothole patching. The City expended \$3,135,532 on street maintenance for the fiscal year ended June 30, 2008. The City has estimated that the average amount of annual expenditures required for fiscal years 2009-2013 to maintain the City's streets at an average PCI rating of at least 70 is approximately \$5,600,000. The estimated amount of deferred maintenance with an average PCI rating of 70 is \$13.8 million at June 30, 2008. A schedule of estimated annual amount calculated to maintain and preserve its streets at the current level compared to actual expenditures for street maintenance for the last five years is presented below:

<u>Fiscal Year</u>	<u>Maintenance Estimate</u>	<u>Actual Expenditures</u>	<u>PCI Rating</u>
2003-2004	\$ 3,350,000	\$ 3,607,033	72
2004-2005	2,683,648	2,270,022	72
2005-2006	3,856,200	2,963,855	71
2006-2007	6,355,188	3,230,977	71
2007-2008	6,021,356	3,135,532	71

The City's on-going street preservation program is also intended to maintain the condition rating of City streets. The preservation program is developed with a six-year cycle that is tied to 6 maintenance zones with 1 zone completed each year. The strategy objective is to maintain City streets over the next 6 years and maintain the overall condition of the road network, and involves both slurry seal and pavement resurfacing as preservation components. For pavements that are beyond economical preservation, reconstruction may be proposed to restore the pavement.



NONMAJOR GOVERNMENTAL FUNDS

Traffic Safety Fund - To account for the receipt of fines collected pursuant to the California Vehicle Code. The State of California Government Code restricts use of these funds to traffic control devices, equipment and supplies related to traffic control or traffic safety and maintenance of public streets. The funds may not be used to pay compensation of traffic or police officers.

Creek Restoration/Water Quality Fund - To account for funds received from a two-percent tax increase in the City's transient occupancy tax. The proceeds are restricted for use in the City's Creeks Restoration and Water Quality Improvement Program. Measure B was approved by the voters of Santa Barbara County in an election held on November 7, 2000. The tax became effective on January 1, 2001.

Transportation Development Fund - To account for the receipt and disbursement of the City's share of gasoline sales tax pursuant to the Transportation Development Act of 1971. These funds are restricted for use in support of alternative transportation, including sidewalks and bikeways.

HOME Program Fund - To account for the receipt and disbursement of the City's Federal HOME grant funds.

County Library Fund - To account for funds received and expended for library services on behalf of the County (non-City) residents.

Street Sweeping Fund - To account for funds received and expended for street sweeping services.

Measure D Road Maintenance Fund - To account for funds received from a one-half cent sales tax levied Countywide pursuant to Measure D. This measure was approved by the voters of Santa Barbara County in an election held on November 7, 1989, and became effective on April 1, 1990. The proceeds are restricted to transportation uses.

Wildland Fire Suppression Fund - To account for funds received and expended for wildland fire suppression.

Undergrounding Utility Fund - To account for funds received and expended for undergrounding utility services.

Police - Asset Forfeiture Fund (Unbudgeted) - To account for assets confiscated by police special operations. These funds are restricted to use in support of police operations.

Miscellaneous Grants Fund (Unbudgeted) - To account for resources received from various granting agencies.

FEMA Reimbursement Storm Fund (Unbudgeted) - To account for costs incurred as a result of the two federally declared disasters in February, 1998; and the storm in January, 2005.

Police – Supplemental Law Enforcement Fund - To account for State voter-approved grant funds (AB 3229) restricted to public safety and law enforcement.

Police – Local Law Enforcement Block Grant Fund - To account for Federal grants funds received for local law enforcement activities.

General Capital Improvements Fund - To account for all capital projects financed by the General Fund.

Street Grant Capital Improvements Fund - To account for streets-related capital projects financed by Grants.

Street Capital Improvements Fund - To account for streets-related capital projects financed by the General Fund.

Creeks Restoration Capital Improvement Fund - To account for creeks restoration capital improvements funded by Measure B.

1995 Redevelopment Agency Refunding Tax Allocation Bonds Fund (Unbudgeted) - To accumulate funds for the payment of the 1995 Refunding Tax Allocation Bonds.

2002 Municipal Refunding Certificates of Participation Fund (Unbudgeted) - To accumulate funds for the payment of the General Fund's portion of the 2002 municipal improvement refunding certificates of participation.

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**CITY OF SANTA BARBARA
COMBINING BALANCE SHEET
NONMAJOR - GOVERNMENTAL FUNDS
June 30, 2008**

	Special Revenue						
<u>Assets</u>	Traffic Safety	Creek Restoration/ Water Quality	Transpor- tation Develop.	HOME Program	County Library	Street Sweeping	Measure D Road Maintenance
Cash and investments	\$ 3,850	\$ 4,846,640	\$ 334,531	\$ 67	\$ 104,238	\$ 1,589,556	\$ 3,526,544
Accounts receivable	-	253,857	-	-	340,380	-	327,227
Loans receivable	-	-	-	4,980,814	-	-	-
Due from other agencies	-	-	-	57,493	-	-	-
Prepaid assets and deposits	-	-	-	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-	-	-	-
Total assets	<u>\$ 3,850</u>	<u>\$ 5,100,497</u>	<u>\$ 334,531</u>	<u>\$ 5,038,374</u>	<u>\$ 444,618</u>	<u>\$ 1,589,556</u>	<u>\$ 3,853,771</u>
 <u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 3,850	\$ 64,803	\$ -	\$ -	\$ 40,672	\$ 26,423	\$ 271,509
Salaries and benefits payable	-	37,527	-	1,645	58,664	13,327	27,411
Interest payable	-	-	-	-	-	-	-
Interfund payables	-	-	-	55,915	-	-	-
Deposits	-	-	-	-	-	-	-
Deferred revenue	-	-	-	4,980,814	-	-	-
Loans Payable	-	-	-	-	-	-	-
Total liabilities	<u>3,850</u>	<u>102,330</u>	<u>-</u>	<u>5,038,374</u>	<u>99,336</u>	<u>39,750</u>	<u>298,920</u>
 Fund balances:							
Reserved:							
Encumbrances	-	262,884	159,457	-	12,553	2,814	2,880,417
Due from other agencies	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Street improvements	-	-	175,074	-	-	1,546,992	674,434
Parks	-	-	-	-	-	-	-
Library	-	-	-	-	332,729	-	-
Community development	-	-	-	-	-	-	-
Community services	-	-	-	-	-	-	-
Future projects	-	4,735,283	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>4,998,167</u>	<u>334,531</u>	<u>-</u>	<u>345,282</u>	<u>1,549,806</u>	<u>3,554,851</u>
Total liabilities and fund balances	<u>\$ 3,850</u>	<u>\$ 5,100,497</u>	<u>\$ 334,531</u>	<u>\$ 5,038,374</u>	<u>\$ 444,618</u>	<u>\$ 1,589,556</u>	<u>\$ 3,853,771</u>

Special Revenue							Capital Projects
Wildland Fire Suppression	Under- grounding Utility	Police - Asset Forfeiture	Miscellaneous Grants	FEMA Reimbursement Storm Fund	Police - Supplemental Law Enforcement	Police - Local Law Enforcement Block Grant	General Capital Improvements
\$ 128,453	\$ 1,069,770	\$ 890,557	\$ 694,395	\$ 51,357	\$ 7,615	\$ -	\$ 2,594,308
-	27,120	6,213	876	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	115,852	282,607	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ 128,453	\$ 1,096,890	\$ 896,770	\$ 811,123	\$ 333,964	\$ 7,615	\$ -	\$ 2,594,308
\$ 11,135	\$ 2,190	\$ 75	\$ 12,305	\$ -	\$ -	\$ -	\$ 351,626
1,873	-	-	-	-	7,615	-	-
-	-	40,456	-	-	-	-	-
-	-	-	-	388,365	-	-	-
-	-	138,859	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
13,008	2,190	179,390	12,305	388,365	7,615	-	351,626
78,285	919,199	710,629	32,319	-	-	-	1,899,400
-	-	-	115,852	(54,401)	-	-	-
37,160	-	6,751	163,954	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	175,501	-	23,059	-	-	-	-
-	-	-	265,459	-	-	-	-
-	-	-	198,175	-	-	-	343,282
-	-	-	-	-	-	-	-
115,445	1,094,700	717,380	798,818	(54,401)	-	-	2,242,682
\$ 128,453	\$ 1,096,890	\$ 896,770	\$ 811,123	\$ 333,964	\$ 7,615	\$ -	\$ 2,594,308

(Continued)

**CITY OF SANTA BARBARA
COMBINING BALANCE SHEET
NONMAJOR - GOVERNMENTAL FUNDS
June 30, 2008**

	Capital Projects			Debt Service		Total Nonmajor Governmental Funds
	Streets Grant Capital	Street Capital Improvements	Creeks Restoration Capital Improvement	1995 Refunding Tax Allocation Bonds	2002 Municipal Refunding Certificates	
<u>Assets</u>						
Cash and investments	\$ -	\$ 4,366,053	\$ 2,638,641	\$ -	\$ -	\$ 22,846,575
Accounts receivable	-	986,312	-	-	-	1,941,985
Loans receivable	-	-	-	-	-	4,980,814
Due from other agencies	-	-	-	-	-	455,952
Prepaid assets and deposits	-	21,716	-	-	-	21,716
Cash and investments with fiscal agents	-	-	-	-	561,279	561,279
Total assets	<u>\$ -</u>	<u>\$ 5,374,081</u>	<u>\$ 2,638,641</u>	<u>\$ -</u>	<u>\$ 561,279</u>	<u>\$ 30,808,321</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Accounts payable	\$ -	\$ 949,555	\$ 30,093	\$ -	\$ -	\$ 1,764,236
Salaries and benefits payable	-	149,356	-	-	-	297,418
Interest payable	-	-	-	-	-	40,456
Interfund payables	-	197,200	-	-	-	641,480
Deposits	-	-	-	-	-	138,859
Deferred revenue	-	-	-	-	-	4,980,814
Loans Payable	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>1,296,111</u>	<u>30,093</u>	<u>-</u>	<u>-</u>	<u>7,863,263</u>
<u>Fund balances:</u>						
Reserved:						
Encumbrances	-	3,669,985	2,237,082	-	-	12,865,024
Due from other agencies	-	-	-	-	-	61,451
Public safety	-	-	-	-	-	207,865
Street improvements	-	399,567	-	-	-	2,796,067
Parks	-	-	371,466	-	-	371,466
Library	-	-	-	-	-	332,729
Community development	-	-	-	-	-	198,560
Community services	-	-	-	-	-	265,459
Future projects	-	8,418	-	-	-	5,285,158
Debt service	-	-	-	-	561,279	561,279
Total fund balances	<u>-</u>	<u>4,077,970</u>	<u>2,608,548</u>	<u>-</u>	<u>561,279</u>	<u>22,945,058</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 5,374,081</u>	<u>\$ 2,638,641</u>	<u>\$ -</u>	<u>\$ 561,279</u>	<u>\$ 30,808,321</u>



CITY OF SANTA BARBARA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR - GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2008

	Special Revenue						
	Traffic Safety	Creek Restoration/ Water Quality	Transpor- tation Develop.	HOME Program	County Library	Street Sweeping	Measure D Road Maintenance
Revenues:							
Taxes	\$ -	\$ 2,587,155	\$ 65,061	\$ -	\$ -	\$ -	\$ 4,713,277
Franchise fees	-	-	-	-	-	-	-
Intergovernmental	-	-	-	1,290,074	1,597,477	-	-
Fines and forfeitures	516,097	-	-	-	151,398	958,542	-
Use of money and property	-	450,326	19,982	-	15,327	-	218,373
Charges for services	-	-	-	-	-	-	-
Program income	-	-	-	3,344	-	-	-
Other revenues	-	924	-	-	43,775	-	-
Total revenues	516,097	3,038,405	85,043	1,293,418	1,807,977	958,542	4,931,650
Expenditures:							
Current:							
Public safety	30,835	-	-	-	-	-	-
Public works	-	1,475,155	117,856	-	-	1,099,348	4,863,488
Community services	-	-	-	-	1,748,881	-	-
Community development	-	-	-	1,293,418	-	-	-
Capital Outlay:							
Capital improvements	-	-	-	-	-	-	-
Debt Service:							
Principle retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	30,835	1,475,155	117,856	1,293,418	1,748,881	1,099,348	4,863,488
Excess (deficiency) of revenues over (under) expenditures	485,262	1,563,250	(32,813)	-	59,096	(140,806)	68,162
Other financing sources (uses):							
Transfers in	-	-	-	-	-	317,188	-
Transfers out	(485,262)	(806,169)	-	-	(2,554)	(3,432)	(796)
Total other financing sources (uses)	(485,262)	(806,169)	-	-	(2,554)	313,756	(796)
Net change in fund balances	-	757,081	(32,813)	-	56,542	172,950	67,366
Fund balances, beginning of fiscal year	-	4,241,086	367,344	-	288,740	1,376,856	3,487,485
Fund balances, end of fiscal year	\$ -	\$ 4,998,167	\$ 334,531	\$ -	\$ 345,282	\$ 1,549,806	\$ 3,554,851

Special Revenue							Capital Projects
Wildland Fire Suppression	Under- grounding Utility	Police - Asset Forfeiture	Miscellaneous Grants	FEMA Reim- bursement Storm Fund	Police - Supplemental Law Enforcement	Police - Local Law Enforcement Block Grant	General Capital Improvements
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	351,728	-	-	-	-	-	-
-	-	126,503	173,653	-	172,020	-	1,591,974
-	-	-	-	-	-	-	-
-	-	18,531	-	-	-	612	-
-	8,432	-	112,759	108,472	-	-	-
-	-	-	-	-	-	-	-
218,998	-	95,931	501,396	-	-	-	83,136
218,998	360,160	240,965	787,808	108,472	172,020	612	1,675,110
-	-	110,509	115,497	-	172,020	123	-
179,646	198,902	-	15,883	326,846	-	-	-
-	-	-	660,020	-	-	-	-
-	-	-	31,161	-	-	-	-
-	-	-	-	-	-	-	3,059,131
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
179,646	198,902	110,509	822,561	326,846	172,020	123	3,059,131
39,352	161,258	130,456	(34,753)	(218,374)	-	489	(1,384,021)
-	-	-	142,385	-	-	-	1,751,926
-	-	-	-	-	-	(14,284)	-
-	-	-	142,385	-	-	(14,284)	1,751,926
39,352	161,258	130,456	107,632	(218,374)	-	(13,795)	367,905
76,093	933,442	586,924	691,186	163,973	-	13,795	1,874,777
\$ 115,445	\$ 1,094,700	\$ 717,380	\$ 798,818	\$ (54,401)	\$ -	\$ -	\$ 2,242,682

(Continued)

CITY OF SANTA BARBARA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR - GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2007

	Capital Projects			Debt Service		Total
	Streets Grant Capital	Street Capital Improvements	Creeks Restoration Capital Improvements	1995 Re- funding Tax Allocation Bonds	2002 Municipal Refunding Certificates	Nonmajor Governmental Funds
Revenues:						
Taxes	\$ -	\$ 6,844,081	\$ -	\$ -	\$ -	\$ 14,209,574
Franchise fees	-	-	-	-	-	351,728
Intergovernmental	3,202,223	3,761,092	446,781	-	-	12,361,797
Fines and forfeitures	-	-	-	-	-	1,626,037
Use of money and property	-	1,525	-	21,604	30,114	776,394
Charges for services	-	442,644	-	-	-	672,307
Program income	-	-	-	-	-	3,344
Other revenues	-	106,072	-	-	-	1,050,232
Total revenues	3,202,223	11,155,414	446,781	21,604	30,114	31,051,413
Expenditures:						
Current:						
Public safety	-	-	-	-	-	428,984
Public works	405	6,865,624	-	-	-	15,143,153
Community services	-	-	-	-	-	2,408,901
Community development	-	-	-	-	-	1,324,579
Capital Outlay:						
Capital improvements	3,201,818	5,827,066	391,696	-	-	12,479,711
Debt Service:						
Principle retirement	-	-	-	3,265,000	231,000	3,496,000
Interest	-	-	-	195,900	123,192	319,092
Total expenditures	3,202,223	12,692,690	391,696	3,460,900	354,192	35,600,420
Excess (deficiency) of revenues over (under) expenditures	-	(1,537,276)	55,085	(3,439,296)	(324,078)	(4,549,007)
Other financing sources (uses):						
Transfers in	-	130,225	635,000	2,740,669	324,058	6,041,451
Transfers out	-	(159,555)	-	-	-	(1,472,052)
Total other financing sources (uses)	-	(29,330)	635,000	2,740,669	324,058	4,569,399
Net change in fund balances	-	(1,566,606)	690,085	(698,627)	(20)	20,392
Fund balances, beginning of fiscal year	-	5,644,576	1,918,463	698,627	561,299	22,924,666
Fund balances, end of fiscal year	\$ -	\$ 4,077,970	\$ 2,608,548	\$ -	\$ 561,279	\$ 22,945,058

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
TRAFFIC SAFETY
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues:				
Fines and forfeitures	<u>\$ 580,000</u>	<u>\$ 580,000</u>	<u>\$ 516,097</u>	<u>\$ (63,903)</u>
Expenditures:				
Current:				
Protection of persons and property	<u>30,000</u>	<u>30,000</u>	<u>30,835</u>	<u>(835)</u>
Excess of revenues over expenditures	<u>550,000</u>	<u>550,000</u>	<u>485,262</u>	<u>(64,738)</u>
Other financing uses:				
Transfers out	<u>(550,000)</u>	<u>(550,000)</u>	<u>(485,262)</u>	<u>64,738</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of fiscal year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of fiscal year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
CREEKS RESTORATION/WATER QUALITY
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 2,716,300	\$ 2,716,300	\$ 2,587,155	\$ (129,145)
Use of money and property	201,087	201,087	450,326	249,239
Other revenues	-	-	924	924
Total revenues	<u>2,917,387</u>	<u>2,917,387</u>	<u>3,038,405</u>	<u>121,018</u>
Expenditures:				
Current:				
Public works	<u>1,920,387</u>	<u>2,136,770</u>	<u>1,475,155</u>	<u>661,615</u>
Excess of revenues over expenditures	997,000	780,617	1,563,250	782,633
Other financing uses:				
Transfers out	<u>(806,169)</u>	<u>(806,169)</u>	<u>(806,169)</u>	<u>-</u>
Net change in fund balances	190,831	(25,552)	757,081	782,633
Fund balances, beginning of fiscal year	<u>4,241,086</u>	<u>4,241,086</u>	<u>4,241,086</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 4,431,917</u>	<u>\$ 4,215,534</u>	<u>\$ 4,998,167</u>	<u>\$ 782,633</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
TRANSPORTATION DEVELOPMENT
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 75,000	\$ 75,000	\$ 65,061	\$ (9,939)
Use of money and property	13,300	13,300	19,982	6,682
Total revenues	<u>88,300</u>	<u>88,300</u>	<u>85,043</u>	<u>(3,257)</u>
Expenditures:				
Current:				
Public works	<u>150,000</u>	<u>273,468</u>	<u>117,856</u>	<u>155,612</u>
Deficiency of revenues under expenditures	(61,700)	(185,168)	(32,813)	152,355
Fund balances, beginning of fiscal year	<u>367,344</u>	<u>367,344</u>	<u>367,344</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 305,644</u>	<u>\$ 182,176</u>	<u>\$ 334,531</u>	<u>\$ 152,355</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
HOME PROGRAM
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ 811,539	\$ 3,112,193	\$ 1,290,074	\$ (1,822,119)
Program income	5,000	5,000	3,344	(1,656)
Total revenues	<u>816,539</u>	<u>3,117,193</u>	<u>1,293,418</u>	<u>(1,823,775)</u>
Expenditures:				
Current:				
Community development	<u>816,539</u>	<u>3,117,193</u>	<u>1,293,418</u>	<u>1,823,775</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Fund balances, beginning of fiscal year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
COUNTY LIBRARY
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ 1,285,867	\$ 1,285,867	\$ 1,597,477	\$ 311,610
Fines and forfeitures	175,000	175,000	151,398	(23,602)
Use of money and property	-	-	15,327	15,327
Other revenues	75,000	75,000	43,775	(31,225)
Total revenues	<u>1,535,867</u>	<u>1,535,867</u>	<u>1,807,977</u>	<u>272,110</u>
Expenditures:				
Current:				
Community services	<u>1,810,692</u>	<u>1,762,557</u>	<u>1,748,881</u>	<u>13,676</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(274,825)</u>	<u>(226,690)</u>	<u>59,096</u>	<u>285,786</u>
Other financing sources (uses):				
Transfers in	65,000	65,000	-	(65,000)
Transfers out	<u>(2,554)</u>	<u>(71,000)</u>	<u>(2,554)</u>	<u>(68,446)</u>
Total other financing sources (uses)	<u>62,446</u>	<u>(6,000)</u>	<u>(2,554)</u>	<u>(133,446)</u>
Net change in fund balances	(212,379)	(232,690)	56,542	152,340
Fund balances, beginning of fiscal year	<u>288,740</u>	<u>288,740</u>	<u>288,740</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 76,361</u>	<u>\$ 56,050</u>	<u>\$ 345,282</u>	<u>\$ 152,340</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
STREET SWEEPING
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Fines and forfeitures	\$ 975,000	\$ 975,000	\$ 958,542	\$ (16,458)
Expenditures:				
Current:				
Public works	1,256,895	1,497,808	1,099,348	398,460
Deficiency of revenue under expenditures	(281,895)	(522,808)	(140,806)	382,002
Other financing sources (uses):				
Transfers in	317,188	317,188	317,188	-
Transfers out	(3,432)	(3,432)	(3,432)	-
Total other financing sources	313,756	313,756	313,756	-
Net change in fund balances	31,861	(209,052)	172,950	382,002
Fund balances, beginning of fiscal year	1,376,856	1,376,856	1,376,856	-
Fund balances, end of fiscal year	<u>\$ 1,408,717</u>	<u>\$ 1,167,804</u>	<u>\$ 1,549,806</u>	<u>\$ 382,002</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
MEASURE D ROAD MAINTENANCE
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 4,875,000	\$ 4,875,000	\$ 4,713,277	\$ (161,723)
Use of money and property	195,000	195,000	218,373	23,373
Total revenues	<u>5,070,000</u>	<u>5,070,000</u>	<u>4,931,650</u>	<u>(138,350)</u>
Expenditures:				
Current:				
Public works	<u>5,224,704</u>	<u>8,001,467</u>	<u>4,863,488</u>	<u>3,137,979</u>
Excess (deficiency) of revenues over (under) expenditures	(154,704)	(2,931,467)	68,162	2,999,629
Other financing uses:				
Transfers out	<u>(796)</u>	<u>(796)</u>	<u>(796)</u>	<u>-</u>
Net change in fund balances	(155,500)	(2,932,263)	67,366	2,999,629
Fund balances, beginning of fiscal year	<u>3,487,485</u>	<u>3,487,485</u>	<u>3,487,485</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 3,331,985</u>	<u>\$ 555,222</u>	<u>\$ 3,554,851</u>	<u>\$ 2,999,629</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
WILDLAND FIRE SUPPRESSION ASSESSMENT
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Other revenues	\$ 223,811	\$ 223,811	\$ 218,998	\$ (4,813)
Expenditures:				
Current:				
Protection of persons and property	223,811	263,028	179,646	83,382
Excess (deficiency) of revenues over (under) expenditures	-	(39,217)	39,352	78,569
Fund balances, beginning of fiscal year	76,093	76,093	76,093	-
Fund balances, end of fiscal year	<u>\$ 76,093</u>	<u>\$ 36,876</u>	<u>\$ 115,445</u>	<u>\$ 78,569</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
UNDERGROUNDING UTILITY
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Franchise fees	\$ 390,000	\$ 390,000	\$ 351,728	\$ (38,272)
Charges for services	-	-	8,432	8,432
Total revenues	<u>390,000</u>	<u>390,000</u>	<u>360,160</u>	<u>(29,840)</u>
Expenditures:				
Current:				
Public works	<u>390,000</u>	<u>1,118,102</u>	<u>198,902</u>	<u>919,200</u>
Excess (deficiency) of revenues over (under) expenditures	-	(728,102)	161,258	889,360
Fund balances, beginning of fiscal year	<u>933,442</u>	<u>933,442</u>	<u>933,442</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 933,442</u>	<u>\$ 205,340</u>	<u>\$ 1,094,700</u>	<u>\$ 889,360</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
POLICE - SUPPLEMENTAL LAW ENFORCEMENT
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ 141,512	\$ 141,512	\$ 172,020	\$ 30,508
Expenditures:				
Current:				
Protection of persons and property	141,512	141,512	172,020	(30,508)
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Fund balances, beginning of fiscal year	-	-	-	-
Fund balances, end of fiscal year	\$ -	\$ -	\$ -	\$ -

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
POLICE - LOCAL LAW ENFORCEMENT BLOCK GRANT
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Use of money and property	\$ -	\$ -	\$ 612	\$ 612
Expenditures:				
Current:				
Protection of persons and property	-	-	123	(123)
Excess of revenues over expenditures	-	-	489	489
Other financing uses:				
Transfers out	-	-	(14,284)	14,284
Net change in fund balances	-	-	(13,795)	14,773
Fund balances, beginning of fiscal year	13,795	13,795	13,795	-
Fund balances, end of fiscal year	\$ 13,795	\$ 13,795	\$ -	\$ 14,773

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
GENERAL CAPITAL IMPROVEMENTS
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ -	\$ 2,544,087	\$ 1,591,974	\$ (952,113)
Other revenues	25,000	133,697	83,136	(50,561)
Total revenues	<u>25,000</u>	<u>2,677,784</u>	<u>1,675,110</u>	<u>(1,002,674)</u>
Expenditures:				
Capital outlay:				
Capital improvements	<u>1,662,802</u>	<u>6,111,448</u>	<u>3,059,131</u>	<u>3,052,317</u>
Deficiency of revenues under expenditures	(1,637,802)	(3,433,664)	(1,384,021)	2,049,643
Other financing sources:				
Transfers in	<u>1,694,679</u>	<u>1,795,623</u>	<u>1,751,926</u>	<u>(43,697)</u>
Net change in fund balances	56,877	(1,638,041)	367,905	2,005,946
Fund balances, beginning of fiscal year	<u>1,874,777</u>	<u>1,874,777</u>	<u>1,874,777</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 1,931,654</u>	<u>\$ 236,736</u>	<u>\$ 2,242,682</u>	<u>\$ 2,005,946</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
STREET GRANT CAPITAL IMPROVEMENTS
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ -	\$ 12,906,751	\$ 3,202,223	\$ (9,704,528)
Expenditures:				
Capital outlay:				
Capital improvements	-	12,906,751	3,202,223	9,704,528
Total expenditures	-	12,906,751	3,202,223	9,704,528
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances, beginning of fiscal year	-	-	-	-
Fund balances, end of fiscal year	\$ -	\$ -	\$ -	\$ -

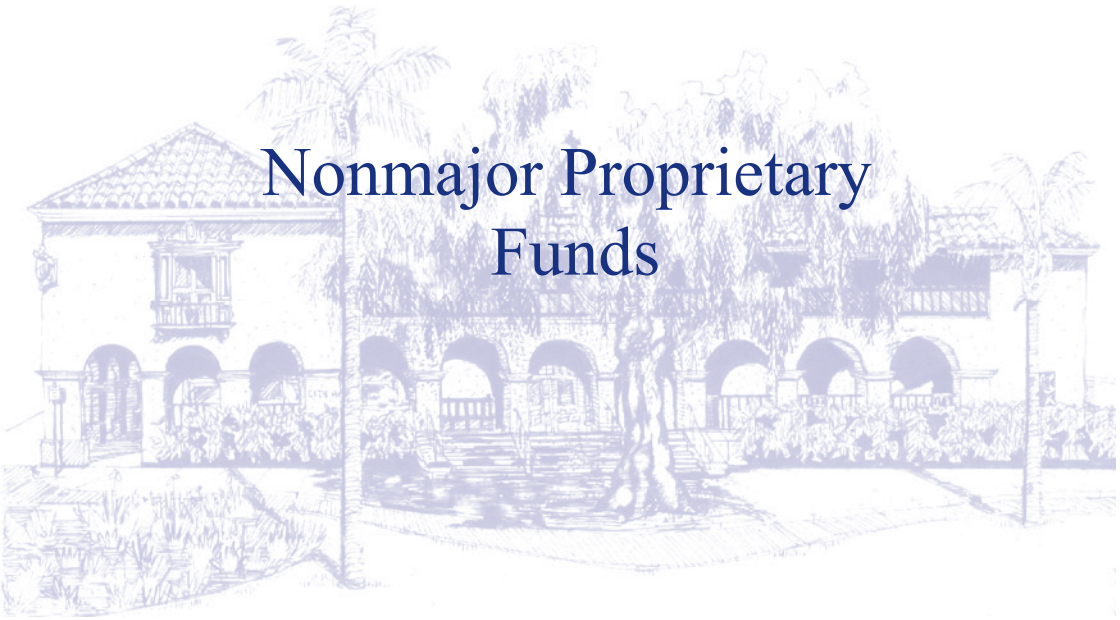
CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
STREET CAPITAL IMPROVEMENTS
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 6,846,800	\$ 6,846,800	\$ 6,844,081	\$ (2,719)
Intergovernmental	2,825,000	3,887,709	3,761,092	(126,617)
Use of money and property	-	-	1,525	1,525
Charges for services	440,000	501,000	442,644	(58,356)
Other revenues	-	-	106,072	106,072
Total revenues	<u>10,111,800</u>	<u>11,235,509</u>	<u>11,155,414</u>	<u>(80,095)</u>
Expenditures:				
Capital outlay:				
Public works	6,707,160	7,112,596	6,865,624	246,972
Capital improvements	<u>3,322,000</u>	<u>9,638,838</u>	<u>5,827,066</u>	<u>3,811,772</u>
Total expenditures	<u>10,029,160</u>	<u>16,751,434</u>	<u>12,692,690</u>	<u>4,058,744</u>
Excess (deficiency) of revenues over (under) expenditures	<u>82,640</u>	<u>(5,515,925)</u>	<u>(1,537,276)</u>	<u>3,978,649</u>
Other financing sources (uses):				
Transfers in	128,132	140,132	130,225	(9,907)
Transfers out	<u>(159,555)</u>	<u>(159,555)</u>	<u>(159,555)</u>	<u>-</u>
Total other financing sources (uses)	<u>(31,423)</u>	<u>(19,423)</u>	<u>(29,330)</u>	<u>(9,907)</u>
Net change in fund balances	51,217	(5,535,348)	(1,566,606)	3,968,742
Fund balances, beginning of fiscal year	<u>5,644,576</u>	<u>5,644,576</u>	<u>5,644,576</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 5,695,793</u>	<u>\$ 109,228</u>	<u>\$ 4,077,970</u>	<u>\$ 3,968,742</u>

CITY OF SANTA BARBARA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
CREEKS RESTORATION CAPITAL IMPROVEMENTS
BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance from
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	\$ -	\$ 741,820	\$ 446,781	\$ (295,039)
Other revenues	-	180,000	-	(180,000)
Total revenues	-	921,820	446,781	(475,039)
Expenditures:				
Capital Outlay:				
Capital improvements	635,000	3,160,978	391,696	2,769,282
Excess (deficiency) of revenues over (under) expenditures	(635,000)	(2,239,158)	55,085	2,294,243
Other financing sources:				
Transfers in	635,000	635,000	635,000	-
Net change in fund balances	-	(1,604,158)	690,085	2,294,243
Fund balances, beginning of fiscal year	1,918,463	1,918,463	1,918,463	-
Fund balances, end of fiscal year	\$ 1,918,463	\$ 314,305	\$ 2,608,548	\$ 2,294,243





NONMAJOR PROPRIETARY FUNDS

Downtown Parking Fund - To account for the provision of parking services in the downtown area of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, capital acquisition and construction, financing and related debt service, and billing and collection of fees.

Golf Course Fund - To account for the operation of a municipal golf course. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, capital acquisition and construction, financing and related debt service, and billing and collection of fees.

CITY OF SANTA BARBARA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2008

	Downtown Parking	Golf Course	Total Nonmajor Proprietary Funds
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 8,104,253	\$ 1,421,657	\$ 9,525,910
Accounts receivable, net	7,498	-	7,498
Total current assets	<u>8,111,751</u>	<u>1,421,657</u>	<u>9,533,408</u>
Capital Assets:			
Capital Assets:			
Land	4,943,771	342,302	5,286,073
Buildings	4,677,851	1,198,600	5,876,451
Building improvements	-	90,749	90,749
Improvements other than buildings	4,024,835	2,620,530	6,645,365
Equipment	378,702	807,831	1,186,533
Construction in progress	1,221,217	581,463	1,802,680
Less accumulated depreciation	<u>(5,391,336)</u>	<u>(2,687,641)</u>	<u>(8,078,977)</u>
Total capital assets, (net)	<u>9,855,040</u>	<u>2,953,834</u>	<u>12,808,874</u>
Other Assets:			
Deferred charge-loss on defeasance, net	<u>-</u>	<u>106,639</u>	<u>106,639</u>
Total assets	<u>17,966,791</u>	<u>4,482,130</u>	<u>22,448,921</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	150,258	19,211	169,469
Accrued interest payable	-	1,578	1,578
Salaries and benefits payable	170,544	53,007	223,551
Deposits	40,672	-	40,672
Deferred revenue	-	16,302	16,302
Compensated absences payable	98,551	48,010	146,561
Current portion long term debt	<u>-</u>	<u>124,100</u>	<u>124,100</u>
Total current liabilities	460,025	262,208	722,233
Non-current liabilities:			
Long-term debt, net of current portion	-	1,337,900	1,337,900
Advances from other funds	-	100,000	100,000
Compensated absences payable	10,950	5,334	16,284
	<u>10,950</u>	<u>1,443,234</u>	<u>1,454,184</u>
Total liabilities	<u>470,975</u>	<u>1,705,442</u>	<u>2,176,417</u>
<u>Net Assets:</u>			
Invested in capital assets net of related debt	9,855,040	1,491,834	11,346,874
Unrestricted	<u>7,640,776</u>	<u>1,284,854</u>	<u>8,925,630</u>
Total net assets	<u>\$ 17,495,816</u>	<u>\$ 2,776,688</u>	<u>\$ 20,272,504</u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2008

	Downtown Parking	Golf Course	Total Nonmajor Proprietary Funds
Operating Revenues:			
Charges for sales and services:			
Service charges	\$ 5,799,823	\$ 1,932,255	\$ 7,732,078
Leases and rents	-	310,213	310,213
Other revenues	4,720	2,920	7,640
Total revenues	<u>5,804,543</u>	<u>2,245,388</u>	<u>8,049,931</u>
Operating Expenses:			
Salaries, wages and benefits	3,380,464	1,154,082	4,534,546
Materials, supplies and services	2,698,187	713,646	3,411,833
Depreciation	348,238	213,695	561,933
Total operating expenses	<u>6,426,889</u>	<u>2,081,423</u>	<u>8,508,312</u>
Operating income (loss)	<u>(622,346)</u>	<u>163,965</u>	<u>(458,381)</u>
Non-operating revenues (expenses):			
Taxes	864,671	-	864,671
Investment income	486,199	74,162	560,361
Interest expense	-	(65,887)	(65,887)
Total non-operating revenues (expenses)	<u>1,350,870</u>	<u>8,275</u>	<u>1,359,145</u>
Income (loss)	728,524	172,240	900,764
Transfers in	36,420	-	36,420
Transfers out	<u>(9,523)</u>	<u>(4,416)</u>	<u>(13,939)</u>
Change in net assets	755,421	167,824	923,245
Net assets, beginning of fiscal year	<u>16,740,395</u>	<u>2,608,864</u>	<u>19,349,259</u>
Net assets, end of fiscal year	<u>\$ 17,495,816</u>	<u>\$ 2,776,688</u>	<u>\$ 20,272,504</u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2008

	Downtown Parking	Golf Course	Total Nonmajor Proprietary Funds
Cash flows from operating activities:			
Cash received from services	-	1,948,557	1,948,557
Cash received from rents and leases	5,810,343	310,213	6,120,556
Cash payments for goods and services	(2,723,977)	(723,520)	(3,447,497)
Cash payments to employees for services	(3,346,254)	(1,145,554)	(4,491,808)
Cash returned for deposits	4,741	-	4,741
Other operating receipts	4,720	2,920	7,640
Net cash provided (used) by operating activities	<u>(250,427)</u>	<u>392,616</u>	<u>142,189</u>
Cash flows from noncapital financing activities			
Transfers from other funds	36,420	-	36,420
Transfers to other funds	(9,523)	(4,416)	(13,939)
Cash received from taxes and assessments	864,671	-	864,671
Net cash provided (used) by non-capital financing activities	<u>891,568</u>	<u>(4,416)</u>	<u>887,152</u>
Cash flows from capital and related financing activities:			
Payments on long term debt	-	(119,000)	(119,000)
Acquisition of capital assets	(316,262)	(90,093)	(406,355)
Interest paid on debt	<u>-</u>	<u>(53,645)</u>	<u>(53,645)</u>
Net cash provided (used) by capital and related financing activities	<u>(316,262)</u>	<u>(262,738)</u>	<u>(579,000)</u>
Cash flows from investing activities:			
Cash received on investments	<u>486,199</u>	<u>174,162</u>	<u>660,361</u>
Net increase (decrease) in cash and cash equivalents	811,078	299,624	1,110,702
Cash and cash equivalents, beginning of fiscal year	<u>7,293,175</u>	<u>1,122,033</u>	<u>8,415,208</u>
Cash and cash equivalents, end of fiscal year	<u><u>8,104,253</u></u>	<u><u>1,421,657</u></u>	<u><u>9,525,910</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	(622,346)	163,965	(458,381)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	348,238	213,695	561,933
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	10,520	-	10,520
Increase (decrease) in accounts payable	(25,790)	(9,874)	(35,664)
Increase (decrease) in accrued salaries payable	25,605	7,697	33,302
Increase (decrease) in deferred revenue	-	16,302	16,302
Increase (decrease) in accrued compensated absences	8,605	831	9,436
Increase (decrease) in deposits	4,741	-	4,741
Net cash provided (used) by operating activities	<u><u>(250,427)</u></u>	<u><u>392,616</u></u>	<u><u>142,189</u></u>



Internal Service Funds

INTERNAL SERVICE FUNDS

Intra-City Service Fund – To account for the costs of operating an automotive maintenance facility and ensuring that vehicles used by all City departments are properly maintained. This fund also accounts for City-wide building maintenance operations, custodial services, and communications.

Self Insurance Fund - To account for the cost of providing workers' compensation, unemployment, liability and employee health insurance coverage on a City-wide basis.

Information Systems Fund - To account for the cost of providing computer equipment and service to all departments and funds within the City.

Vehicle Capital Fund - To account for the costs of purchasing new vehicles for use within the City-wide organization.

CITY OF SANTA BARBARA
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2008

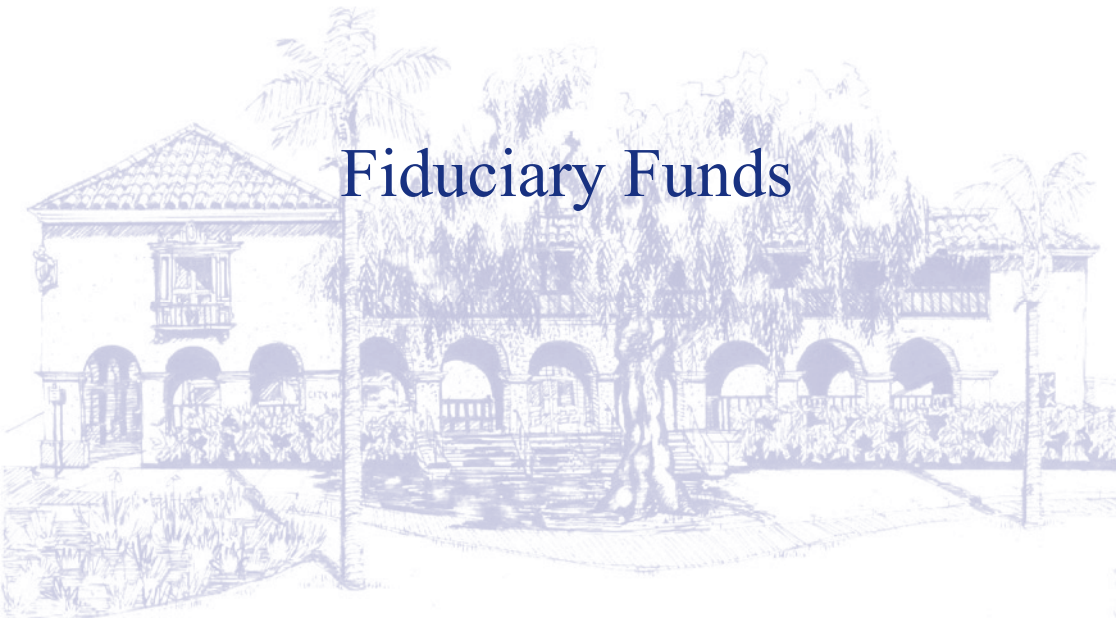
<u>Assets</u>	Intra-City Service	Self- Insurance	Information Systems	Vehicle Capital	Total
Current Assets:					
Cash and investments	\$ 2,558,082	\$ 12,712,105	\$ 1,046,791	\$ 6,510,223	\$ 22,827,201
Accounts receivable	18,113	42,277	-	-	60,390
Inventory, at cost	791,813	-	-	-	791,813
Total current assets	<u>3,368,008</u>	<u>12,754,382</u>	<u>1,046,791</u>	<u>6,510,223</u>	<u>23,679,404</u>
Capital assets:					
Buildings	105,889	-	-	-	105,889
Building improvements	162,584	-	-	-	162,584
Improvements other than building	257,165	-	-	-	257,165
Equipment	305,865	-	-	17,766,193	18,072,058
Construction in progress	-	-	-	174,477	174,477
Less accumulated depreciation	(199,978)	-	-	(13,257,318)	(13,457,296)
Total capital assets, net	<u>631,525</u>	<u>-</u>	<u>-</u>	<u>4,683,352</u>	<u>5,314,877</u>
Total assets	<u>3,999,533</u>	<u>12,754,382</u>	<u>1,046,791</u>	<u>11,193,575</u>	<u>28,994,281</u>
<u>Liabilities</u>					
Current Liabilities:					
Accounts payable	285,112	245,044	50,898	140,896	721,950
Salaries and benefits payable	196,905	19,888	74,195	2,949	293,937
Compensated absences payable	206,032	27,459	82,961	-	316,452
Current portion claims payable	-	2,337,637	-	-	2,337,637
Total current liabilities	<u>688,049</u>	<u>2,630,028</u>	<u>208,054</u>	<u>143,845</u>	<u>3,669,976</u>
Non-current Liabilities:					
Estimated claims payable, net of current portion	-	3,332,264	-	-	3,332,264
Total liabilities	<u>688,049</u>	<u>5,962,292</u>	<u>208,054</u>	<u>143,845</u>	<u>7,002,240</u>
<u>Net Assets</u>					
Unreserved - designated:					
Invested in net assets, net of related debt	631,525	-	-	4,683,352	5,314,877
Unrestricted	2,679,959	6,792,090	838,737	6,366,378	16,677,164
Total net assets	<u>\$ 3,311,484</u>	<u>\$ 6,792,090</u>	<u>\$ 838,737</u>	<u>\$ 11,049,730</u>	<u>\$ 21,992,041</u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Fiscal Year Ended June 30, 2008

	Intra-City Service	Self- Insurance	Information Systems	Vehicle Capital	Total
Operating Revenues:					
Charges for sales and services:					
Service charges	\$ 8,217,019	\$ 5,635,065	\$ 2,485,534	\$ 2,294,907	\$ 18,632,525
Other revenues	69,370	99,367	50,611	-	219,348
Total operating revenues	<u>8,286,389</u>	<u>5,734,432</u>	<u>2,536,145</u>	<u>2,294,907</u>	<u>18,851,873</u>
Operating Expenses:					
Public safety					
Salaries, wages and benefits	4,153,591	495,715	1,600,176	111,867	6,361,349
Materials, supplies and services	3,554,304	1,889,615	1,023,871	41,117	6,508,907
Depreciation	32,292	-	-	1,178,602	1,210,894
Total operating expenses	<u>7,740,187</u>	<u>2,385,330</u>	<u>2,624,047</u>	<u>1,331,586</u>	<u>14,081,150</u>
Operating income (loss)	546,202	3,349,102	(87,902)	963,321	4,770,723
Non-operating Revenues and Expenses:					
Investment income	-	707,603	-	381,469	1,089,072
Other	-	-	-	40,916	40,916
	<u>-</u>	<u>707,603</u>	<u>-</u>	<u>422,385</u>	<u>1,129,988</u>
Income (loss) before transfers	546,202	4,056,705	(87,902)	1,385,706	5,900,711
Transfers In	-	-	450,000	24,324	474,324
Transfers Out	<u>(26,713)</u>	<u>(3,185)</u>	<u>-</u>	<u>-</u>	<u>(29,898)</u>
Change in net assets	519,489	4,053,520	362,098	1,410,030	6,345,137
Net assets, beginning of fiscal year	<u>2,791,995</u>	<u>2,738,570</u>	<u>476,639</u>	<u>9,639,700</u>	<u>15,646,904</u>
Net assets, end of fiscal year	<u>\$ 3,311,484</u>	<u>\$ 6,792,090</u>	<u>\$ 838,737</u>	<u>\$ 11,049,730</u>	<u>\$ 21,992,041</u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Fiscal Year Ended June 30, 2008

	Intra-City Service	Self- Insurance	Information Systems	Vehicle Capital	Total
Cash flow from operating activities:					
Cash received from services	\$ 8,201,739	\$ 5,635,064	\$ 2,485,534	\$ 2,298,768	\$ 18,621,105
Cash payments for goods and services	(3,449,688)	(4,674,058)	(980,010)	77,678	(9,026,078)
Cash payments to employees for services	(4,077,714)	(495,249)	(1,581,041)	(111,021)	(6,265,025)
Other operating receipts	69,370	99,367	50,611	-	219,348
Net cash provided (used) by operating activities	<u>743,707</u>	<u>565,124</u>	<u>(24,906)</u>	<u>2,265,425</u>	<u>3,549,350</u>
Cash flows from non-capital financing activities:					
Transfers from other funds	-	-	450,000	24,324	474,324
Transfers to other funds	(26,713)	(3,185)	-	-	(29,898)
Net cash provided (used) by non-capital financing activities	<u>(26,713)</u>	<u>(3,185)</u>	<u>450,000</u>	<u>24,324</u>	<u>444,426</u>
Cash flows from capital and related financing activities:					
Proceeds from disposition of capital assets				40,916	40,916
Acquisition of capital assets	-	-	-	(1,409,603)	(1,409,603)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,368,687)</u>	<u>(1,368,687)</u>
Cash flows from investing activities:					
Cash received on investments	-	707,603	-	381,469	1,089,072
Net increase (decrease) in cash and cash equivalents	716,994	1,269,542	425,094	1,302,531	3,714,161
Cash and cash equivalents, beginning of fiscal year	<u>1,841,088</u>	<u>11,442,563</u>	<u>621,697</u>	<u>5,207,692</u>	<u>19,113,040</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 2,558,082</u>	<u>\$ 12,712,105</u>	<u>\$ 1,046,791</u>	<u>\$ 6,510,223</u>	<u>\$ 22,827,201</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 546,202	\$ 3,349,102	\$ (87,902)	\$ 963,321	\$ 4,770,723
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	32,292	-	-	1,178,602	1,210,894
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(15,280)	(1)	-	3,861	(11,420)
(Increase) decrease in inventories	(59,070)	-	-	-	(59,070)
Increase (decrease) in accounts payable	163,686	193,342	43,861	118,795	519,684
Increase (decrease) in accrued claims	-	(2,977,785)	-	-	(2,977,785)
Increase (decrease) in accrued salaries payable	36,515	3,049	16,251	846	56,661
Increase (decrease) in accrued compensated absences	39,362	(2,583)	2,884	-	39,663
Net cash provided by operating activities	<u>\$ 743,707</u>	<u>\$ 565,124</u>	<u>\$ (24,906)</u>	<u>\$ 2,265,425</u>	<u>\$ 3,549,350</u>



FIDUCIARY FUNDS

PENSION TRUST FUNDS

Safety Retirement Fund - To account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 17, 1937 and May 28, 1965.

Service Retirement Fund - To account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 17, 1937 and May 28, 1965, and who were disabled due to job related injuries.

PRIVATE PURPOSE TRUST FUNDS

Library Gifts Fund - To account for gifts and bequests made to the City library. Funds are used for book replacement.

Canine Unit Fund - To account for contributions made for the Police's Canine Unit program.

Russ Morrison Fund - To account for contributions made from the Santa Barbara Athletic Roundtable for the sole purpose of promoting junior golf.

AGENCY FUNDS

California Law Enforcement Telecommunications System Fund - To account for moneys received from various participating public agencies for the purchase of computer equipment for communication with the California Law Enforcement Tracking System (CLETS).

Revolving Rehabilitation Loan Fund - To account for rehabilitation loans made by the City through the use of various funding sources.

Seismic Safety Assessment Fund - To account for the financial activities of the Seismic Assessment District #1.

CITY OF SANTA BARBARA
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
June 30, 2008

	<u>Safety Retirement</u>	<u>Service Retirement</u>	<u>Total</u>
Assets			
Investments, at fair value			
Cash and investments with fiscal agent	<u>\$ -</u>	<u>\$ 515,313</u>	<u>\$ 515,313</u>
Liabilities			
Accrued benefits payable	5,132	-	5,132
Due to other Governments	<u>320,432</u>	<u>-</u>	<u>320,432</u>
Total Liabilities	<u>325,564</u>	<u>-</u>	<u>325,564</u>
Net assets			
Held in trust for pension benefits	<u><u>\$ (325,564)</u></u>	<u><u>\$ 515,313</u></u>	<u><u>\$ 189,749</u></u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
Fiscal Year Ended June 30, 2008

	<u>Safety Retirement</u>	<u>Service Retirement</u>	<u>Total</u>
Additions			
Investment Income:			
Net appreciation (depreciation)			
in fair value of investments	\$ -	\$ (15,900)	\$ (15,900)
Refund of investment fees	-	37,058	37,058
Interest	-	12,710	12,710
Dividends	-	10,353	10,353
Total investment income	<u>-</u>	<u>44,221</u>	<u>44,221</u>
Less investment expenses:			
Banking, interest and fiscal agent expenses	<u>(16,272)</u>	<u>(7,087)</u>	<u>(23,359)</u>
Net investment income	<u>(16,272)</u>	<u>37,134</u>	<u>20,862</u>
Deductions			
Benefits	<u>111,413</u>	<u>131,011</u>	<u>242,424</u>
Total deductions	<u>111,413</u>	<u>131,011</u>	<u>242,424</u>
Net decrease	(127,685)	(93,877)	(221,562)
Net assets held in trust for pension benefits:			
Beginning of fiscal year	<u>(197,879)</u>	<u>609,190</u>	<u>411,311</u>
End of fiscal year	<u>\$ (325,564)</u>	<u>\$ 515,313</u>	<u>\$ 189,749</u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
June 30, 2008

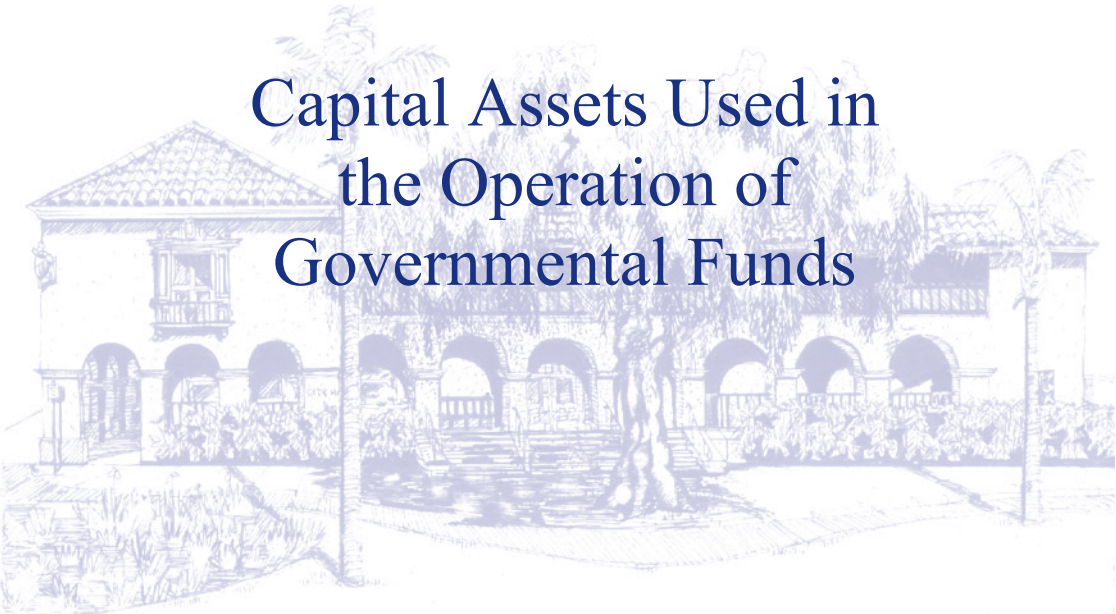
	Library Gifts	Canine Unit	Russ Morrison Trust	Total
Assets				
Cash and investments	\$ 2,465,942	\$ 23,967	\$ 1,235	\$ 2,491,144
Accounts receivable	-	-	303	303
	<u>2,465,942</u>	<u>23,967</u>	<u>1,538</u>	<u>2,491,447</u>
Liabilities				
Accounts payable	-	578	-	578
	<u>-</u>	<u>578</u>	<u>-</u>	<u>578</u>
Net Assets				
Held in trust	<u>\$ 2,465,942</u>	<u>\$ 23,389</u>	<u>\$ 1,538</u>	<u>\$ 2,490,869</u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
Fiscal Year Ended June 30, 2008

	Library Gifts	Canine Unit	Russ Morrison Trust	Total
Additions				
Use of money and property	\$ 105,010	\$ 1,225	\$ -	\$ 106,235
Contributions	55,660	18,313	-	73,973
Total additions	<u>160,670</u>	<u>19,538</u>	<u>-</u>	<u>180,208</u>
Deductions				
Community services	<u>40,000</u>	<u>25,566</u>	<u>-</u>	<u>65,566</u>
Net increase (decrease)	120,670	(6,028)	-	114,642
Net assets, beginning of fiscal year	<u>2,345,272</u>	<u>29,417</u>	<u>1,538</u>	<u>2,376,227</u>
Net assets, end of fiscal year	<u><u>\$ 2,465,942</u></u>	<u><u>\$ 23,389</u></u>	<u><u>\$ 1,538</u></u>	<u><u>\$ 2,490,869</u></u>

CITY OF SANTA BARBARA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
Fiscal Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM:				
Assets:				
Accounts receivable	\$ 34,590	\$ -	\$ 13,877	\$ 20,713
Equipment	30,000	-	18,000	12,000
Total assets	<u>\$ 64,590</u>	<u>\$ -</u>	<u>\$ 31,877</u>	<u>\$ 32,713</u>
Liabilities:				
Accounts payable	\$ 970	\$ -	\$ 114	\$ 856
Due to other Governments	20,444	-	13,795	6,649
Trust liability	43,176	-	17,968	25,208
Total liabilities	<u>\$ 64,590</u>	<u>\$ -</u>	<u>\$ 31,877</u>	<u>\$ 32,713</u>
REVOLVING REHAB LOAN:				
Assets:				
Cash and investments	\$ 924,068	\$ 24,740	\$ -	\$ 948,808
Loans receivable	2,024,152	-	17,019	2,007,133
Total assets	<u>\$ 2,948,220</u>	<u>\$ 24,740</u>	<u>\$ 17,019</u>	<u>\$ 2,955,941</u>
Liabilities:				
Accounts payable	\$ 1,552	\$ 4	\$ -	\$ 1,556
Contributions	2,946,668	7,717	-	2,954,385
Total liabilities	<u>\$ 2,948,220</u>	<u>\$ 7,721</u>	<u>\$ -</u>	<u>\$ 2,955,941</u>
SEISMIC SAFETY ASSESSMENT FUND:				
Assets:				
Cash and investments	\$ 119,900	\$ 13,933	\$ -	\$ 133,833
Accounts receivable	4,639	-	4,639	-
Cash and investments held by fiscal agent	179,184	-	82,724	96,460
Total assets	<u>\$ 303,723</u>	<u>\$ 13,933</u>	<u>\$ 87,363</u>	<u>\$ 230,293</u>
Liabilities:				
Trust liability	303,723	-	73,430	230,293
Total liabilities	<u>\$ 303,723</u>	<u>\$ -</u>	<u>\$ 73,430</u>	<u>\$ 230,293</u>
TOTAL - ALL AGENCY FUNDS:				
Assets:				
Cash and investments	\$ 1,043,968	\$ 38,673	\$ -	\$ 1,082,641
Accounts receivable	39,229	-	18,516	20,713
Loans receivable	2,024,152	-	17,019	2,007,133
Equipment	30,000	-	18,000	12,000
Cash and investments held by fiscal agent	179,184	-	82,724	96,460
Total assets	<u>\$ 3,316,533</u>	<u>\$ 38,673</u>	<u>\$ 136,259</u>	<u>\$ 3,218,947</u>
Liabilities:				
Accounts payable	\$ 2,522	\$ 4	\$ 114	\$ 2,412
Due to other Governments	20,444	-	13,795	6,649
Trust liability	346,899	-	91,398	255,501
Contributions	2,946,668	7,717	-	2,954,385
Total liabilities	<u>\$ 3,316,533</u>	<u>\$ 7,721</u>	<u>\$ 105,307</u>	<u>\$ 3,218,947</u>



Capital Assets Used in the Operation of Governmental Funds

CITY OF SANTA BARBARA
CAPITAL ASSETS USED IN THE OPERATIONS OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
Fiscal Year Ended June 30, 2008

	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Governmental Funds Capital Assets			
Construction in progress	\$ 21,200,393	\$ -	\$ 21,200,393
Land	50,759,518	-	50,759,518
Streets	160,101,179	-	160,101,179
Buildings	45,431,544	12,344,352	33,087,192
Building Improvements	6,858,683	2,733,349	4,125,334
Improvements	38,603,779	21,729,325	16,874,454
Equipment	26,829,822	18,812,374	8,017,448
Infrastructure	<u>117,185,386</u>	<u>52,029,295</u>	<u>65,156,091</u>
Total governmental funds capital assets	<u>\$ 466,970,304</u>	<u>\$ 107,648,695</u>	<u>\$ 359,321,609</u>

This schedule presents the capital asset balances related to governmental funds and capital assets of governmental activities reported in the Internal Service funds. Generally, the capital assets of Internal Service funds are included in governmental activities in the Statement of Net Assets.

CITY OF SANTA BARBARA
CAPITAL ASSETS USED IN THE OPERATIONS OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
Fiscal Year Ended June 30, 2008

	<u>Construction in Progress</u>	<u>Land</u>	<u>Streets</u>	<u>Buildings</u>	<u>Building Improvements</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Total</u>
Function:									
City Attorney	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City Administrator's Office	-	1,473,424	-	158,716	291,444	-	1,473,953	-	3,397,537
Administrative Services	6,326	-	-	-	268,418	-	1,723,131	-	1,997,875
Finance	424,857	-	-	51,931	208,717	-	399,802	-	1,085,307
Public Safety	1,786,609	558,158	-	3,669,683	949,379	146,828	2,807,608	-	9,918,265
Public Works	10,993,942	1,406,279	160,101,179	1,609,534	477,391	4,318,404	18,837,449	110,829,652	308,573,830
Community Services	1,206,975	6,891,746	-	9,919,005	3,974,167	8,389,081	1,256,291	2,303,015	33,940,280
Community Development	6,781,684	40,429,911	-	30,022,675	689,167	25,749,466	331,588	4,052,719	108,057,210
Total governmental funds capital assets	<u>\$21,200,393</u>	<u>\$50,759,518</u>	<u>\$160,101,179</u>	<u>\$45,431,544</u>	<u>\$ 6,858,683</u>	<u>\$ 38,603,779</u>	<u>\$26,829,822</u>	<u>\$117,185,386</u>	<u>\$466,970,304</u>

CITY OF SANTA BARBARA
CAPITAL ASSETS USED IN THE OPERATIONS OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
Fiscal Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Function:				
City Attorney	\$ -	\$ -	\$ -	\$ -
City Administrator's Office	3,106,093	291,444	-	3,397,537
Administrative Services	1,997,875		-	1,997,875
Finance	660,450	424,857	-	1,085,307
Public Safety	8,840,519	1,077,746	-	9,918,265
Public Works	299,492,275	10,739,468	(1,657,913)	308,573,830
Community Services	32,539,923	1,517,315	(116,958)	33,940,280
Community Development	104,247,560	4,721,547	(911,897)	108,057,210
Total governmental funds capital assets	<u>\$ 450,884,695</u>	<u>\$ 18,772,377</u>	<u>\$ (2,686,768)</u>	<u>\$ 466,970,304</u>





Statistical Section

STATISTICAL SECTION

This part of the City of Santa Barbara's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	132
Revenue Capacity <i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	139
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	143
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	148
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	150

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Santa Barbara
Net assets by Component
Last Seven Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Governmental activities							
Invested in capital assets, net of related debt	\$23,763	\$63,294	\$73,738	\$80,483	\$301,827	\$305,449	\$319,070
Restricted	83,447	62,650	59,941	70,888	77,906	85,569	89,964
Unrestricted	50,741	33,516	31,314	24,228	33,815	36,228	36,948
Total governmental activities net assets	<u>\$157,951</u>	<u>\$159,460</u>	<u>\$164,993</u>	<u>\$175,599</u>	<u>\$413,548</u>	<u>\$427,246</u>	<u>\$445,982</u>
Business-type activities							
Invested in capital assets, net of related debt	\$126,385	\$138,066	\$139,780	\$135,336	\$245,095	\$255,451	\$275,594
Restricted	4,240	-	-	4,704	4,266	12,303	9,784
Unrestricted	66,958	59,199	64,564	75,088	78,148	84,159	87,716
Total business-type activities net assets	<u>\$197,583</u>	<u>\$197,265</u>	<u>\$204,344</u>	<u>\$215,128</u>	<u>\$327,509</u>	<u>\$351,913</u>	<u>\$373,094</u>
Primary government							
Invested in capital assets, net of related debt	\$150,148	\$201,360	\$213,518	\$215,819	\$546,922	\$560,900	\$594,664
Restricted	87,687	62,650	59,941	75,592	82,172	97,872	99,748
Unrestricted	117,699	92,715	95,878	99,316	111,963	120,387	124,664
Total primary government net assets	<u>\$355,534</u>	<u>\$356,725</u>	<u>\$369,337</u>	<u>\$390,727</u>	<u>\$741,057</u>	<u>\$779,159</u>	<u>\$819,076</u>

City of Santa Barbara
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Expenses	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental activities:					
Administration	\$10,094	\$10,139	\$11,385	\$12,329	\$12,197
Public safety	42,653	45,653	48,836	51,186	54,395
Public works	18,235	19,915	39,887	45,284	44,528
Community services	20,778	19,607	20,959	22,032	22,983
Community development	16,528	17,002	20,804	17,939	19,948
Interest on long-term debt	3,506	4,081	4,069	3,810	3,408
Total governmental activities expenses	<u>111,794</u>	<u>116,397</u>	<u>145,940</u>	<u>152,580</u>	<u>157,459</u>
Business-type activities:					
Water	22,842	23,169	25,937	27,311	27,415
Wastewater	9,902	10,909	12,618	13,253	14,560
Airport	12,812	11,786	13,499	14,862	16,307
Waterfront	10,921	10,164	10,778	11,004	11,054
Parking	4,582	4,925	5,839	6,018	6,262
Golf course	1,825	1,877	1,924	2,033	2,086
Total business-type activities expenses	<u>62,884</u>	<u>62,830</u>	<u>70,595</u>	<u>74,481</u>	<u>77,684</u>
Total primary government expenses	<u><u>\$174,678</u></u>	<u><u>\$179,227</u></u>	<u><u>\$216,535</u></u>	<u><u>\$227,061</u></u>	<u><u>\$235,143</u></u>
Program Revenues					
Governmental activities:					
Charges for services:					
Administration	\$1,349	\$1,600	\$1,825	\$1,982	\$1,845
Public safety	7,313	8,092	9,186	9,195	9,401
Public works	5,707	7,822	21,781	22,255	23,902
Community services	4,552	4,699	4,784	4,945	5,211
Community development	4,094	4,259	5,670	5,548	5,608
Operating grants and contributions	11,064	10,006	12,447	15,979	15,099
Capital grants and contributions	2,821	3,599	2,313	4,178	8,733
Total governmental activities program revenues	<u>36,900</u>	<u>40,077</u>	<u>58,006</u>	<u>64,082</u>	<u>69,799</u>
Business-type activities:					
Charges for services:					
Water	25,153	26,492	27,410	30,477	32,610
Wastewater	10,120	11,379	12,096	12,559	13,449
Airport	12,268	13,187	13,939	14,861	15,451
Waterfront	9,625	9,899	10,253	10,894	11,177
Parking	4,844	4,968	5,859	6,592	6,669
Golf course	2,046	1,976	2,060	2,231	2,245
Operating grants and contributions	9	13	57	115	145
Capital grants and contributions	5,163	3,440	12,382	17,155	11,861
Total business-type activities program revenues	<u>69,228</u>	<u>71,354</u>	<u>84,056</u>	<u>94,884</u>	<u>93,607</u>
Total primary government program revenues	<u><u>\$106,128</u></u>	<u><u>\$111,431</u></u>	<u><u>\$142,062</u></u>	<u><u>\$158,966</u></u>	<u><u>\$163,406</u></u>

(Continued)

	Fiscal Year				
	2004	2005	2006	2007	2008
Net (expense)/revenue					
Governmental activities	(\$74,894)	(\$76,320)	(\$87,934)	(\$88,498)	(\$87,660)
Business-type activities	6,344	8,524	13,461	20,403	15,923
Total primary government net expense	<u>(\$68,550)</u>	<u>(\$67,796)</u>	<u>(\$74,473)</u>	<u>(\$68,095)</u>	<u>(\$71,737)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property	\$24,142	\$30,022	\$34,078	37,871	40,520
Sales & use	18,420	18,949	19,968	19,927	20,838
Transient occupancy	12,439	13,298	14,439	15,409	15,523
Utility users	11,325	11,977	12,422	13,133	12,525
Business license	1,926	2,037	2,169	2,214	2,252
Real property transfer	709	719	685	646	452
Franchise fees	2,056	2,124	3,260	3,583	3,181
Unrestricted motor vehicle license-in-lieu	4,569	2,297	659	853	418
Investment income	2,888	3,410	3,955	4,762	6,643
Other revenue	1,953	2,024	4,384	3,111	3,862
Transfers	-	70	12	687	182
Total governmental activities	<u>80,427</u>	<u>86,927</u>	<u>96,031</u>	<u>102,196</u>	<u>106,396</u>
Business-type activities:					
Investment earnings	735	2,329	2,836	4,687	5,440
Transfers	-	(70)	(12)	(687)	(182)
Total business-type activities	<u>735</u>	<u>2,259</u>	<u>2,824</u>	<u>4,000</u>	<u>5,258</u>
Total primary government	<u>\$81,162</u>	<u>\$89,186</u>	<u>\$98,855</u>	<u>\$106,196</u>	<u>\$111,654</u>
Change in Net Assets					
Governmental activities	\$5,533	\$10,607	\$8,097	\$13,698	\$18,736
Business-type activities	7,079	10,783	16,285	24,403	21,181
Total primary government	<u>\$12,612</u>	<u>\$21,390</u>	<u>\$24,382</u>	<u>\$38,101</u>	<u>\$39,917</u>

City of Santa Barbara
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Property Tax	Sales & Use Tax	Transient Occupancy Tax	Utility Users Tax	Trans- portation Tax	Business License Tax	Gas Tax	Real Property Transfer Tax	Total
1999	\$16,761	\$16,364	\$8,685	\$8,330	\$3,440	\$1,566	\$1,620	\$372	\$57,138
2000	17,751	17,326	9,392	8,911	3,745	1,666	1,618	372	60,781
2001	19,883	18,237	11,099	9,737	4,587	1,682	1,810	339	67,374
2002	21,366	17,511	11,805	9,996	4,897	1,769	1,668	307	69,319
2003	23,224	17,904	11,837	11,166	4,173	1,832	1,698	875	72,709
2004	24,142	18,420	12,439	11,325	4,621	1,926	1,679	709	75,261
2005	30,022	18,949	13,298	11,977	4,502	2,037	1,684	719	83,188
2006	34,078	19,968	14,439	12,422	4,632	2,169	1,649	685	90,042
2007	37,871	19,927	15,409	13,133	4,877	2,214	1,643	646	95,720
2008	40,520	20,838	15,523	12,525	4,778	2,252	1,598	452	98,486

City of Santa Barbara
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$5,453	\$5,696	\$6,742	\$7,101	\$6,120	\$4,720	\$4,395	\$4,866	\$5,175	\$7,060
Unreserved	26,584	29,863	31,099	29,899	29,859	28,147	25,428	24,949	23,033	17,965
Total general fund	<u>\$32,037</u>	<u>\$35,559</u>	<u>\$37,841</u>	<u>\$37,000</u>	<u>\$35,979</u>	<u>\$32,867</u>	<u>\$29,823</u>	<u>\$29,815</u>	<u>\$28,208</u>	<u>\$25,025</u>
All other governmental funds										
Reserved	\$42,331	\$46,210	\$47,739	\$87,923	\$92,211	\$123,964	\$130,317	\$117,371	\$114,672	\$118,960
Unreserved, reported in:										
Special revenue funds	(2,435)	(1,219)	183	543	511	90	(1,390)	(977)	1,346	2,582
Capital projects funds	7,546	7,306	9,230	10,370	7,416	4,032	539	-	-	-
Total all other governmental funds	<u>\$47,442</u>	<u>\$52,297</u>	<u>\$57,152</u>	<u>\$98,836</u>	<u>\$100,138</u>	<u>\$128,086</u>	<u>\$129,466</u>	<u>\$116,394</u>	<u>\$116,018</u>	<u>\$121,542</u>

City of Santa Barbara
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes	\$57,138	\$60,781	\$67,374	\$69,319	\$72,709	\$75,262	\$83,188	\$90,142	\$96,004	\$98,515
Franchise fees	1,582	1,634	1,784	2,067	2,050	2,383	2,497	3,260	3,583	3,181
Intergovernmental	11,976	9,851	16,844	12,754	12,567	10,278	8,060	7,412	12,956	16,698
Fines and forfeitures	2,112	2,309	2,265	2,649	2,924	3,792	4,072	4,547	4,016	4,335
Use of money and property	3,508	4,256	6,929	6,417	5,019	3,297	3,758	4,361	5,173	6,632
Charges for services	13,559	13,484	15,070	11,781	11,915	13,998	15,562	32,365	33,399	35,478
Program income	746	669	845	484	663	746	845	420	512	283
Other revenues	7,067	4,342	1,059	5,334	5,759	6,713	6,590	10,046	8,610	9,234
Total revenues	97,688	97,326	112,170	110,805	113,606	116,469	124,572	152,553	164,253	174,356
Expenditures										
General government/administration	8,850	9,741	10,644	9,902	9,663	9,656	9,806	11,025	12,008	12,007
Public safety	29,464	30,743	33,419	37,630	37,334	42,081	45,035	47,772	50,349	54,109
Public works	16,498	11,995	12,464	15,029	14,764	17,233	19,025	31,278	37,677	38,615
Community services	14,830	15,470	16,859	16,690	16,356	18,880	18,077	18,870	20,044	21,420
Community development	8,741	9,382	10,097	12,477	13,762	13,507	14,224	17,599	16,144	18,014
Capital outlay	8,857	5,028	12,389	7,521	11,960	7,334	15,775	28,434	19,217	17,169
Community promotions	1,758	1,954	2,003	2,295	2,252	2,267	2,439	2,253	2,373	1,884
Debt service										
Principal	3,350	3,540	3,735	4,490	4,239	5,415	4,750	5,411	5,571	5,076
Interest	2,491	2,305	2,110	2,974	3,350	3,259	3,935	3,904	3,687	3,459
Other charges	-	-	-	-	-	941	305	-	-	-
Total expenditures	94,839	90,158	103,720	109,008	113,680	120,573	133,371	166,546	167,070	171,753
Excess of revenues over (under) expenditures	2,849	7,168	8,450	1,797	(74)	(4,104)	(8,799)	(13,993)	(2,817)	2,603

(Continued)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Other financing sources (uses)										
Transfers in	\$13,134	\$15,103	\$15,779	\$24,630	\$16,993	\$14,387	\$14,115	\$11,563	\$19,202	\$16,291
Transfers out	(12,933)	(15,070)	(15,287)	(24,373)	(16,638)	(13,846)	(14,164)	(11,400)	(18,368)	(16,553)
Proceeds from bond issuance	-	-	-	37,790	-	28,399	7,184	-	-	-
Total other financing sources (uses)	201	33	492	38,047	355	28,940	7,135	163	834	(262)
Net change in fund balances	<u>\$3,050</u>	<u>\$7,201</u>	<u>\$8,942</u>	<u>\$39,844</u>	<u>\$281</u>	<u>\$24,836</u>	<u>(\$1,664)</u>	<u>(\$13,830)</u>	<u>(\$1,983)</u>	<u>\$2,341</u>
Debt service as a percentage of noncapital expenditures	6.79%	6.87%	6.40%	7.78%	7.67%	8.88%	8.71%	7.87%	6.93%	7.88%

City of Santa Barbara
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Sales & Use Tax	Utility Users Tax	Property Tax	Real Property Transfer Tax	Transient Occupancy Tax	Business License tax	Trans- portation Tax	Gas tax	Total
1999	\$16,364	\$8,330	\$16,761	\$372	\$8,685	\$1,566	\$3,440	\$1,620	\$57,138
2000	17,326	8,911	17,751	372	9,392	1,666	3,745	1,618	60,781
2001	18,237	9,737	19,883	339	11,099	1,682	4,587	1,810	67,374
2002	17,511	9,996	21,366	307	11,805	1,769	4,897	1,668	69,319
2003	17,904	11,166	23,224	875	11,837	1,832	4,173	1,698	72,709
2004	18,420	11,325	24,143	709	12,439	1,926	4,621	1,679	75,262
2005	18,949	11,977	30,022	719	13,298	2,037	4,502	1,684	83,188
2006	20,068	12,422	34,078	685	14,439	2,169	4,632	1,649	90,142
2007	20,211	13,132	37,871	646	15,409	2,215	4,877	1,643	96,004

City of Santa Barbara
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	City				Redevelopment Agency				Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	
1999	\$6,991,302	\$526,227	(\$552,040)	\$6,965,489	\$828,526	\$181,872	(\$42,437)	\$967,961	1.00%
2000	7,489,424	497,403	(580,768)	7,406,059	863,742	189,602	(44,240)	1,009,104	1.00%
2001	8,032,015	597,443	(579,933)	8,049,525	1,022,931	215,719	(52,137)	1,186,513	1.00%
2002	8,641,674	637,216	(622,514)	8,656,376	1,094,347	227,297	(54,310)	1,267,334	1.00%
2003	9,262,486	703,068	(663,027)	9,302,527	1,164,940	237,653	(55,639)	1,346,954	1.00%
2004	9,986,688	741,575	(714,976)	10,013,287	1,218,914	248,409	(77,833)	1,389,490	1.00%
2005	10,768,306	738,641	(708,983)	10,797,964	1,303,295	250,008	(82,652)	1,470,651	1.00%
2006	11,921,748	738,200	(802,033)	11,857,915	1,415,448	256,338	(93,142)	1,578,644	1.00%
2007	13,005,939	757,276	(794,226)	12,968,989	1,532,199	288,274	(99,693)	1,720,780	1.00%
2008	13,996,764	775,075	(947,703)	13,824,136	1,851,532	336,783	(150,558)	2,037,757	1.00%

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Sources: Santa Barbara County Auditor-Controller

City of Santa Barbara
Direct and Overlapping Property Tax Rates
(Rate per \$100 of assessed value)
Last Ten Fiscal Years

Fiscal Year	<u>Direct Rates</u>	<u>Overlapping Rates</u>		<u>Total</u>
	<u>General</u>	<u>City Bonds</u>	<u>Schools Bonds</u>	
1999	\$1.000	\$ -	\$0.022	\$1.022
2000	1.000	-	0.019	1.019
2001	1.000	-	0.027	1.027
2002	1.000	-	0.028	1.028
2003	1.000	-	0.027	1.027
2004	1.000	-	0.025	1.025
2005	1.000	-	0.021	1.021
2006	1.000	-	0.026	1.026
2007	1.000	-	0.026	1.026
2008	1.000	-	0.026	1.026

City of Santa Barbara
Principal Property Tax Payers
Current Year and Nine Years Ago
(amounts expressed in thousands)

Taxpayer	Fiscal Year 2008		Fiscal Year 1999	
	Taxable Net Assessed Value	Percentage of Total Taxable Net Assessed Value	Taxable Net Assessed Value	Percentage of Total Taxable Net Assessed Value
Paseo Nuevo Association ⁽¹⁾	\$90,327	0.70%	\$51,743	0.80%
Parker Fess Doubletree Hotel	77,695	0.60%	66,397	1.03%
FW CA-Five Points Shopping Center, LLC	48,684	0.38%	-	0.00%
Nettleship Patricia S Trust	43,107	0.33%	22,238	0.35%
MCC BB Property, LLC	40,383	0.31%	-	0.00%
Due West, LLC	28,429	0.22%	-	0.00%
HDG Associates	28,109	0.22%	21,709	0.34%
Riviera Dairy Products	25,340	0.20%	15,454	0.24%
Ralphs Grocery Co	24,946	0.19%	-	0.00%
El Encanto, Inc	23,334	0.18%	-	0.00%
AMB Retail Income Fund Inc	-	0.00%	25,732	0.40%
Union Pacific Railroad Company	-	0.00%	17,599	0.27%
New York Times Company	-	0.00%	13,462	0.21%
ESJ Centers	18,707	0.14%	22,127	0.34%
Pini Dario	15,533	0.12%	12,538	0.19%
Old Town Mall	-	0.00%	12,454	0.19%
	<u>\$464,594</u>	<u>3.58%</u>	<u>\$281,453</u>	<u>4.38%</u>

(1) The City's Redevelopment Agency owns the property and leases the property to the Paseo Nuevo Mall Association which is responsible for the payment of property taxes related thereto.

City of Santa Barbara
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	\$16,761	\$16,761	100%	\$ -	\$16,761	100%
2000	17,751	17,751	100%	-	17,751	100%
2001	19,883	19,883	100%	-	19,883	100%
2002	21,366	21,366	100%	-	21,366	100%
2003	23,224	23,224	100%	-	23,224	100%
2004	24,143	24,143	100%	-	24,143	100%
2005	30,022	30,022	100%	-	30,022	100%
2006	34,078	34,078	100%	-	34,078	100%
2007	37,871	37,871	100%	-	37,871	100%
2008	40,520	40,520	100%	-	40,520	100%

City of Santa Barbara
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	Certificates of Participation	Tax Allocation Bonds	Loans	Water Revenue Bonds	Wastewater Revenue Bonds	Certificates of Participation	Loans			
1999	\$4,280	\$36,160	\$ -	\$8,150	\$2,120	\$41,535	\$5,510	\$97,755	0.87%	\$1,074
2000	4,150	32,750	-	7,805	1,720	40,955	5,111	92,491	0.78%	1,004
2001	4,015	29,150	-	7,445	1,310	40,345	4,695	86,960	0.67%	951
2002	4,184	63,660	-	7,070	885	35,296	4,268	115,363	0.88%	1,272
2003	3,930	59,675	-	6,675	450	35,710	8,464	114,904	0.88%	1,270
2004	3,726	82,035	-	6,255	-	34,734	21,899	148,649	1.09%	1,641
2005	3,511	84,650	750	5,820	19,735	33,739	34,776	182,981	1.26%	2,021
2006	3,290	79,460	750	5,360	19,210	32,710	37,229	178,009	1.10%	1,988
2007	3,069	74,110	750	4,880	18,665	31,656	40,303	173,433	1.02%	1,939
2008	2,838	69,265	750	4,370	18,100	30,557	38,269	164,149	0.88%	1,818

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Demographic and Economic Statistics on page 148 for personal income and population data.

City of Santa Barbara
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Certificates of Participation	Tax Allocation Bonds	Loans	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value¹ of Property	Per Capita²
1999	\$4,280	\$36,160	\$ -	\$5,488	\$34,952	0.50%	\$384
2000	4,150	32,750	-	5,485	31,415	0.42%	341
2001	4,015	29,150	-	5,514	27,651	0.34%	302
2002	4,184	63,660	-	5,412	62,432	0.72%	688
2003	3,930	59,675	-	5,342	58,263	0.63%	644
2004	3,726	82,035	-	1,247	84,514	0.84%	933
2005	3,511	84,650	750	1,251	87,660	0.81%	968
2006	3,290	79,460	750	1,258	82,242	0.69%	918
2007	3,069	74,110	750	1,260	76,669	0.59%	857
2008	2,838	69,265	750	561	72,292	0.52%	801

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 139 for property value data.

² Population data can be found in the Schedule of Demographic and Economic Statistics on page 148.

City of Santa Barbara
Direct and Overlapping Governmental Activities Debt
as of June 30, 2008
(amounts expressed in thousands)

2007-08 Assessed Valuation	\$14,771,839
Redevelopment Agency Incremental Valuation	2,188,315
Adjusted Assessed Valuation	<u><u>\$12,583,524</u></u>

	Debt Outstanding	Estimated Percentage Applicable¹	Estimated Share of Overlapping Debt
<u>Overlapping Debt Repaid with Property Taxes</u>			
Santa Barbara School Districts	\$84,117	100%	\$84,117
Total overlapping debt repaid with property taxes	<u><u>\$84,117</u></u>		<u><u>\$84,117</u></u>
<u>Direct and Overlapping General Obligation Debt</u>			
Santa Barbara County General Fund Obligations	\$56,460	21%	\$11,894
City of Santa Barbara Certificates of Participation	4,300	100%	4,300
Total direct and overlapping general obligation debt	<u><u>\$60,760</u></u>		<u><u>\$16,194</u></u>
Total direct and overlapping debt			<u><u>\$100,311</u></u>
<u>Ratio to 2007-08 Assessed Valuation</u>			
Total direct and overlapping debt			0.68%

Notes:

Details regarding the city's outstanding debt can be found in the notes to the financial statements.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

¹ Population estimates for the City and County were used to calculate the estimated percentage applicable of the overlapping debt. Of the County's 428,655 population, 21% (or 90,018) reside within the city's boundaries.

Sources: County of Santa Barbara

City of Santa Barbara
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assessed valuation	\$7,517,529	\$7,986,827	\$8,629,458	\$9,278,890	\$9,965,554	\$10,728,263	\$11,506,947	12,659,948	\$13,763,215	\$14,771,839
Coverage percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	\$1,879,382	\$1,996,707	\$2,157,365	\$2,319,723	\$2,491,389	\$2,682,066	\$2,876,737	\$3,164,987	\$3,440,804	\$3,692,960
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	\$281,907	\$299,506	\$323,605	\$347,958	\$373,708	\$402,310	\$431,511	\$474,748	\$516,121	\$553,944
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<u>\$281,907</u>	<u>\$299,506</u>	<u>\$323,605</u>	<u>\$347,958</u>	<u>\$373,708</u>	<u>\$402,310</u>	<u>\$431,511</u>	<u>\$474,748</u>	<u>\$516,121</u>	<u>\$553,944</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

City of Santa Barbara
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	Water Revenue Bonds						Wastewater Revenue Bonds						Tax Allocation Bonds			
	Water Revenue	Less Operating Expenses	Net Available Revenue	Debt Service			Waste- water Revenue	Less Operating Expenses	Net Available Revenue	Debt Service			Tax Increment	Debt Service		
				Principal	Interest	Coverage				Principal	Interest	Coverage		Principal	Interest	Coverage
1999	\$21,699	\$14,332	\$7,367	\$325	\$399	10.18	\$9,047	\$5,682	\$3,365	\$385	\$84	7.17	\$9,235	\$3,225	\$2,235	1.69
2000	22,888	12,429	10,459	345	383	14.37	9,092	6,670	2,422	400	69	5.16	9,624	3,410	2,058	1.76
2001	22,517	15,072	7,445	360	366	10.25	8,975	6,639	2,336	410	52	5.06	11,183	3,600	1,868	2.05
2002	22,813	17,931	4,882	375	348	6.75	8,802	8,177	625	425	35	1.36	11,853	4,345	2,739	1.67
2003	23,172	18,149	5,023	395	330	6.93	9,495	8,423	1,072	435	21	2.35	12,851	3,985	3,239	1.78
2004	25,153	18,194	6,959	420	310	9.53	10,120	7,920	2,200	450	-	4.89	12,945	5,210	3,075	1.56
2005	26,492	18,547	7,945	435	290	10.96	11,379	8,284	3,095	675	680	2.28	13,946	4,535	3,701	1.69
2006	27,410	19,770	7,640	460	268	10.49	12,096	8,828	3,268	525	829	2.41	15,273	5,190	3,733	1.71
2007	30,477	20,170	10,307	480	246	14.20	12,559	9,320	3,239	545	808	2.39	16,831	5,350	3,522	1.90
2008	32,610	21,351	11,259	510	222	15.38	13,471	10,718	2,753	565	789	2.03	18,081	4,845	3,302	2.22

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest or depreciation expenses.

City of Santa Barbara
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	City Population ⁽¹⁾	Personal Income (in millions) ⁽²⁾	Per Capita Personal Income ⁽²⁾	June 30 Unemployment Rate ⁽³⁾
1999	91,000	\$11,301	\$28,629	3.4%
2000	92,100	11,890	29,957	4.2%
2001	91,429	12,911	32,297	3.9%
2002	90,696	13,107	32,693	4.9%
2003	90,464	13,059	32,496	5.0%
2004	90,569	13,677	33,942	4.6%
2005	90,518	15,389	38,313	4.1%
2006	89,548	16,231	40,486	4.0%
2007	89,456	16,968	42,385	4.2%
2008	90,305	18,642	46,120	5.1%

Notes:

(2) (3) Data shown is for the metropolitan statistical area of Santa Barbara-Santa Maria.

Sources:

(1) California Department of Finance, Demographic Research Unit

(2) U.S. Department of Commerce, Bureau of Economic Analysis

(3) California Employment Development Department

**City of Santa Barbara
Principal Employers
Ten Largest Employers - South Santa Barbara County
Current Year and Nine Years Ago**

Employer	As of June 30, 2008		As of June 30, 1999	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
University of California, Santa Barbara	9,723	17.68%	8,912	17.44%
County of Santa Barbara	4,269	7.76%	4,484	8.77%
Santa Barbara Cottage Hospital	2,762	5.02%	1,818	3.56%
Santa Barbara City Community College	2,157	3.92%	1,500	2.94%
Santa Barbara School District Admin.	1,618	2.94%	1,645	3.22%
Raytheon/ E-Systems	1,613	2.93%	800	1.57%
Sansum Medical Foundation Clinic	1,100	2.00%	943	1.85%
City of Santa Barbara	1,084	1.97%	1,030	2.02%
US Postal Service	830	1.51%	1,085	2.12%
Santa Barbara Bank & Trust	775	1.41%	1,100	2.15%
	<u>25,931</u>	<u>47.15%</u>	<u>23,317</u>	<u>45.63%</u>

Source: Santa Barbara Chamber of Commerce

City of Santa Barbara
Full-time Equivalent City Government Employees by Function
Last Five Fiscal Years

Function	Full-time Equivalent Employees as of June 30				
	2004	2005	2006	2007	2008
Administration	111	111	107	110	113
Public safety	343	343	333	329	328
Public works	135	138	142	142	143
Community services	135	135	134	137	141
Community development	84	85	88	88	89
Water	59	56	60	64	68
Wastewater	55	55	53	53	53
Airport	50	51	53	53	54
Waterfront	46	46	46	46	46
Parking	31	31	32	34	36
Golf course	12	12	13	13	13
Total	<u>1,061</u>	<u>1,063</u>	<u>1,061</u>	<u>1,069</u>	<u>1,084</u>

Source: City's Human Resources Department

City of Santa Barbara
Operating Indicators by Function
Last Three Fiscal Years

<u>Function</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
Police			
Criminal citations issued	1,990	2,209	2,013
Parking citations	64,300	54,928	60,984
Street sweeping citations	35,392	32,065	33,017
Fire			
Number of calls received	7,302	7,441	7,500
Engine company fire inspections	946	1334	1417
Public works			
Street resurfacing (miles)	75	70	60
Tons of debris collected by street sweepers	1,056	1,545	1,673
Community services			
Facility permits processed	870	982	1026
Library items checked out	726,375	740,703	730,598
Community development			
Building inspections completed	14,400	12,909	11,047
Total permits issued	3,000	2,478	2,704
Water			
Million gallons water treated	7,790	7,424	7,909
Percent of drinking water regulations met	100%	100%	100%
Wastewater			
Million gallons waste water treated	3,100	2,774	2,875
Miles of wastewater collection system pipes cleaned	200	202	206
Percent of discharge requirements met	99%	100%	99%
Airport			
Total number of annual passengers	858,352	832,396	833,164
Annual tons of airfreight	3,019	3,053	2,948
Waterfront			
Number of lease contracts managed	58	60	67
Number of parking permits distributed	677,731	720,184	756,377
Parking			
Vehicles parked in city lots	4,042,042	4,414,764	4,290,998
Golf course			
Rounds of golf	76,600	78,532	74,484

Source: Various City Departments

City of Santa Barbara
Capital Asset Statistics by Function
Last Three Fiscal Years

<u>Function</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
Police			
Stations	1	1	1
Fire			
Stations	8	8	8
Public works			
Streets (miles)	238	238	238
Concrete installed-sidewalk, curb and gutter (sq ft.)	21,007	18,382	14,661
Community services			
Parks acreage	1,765	1,765	1765
Parks	59	59	59
Swimming pools	2	2	2
Tennis courts	34	34	34
Community buildings	8	8	8
Libraries	2	2	2
Number of volumes (books, periodicals, tapes, etc.)	770,000	720,000	745,000
Water			
Number of reservoirs	14	14	13
Number of pump stations	12	12	12
Number of treatment plants	2	2	2
Number of wells	9	9	9
Wastewater			
Number of treatment plants	1	1	1
Number of lift stations	10	10	9
Airport			
Runways and Taxiways, paved surface (sq. footage)	5,793,480	6,011,280	6,842,079
Waterfront			
Number of harbor slips	1,133	1,133	1,133
Parking			
Number of parking structures and lots	14	14	14
Number of parking spaces	3,595	3,595	3,595

Source: Various City Departments

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APPENDIX D

REPORT OF THE AIRPORT CONSULTANT

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Appendix D

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

**CITY OF SANTA BARBARA FINANCING AUTHORITY
REVENUE BONDS (AIRPORT PROJECT), SERIES 2009**

Prepared for

City of Santa Barbara
Santa Barbara, California

Prepared by

Jacobs Consultancy, Inc.
Burlingame, California

May 18, 2009

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May 18, 2009

Ms. Karen Ramsdell
Airport Director
Santa Barbara Municipal Airport
601 Firestone Road
Goleta, California 93117

Re: Report of the Airport Consultant, City of Santa Barbara Financing Authority,
Revenue Bonds (Airport Project), Series 2009

Dear Ms. Ramsdell:

We are pleased to submit this Report of the Airport Consultant on certain aspects of the proposed issuance of Revenue Bonds (Airport Project), Series 2009 (the 2009 Bonds), in the approximate principal amount of \$46.7 million by the City of Santa Barbara Financing Authority (the Authority) on behalf of the City of Santa Barbara (the City).

The City owns, and through its Airport Department (the Department), operates Santa Barbara Municipal Airport (the Airport).

The 2009-2011 Capital Improvement Program (CIP)

The Authority intends to issue the 2009 Bonds on behalf of the City to finance, in part, the 2009-2011 Capital Improvement Program, including construction of a new passenger terminal building and related parking and roadway improvements at the Airport. In addition to the new terminal building, the CIP also includes improvements to the Airport water and sewer system, certain airfield improvements, and other miscellaneous projects.

The total cost of the CIP is estimated by the Department to be approximately \$54.7 million. In addition to bond proceeds, other sources of funds for the 2009-2011 CIP include PFC revenues, Airport Improvement (AIP) grants, and Department funds. The Department estimates the CIP will be substantially completed by June 2011.

Trust Agreement

The 2009 Bonds are being issued pursuant to a Trust Agreement, dated as of May 1, 2009, between the Authority and The Bank of New York Mellon Trust Company (the Trustee). The 2009 Bonds are secured by rental payments to be made in connection with the City's ground lease of the Airport Building Terminal site and facilities to the Authority and the City's lease back from the Authority of the new Airport Building Terminal and related site and facilities. The City's rental obligation to make principal and interest payments to the Authority (which the Authority will assign to the Trustee)

Ms. Karen Ramsdell
May 18, 2009

is payable from the City's General Fund; however, this rental obligation will be reduced to the extent that the City makes installment payments from Airport Revenues pursuant to the 2009 Installment Payment Contract, dated as of May 1, 2009, between the City and the Authority.

Rate Covenant

The 2009 Installment Payment Contract establishes a rate covenant that requires the City, to the extent reasonably practicable, to fix, prescribe and collect rentals, rates, fees and charges for the services and facilities of the Airport that enables the City to collect such rentals, rates, fees and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Airport for such Fiscal Year; and (ii) one (1.0) times the Debt Service on all Installment Payments for such Fiscal Year.

Airport Operating Permit

As of May 2009, the scheduled passenger airlines serving the Airport are Allegiant Air, American Eagle (American Airlines), Horizon Air (Alaska Airlines), Mesa Airlines (US Airways), and SkyWest Airlines (United Airlines and Delta Air Lines).

On October 1, 2007, the City adopted an Airport Operating Permit (the Permit), which applies to all scheduled passenger and cargo airlines operating at the Airport. The Permit is revised and reissued annually, and allows for 30 days written notice of termination by either the City or the Scheduled Airline. The City's legal counsel has opined that the City has the right to fix, establish, and collect Airport rentals, fees, and charges to assure the revenue generation necessary to meet annual Maintenance and Operation Costs and Debt Service requirements.

Additional Bonds

For purposes of this report, there are no Additional Bonds planned through the end of the forecast period (FY 2013).

Passenger Facility Charge

In November 1997, the City received approval from the Federal Aviation Administration (FAA) to impose a passenger facility charge (PFC) of \$3 per eligible enplaned passenger at the Airport and has imposed the PFC since January 1998. At that time, the City had FAA approval to collect \$2,572,182 in PFC revenues for various Airfield projects.

Additionally, in August 2003, the City received approval from the FAA to increase its PFC from \$3.00 to \$4.50, per eligible enplaned passenger, which it began collecting on November 1, 2003. The revenues from the incremental PFC were for various Airfield projects.

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The City intends to use future PFCs to the extent possible on eligible portions of the Terminal project. The City plans to use PFCs on a pay-as-you-go basis and for a portion of the annual debt service payments related to PFC-eligible and approved project costs (as shown on Exhibits A-1 and C). The City is in the process of preparing a new PFC application to obtain FAA approval to use PFCs for the payment of debt service associated with elements of the 2009 Bonds.

Scope of Study

Our study was undertaken to evaluate the ability of the Department to generate Revenues sufficient to meet Airport Maintenance and Operation Costs and to meet other funding requirements established by the Trust Agreement and Installment Payment Contract, including the Debt Service on the 2009 Bonds, during each of the five Fiscal Years* 2009 through 2013 (the forecast period).

In conducting our study, we analyzed:

- The history, status, and estimated costs of the 2009-2011 CIP
- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the region served, historical trends in airline traffic, and key factors that may affect future airline traffic
- Estimated sources and uses of funds for the 2009-2011 CIP and associated Debt Service requirements
- Historical relationships among revenues, expenses, and airline traffic at the Airport and other factors that may affect future revenues and expenses
- The Department's FY 2009 operating budget (expenses and revenues), projected staffing levels, and other operational considerations
- The Department's Passenger Facility Charge (PFC) program
- The Department's policies and contractual agreements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges; the operation of concession privileges; and the leasing of buildings and grounds

We also assisted Department staff in identifying key factors upon which the future financial results of the Airport may depend and in formulating assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the exhibits accompanying this report (as noted below). Estimates of

*The Fiscal Year of the City ends June 30.

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May 18, 2009

project costs, financing plans, and annual Debt Service requirements were provided by the sources noted on the exhibits.

Exhibit A	Project Costs by Fiscal Year
Exhibit A-1	Estimated Project Costs and Sources of Funds
Exhibit B	Bond Sizing
Exhibit C	Debt Service Requirement
Exhibit D	Historical, Estimated, and Forecast Maintenance and Operation Costs
Exhibit E	Historical, Estimated, and Forecast Revenues
Exhibit E-1	Calculation of Terminal Building Rentals
Exhibit E-2	Calculation of Landing Fees
Exhibit F	Forecast Application of Revenues
Exhibit G	Debt Service Coverage

Debt Service Coverage and Airline Payments per Enplaned Passenger

As indicated in the exhibits, Revenues are forecast to be sufficient to meet Airport Maintenance and Operation Costs and Debt Service requirements through the forecast period (FY 2009 – FY 2013). Forecast Net Revenues, the net Debt Service requirement, and the Debt Service coverage ratio (Exhibit G) are summarized as follows:

Fiscal Year	Forecast Net Revenues (in thousands) [A]	Net Debt Service (a) requirement (in thousands) [B]	Debt Service coverage ratio [A/B]
2009	\$ 757	\$ --	n.a.
2010	580	--	n.a.
2011	520	--	n.a.
2012	1,861	1,147	1.62
2013	2,402	1,790	1.34

n.a. = not applicable.

(a) Net Debt Service is shown net of PFC revenues pledged to Debt Service.

As shown in Exhibit F, scheduled passenger airline rentals and fees (including Terminal Building Rentals, and Landing Fees) are forecast to range from approximately

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\$2.1 million in FY 2009 to \$4.1 million in FY 2013. The forecast passenger airline payments, expressed on a per enplaned passenger basis, are as follows:

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Airline payments (in thousands)	\$2,121	\$2,109	\$2,129	\$3,687	\$4,137
Enplaned passengers (in thousands)	388	388	400	412	422
Airline payments per enplaned passenger	\$5.47	\$5.44	\$5.32	\$8.95	\$9.80

Assumptions Underlying the Financial Forecasts

The forecasts are based on information and assumptions that were provided by, or reviewed with and agreed to by, Department management. Accordingly, the forecasts reflect Department management's expected course of action during the forecast period and, in Department management's judgment, present fairly the expected financial results of the Airport. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results and those differences may be material. Neither Jacobs Consultancy nor any person acting on our behalf makes any warranty, express or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in the Report. We have no responsibility to update this report for events and circumstances occurring after the date of the report.

* * * * *

We have appreciated the opportunity to serve as the City's Airport Consultant on the proposed financing.

Respectfully submitted,


JACOBS CONSULTANCY

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Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

City of Santa Barbara
Santa Barbara, California

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AIRLINE TRAFFIC ANALYSIS

THE AIRPORT

Santa Barbara Municipal Airport (the Airport) occupies approximately 952 acres and is located about 10 miles (approximately 20 minutes driving time) west of downtown Santa Barbara, with convenient highway access from U.S. Highway 101.

Six passenger airlines serve the Airport and offer 34 daily scheduled nonstop flights to and from nine major markets. In Fiscal Year (FY) 2008, more than 830,000 passengers traveled through the Airport and approximately 115,000 aircraft operations (takeoffs and landings)—an average of over 300 a day—were accommodated.

The Airport is the 134th busiest commercial service airport in the United States, and the thirteenth busiest airport in California.

Airfield

The Airport has three runways and an associated system of taxiways. The primary air carrier runway is east/west Runway 7-25, which is 6,052 feet long and 150 feet wide. Category I precision instrument approach capability is provided at both ends of Runway 7-25. The second and third runways are the parallel 15L/33R and 15R/33L. The former is 4,180 feet long and 75 feet wide, and the latter is 4,184 feet long and 100 feet wide. Precision instrument approach capability is not provided on these runways, and they are only occasionally utilized by commercial aircraft.

Existing Passenger Terminal

The Airport's existing passenger terminal consists of approximately 22,000 square feet of space, with over 15,000 square feet of leasable space. The structure provides a total of 10 gates, aircraft parking positions and related passenger holdrooms, as well as a lobby, outdoor courtyard, and a second-story restaurant. Its smaller size and geometry results in an irregular flow of passengers and less than optimal passenger amenities, baggage handling, and working conditions for employees. The terminal originally was built in 1942 by United Airlines and is considered a historic structure with architectural elements worth preserving.

Proposed Passenger Terminal

The new passenger terminal will be a two-story, approximately 61,000 square feet, building plus the 7,000 square-foot central tower of the existing historic terminal. Over 42,000 square feet is expected to be available for lease to the airlines. In the Airport's Aviation Facilities Plan, the City evaluated the size and facility requirements for the new passenger terminal based on existing levels of airline traffic and the forecast number of passengers through 2015.

Existing Parking and Rental Car Facilities

The Airport provides 1,052 public parking spaces in three surface parking lots, including a short-term (hourly) lot and two long-term lots, one of which is remote and is open only when the two lots near the terminal are full. Construction of the proposed terminal building will not affect the utility of these parking lots.

The Airport is currently served by four rental car companies: Budget, Enterprise, Hertz, and National. Two other companies, Avis and Thrifty, are off-Airport. Construction of the proposed terminal building will not impact the operations of these rental car companies.

Joint Use Rental Car Facility

A significant Airport project is the construction of a joint-use quick turnaround facility (QTA) for use by the rental car companies serving the Airport. The QTA includes the development of a vacant 3.4 acre site, located in the Commercial and Industrial zone of the Airport, into a consolidated rental car facility that provides the rental car companies serving the Airport a location in which to fuel, perform minor services (oil changes, fluid checks, tire repair, etc.) and store vehicles. This project was necessary as the proposed Terminal project will necessitate the demolition of the building currently serving as the facility for cleaning returned rental vehicles. The QTA is City-financed and scheduled to be substantially complete in summer 2009.

Commercial and Industrial Buildings

The Airport owns 95 acres designated for commercial and industrial use. This area contains 29 buildings, which provide over 76,000 square feet of office space, 58,000 square feet of industrial space, and 7,000 square feet of storage. There are approximately 120 tenants, whose widely diverse enterprises include electronics, honey and beeswax processing, U.S. Department of Energy contractors, carpentry, printer cartridge recycling, undersea cable-laying, a golf course, and a car dealership.

AIRPORT SERVICE REGION

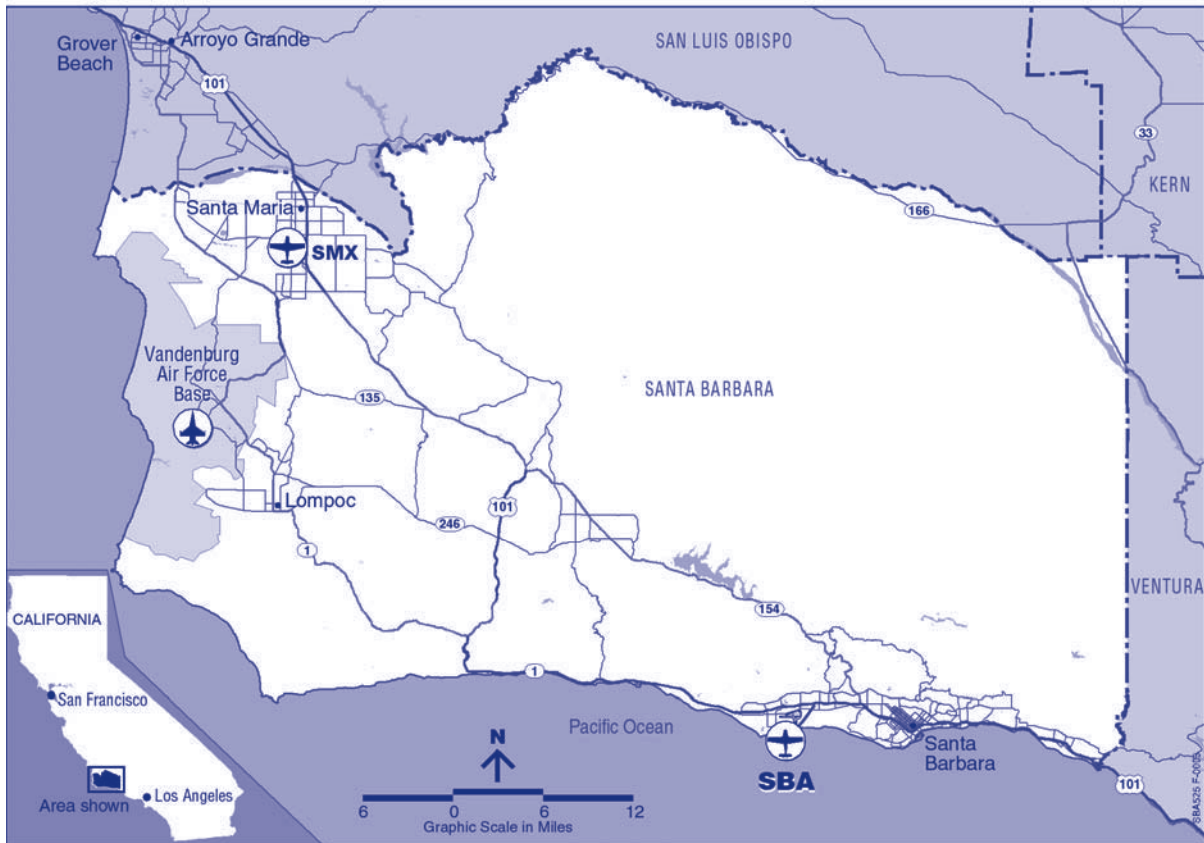
Figure 1 shows the Airport Service Region, which is the totality of Santa Barbara County, California. This area is approximately (though slightly larger than) the Santa Barbara Metropolitan Statistical Area (MSA), which the U.S. Census Bureau defines as the Santa Barbara-Santa Maria-Goleta MSA. For the purposes of this analysis, Santa Barbara County, the Santa Barbara MSA, and the Airport Service Region are interchangeable.

PRINCIPAL DETERMINANTS OF PASSENGER DEMAND

The size and diversity of the economic base of an airport service region are important determinants of the size, strength, and growth potential of the region's

airline traffic market, as are the demographics (population, employment and income) of that region. Each of these elements are discussed in this section.

Figure 1
AIRPORT SERVICE REGION



Population, Employment, and Income

Population. Table 1 presents the historical and projected population growth in Santa Barbara County, the State of California and the United States for selected years from 1995 through 2020. According to the University of California (UC), Santa Barbara Economic Forecast (2008), the population of the Santa Barbara MSA increased from 384,000 in 1995 to 426,000 in 2007, an average annual increase of almost 1.0%, which was slightly lower than both the State of California and the United States. According to the National Planning Association, population in the County is projected to have an average annual increase of 0.6% between 2007 and 2020, while both the State of California and the United States are expected to be around 1.0% over the same period.

Table 1

HISTORICAL AND PROJECTED POPULATION
Santa Barbara County, CA, State of California, and the United States
1995-2020

	Santa Barbara MSA (a)		State of California		United States	
	Number (thousands)	Average number increase	Number (thousands)	Average number increase	Number (thousands)	Average number increase
Historical (b)						
1995	384	--%	31,697	--%	266,278	--%
1996	385	0.3	32,019	1.0	269,394	1.2
1997	391	1.5	32,486	1.5	272,647	1.2
1998	392	0.4	32,988	1.5	275,854	1.2
1999	395	0.7	33,499	1.6	279,040	1.2
2000	401	1.5	34,004	1.5	282,194	1.1
2001	406	1.1	34,526	1.5	285,112	1.0
2002	409	1.0	34,964	1.3	287,888	1.0
2003	414	1.1	35,377	1.2	290,448	0.9
2004	417	0.7	35,722	1.0	293,192	0.9
2005	419	0.5	35,990	0.8	295,896	0.9
2006	421	0.6	36,250	0.7	298,755	1.0
2007	426	1.0	36,553	0.8	301,621	1.0
1995-2000		0.9%		1.4%		1.2%
2000-2007		0.9		1.0		1.0
1995-2007		0.9		1.2		1.0
Projected (c)						
2010	433	0.6%	37,925	1.2%	310,696	1.0%
2020	462	0.6	42,607	1.2	343,433	1.0

(a) UC Santa Barbara Economic Forecast, Santa Barbara County Economic Outlook, 2008.

(b) U.S. Department of Commerce, Bureau of the Census; State and National only.

(c) National Planning Association, Data Services, Inc., *Key Indicators of County Growth* 1970-2025, 2007 edition.

Employment. The projected rate of increase in employment for the Santa Barbara MSA is shown in Table 2. Between 1995 and 2000, employment grew faster in the Santa Barbara MSA and the State of California than in the United States as a whole. From 2000 through 2007, employment in the Santa Barbara MSA had an average annual increase of about 1.0%, slightly higher than both the State of California and the United States as a whole. The National Planning Association projects annual average employment growth between 2007 and 2020 for the Santa Barbara MSA to be approximately 1.2%, slightly less than the State of California (1.5%), and the United States (1.3%).

Table 2

HISTORICAL AND PROJECTED EMPLOYMENT

Santa Barbara County, CA, State of California, and the United States
1995-2020

	Santa Barbara MSA		State of California		United States	
	Number (thousands)	Average annual increase (decrease)	Number (thousands)	Average annual Increase (decrease)	Number (thousands)	Average annual Increase (decrease)
Historical (a)						
1995	145	--%	12,422	--%	117,298	--%
1996	146	0.7	12,743	2.4	119,708	1.2
1997	151	4.1	13,130	2.5	122,776	1.2
1998	155	2.4	13,596	2.4	125,930	1.2
1999	159	2.8	13,992	2.7	128,993	1.2
2000	165	3.3	14,488	3.5	131,785	2.2
2001	166	0.9	14,602	0.8	131,826	0.0
2002	165	(0.4)	14,458	(1.0)	130,341	(1.1)
2003	166	0.4	14,393	(0.4)	129,999	(0.3)
2004	169	1.7	14,533	1.0	131,435	1.1
2005	172	1.8	14,801	1.8	133,703	1.7
2006	173	0.3	15,060	1.7	136,086	1.8
2007	174	0.6	15,163	0.7	137,623	1.1
1995-2000		2.7		3.1		2.4
2000-2007		0.8		0.7		0.6
1995-2007		1.5		1.7		1.3
Projected (b)						
2010	180	1.2	15,854	1.5	142,851	1.3
2020	203	1.2	18,314	1.5	162,308	1.3

(a) U.S. Department of Labor, Bureau of Labor Statistics.

(b) National Planning Association, Data Services, Inc., *Key Indicators of County Growth 1970-2025*, 2007 edition.

Per Capita Personal Income. Historical per capita personal income (PCPI) in constant terms for the Santa Barbara MSA, the State of California and the United States is shown in Table 3. Historical trends for PCPI in the Santa Barbara MSA generally follow those of the State of California. Most recently (2003-2006), the Santa Barbara MSA has had a greater increase in PCPI than that of the State of California and the United States.

Table 3

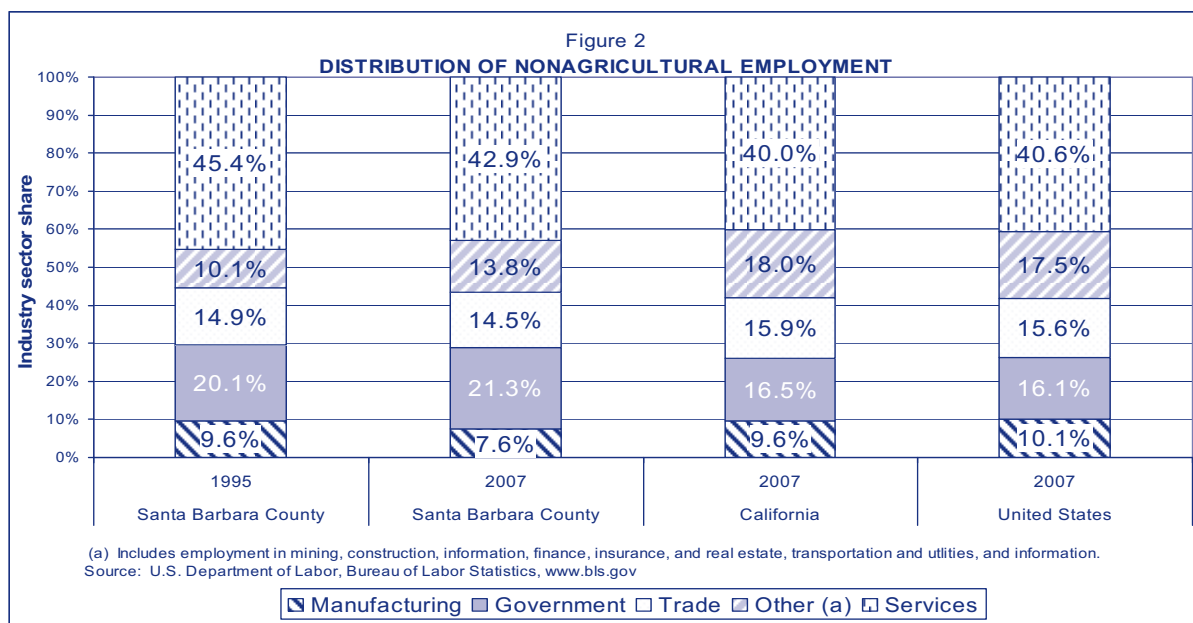
HISTORICAL PERSONAL PER CAPITA INCOME
Santa Barbara County, CA, State of California, and the United States
1995-2006

	Santa Barbara MSA		State of California		United States	
	Amount	Average annual increase (decrease)	Amount	Average annual increase (decrease)	Amount	Average annual Increase (decrease)
Historical						
1995	28,198	--%	27,300	--%	26,074	--%
1996	28,445	0.9	27,780	1.8	26,532	1.8
1997	28,453	0.0	28,162	1.4	27,181	2.4
1998	30,245	6.3	29,975	6.4	28,400	4.5
1999	30,964	2.4	30,831	2.9	28,878	1.7
2000	32,288	4.3	32,462	5.3	29,845	3.3
2001	31,729	(1.7)	31,973	(1.5)	29,728	(0.4)
2002	31,015	(2.3)	31,421	(1.7)	29,502	(0.8)
2003	31,685	2.2	31,402	(0.1)	29,484	(0.1)
2004	34,766	9.7	32,307	2.9	30,195	2.4
2005	36,122	3.9	33,031	2.2	30,646	1.5
2006	37,165	2.9	33,847	2.5	31,360	2.3
Average annual percentage increase						
1995-2000		2.7%		3.5%		2.7%
2000-2006		2.4		0.7		0.8
1995-2006		2.5		2.0		1.7

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov.
Constant dollar adjustments of data are based on the Consumer Price Index
(2000 dollars) published by U.S. Department of Labor, Bureau of Labor Statistics.

Distribution of Nonagricultural Employment

Figure 2 presents a comparative distribution of nonagricultural employment for the Santa Barbara MSA for 1995 and 2007, and for the State of California and the United States for 2007. Within the Santa Barbara MSA, the period from 1995 to 2007 saw reductions in both manufacturing jobs and service sector jobs, as a percentage of total. The growth in PCPI over the period from 1995 to 2006, as shown in Table 3, indicates an increase in annual PCPI greater than that of the United States (2.5% compared to 1.7%). While these are aggregate measures, the data suggest that the decrease in the percentage shares in employment of the manufacturing and service sectors has not reduced growth in, or the aggregate level of, PCPI within the Santa Barbara MSA.



Services. The services sector has been a large and stable sector in non-agricultural employment in the Santa Barbara MSA in 1995 and 2007. Service jobs constituted 45.4% of total nonagricultural employment in 1995 but decreased slightly to 42.9% of total nonagricultural employment by 2007. The percentage of service sector jobs in the Santa Barbara MSA is higher than both the State of California (40.0%) and the United States (40.6%).

Government. Government sector employment has increased slightly as a percentage of total non-agricultural employment, from 20.1% in 1995 to 21.3% in 2007. Government service sector employment in the Santa Barbara MSA is higher than that of the State of California (16.5%) and the United States (16.1%).

Trade. Employment in the trade sector has declined slightly as a percentage of total non-agricultural employment from 14.9% in 1995 to 14.5% in 2007. The percentage level of trade sector jobs in the MSA is slightly lower than that in the State of California (15.9%) and the United States (15.6%).

Manufacturing. The share of manufacturing jobs in the Santa Barbara MSA fell from 9.6% of total non-agricultural employment in 1995 to 7.6% in 2007. Manufacturers, including Raytheon, produce computer and electronic equipment, transportation equipment, machinery, and electrical equipment, appliances, and components.

Other. Several employment sectors of the Santa Barbara MSA are shown in the Other category in Figure 2. The overall number of employees in this category has increased between 1995 and 2007. Employment sectors like mining and construction increased 4.4% and over 5,000 new jobs were introduced in the finance and insurance sector.

Major Employers and Industries

The economy of the Santa Barbara MSA is diverse with a number of industries contributing to its overall strength. Table 4 provides a list of the 25 largest employers in the Santa Barbara MSA in 2007. The industries highlighted in the following discussion are significant economic influences on the region.

Public Education. The education sector is important to the regional economy. According to the U.C.-Santa Barbara Economic Forecast, Santa Barbara County Economic Outlook, 2008, the MSA has a significant number of jobs in the educational services sector. Several colleges and universities are located in the Santa Barbara MSA. Of the top 25 employers, three colleges or universities rank in the top 10, employing almost 13,500 people.

Tourism. Santa Barbara is a year-round tourist destination. The U.C.-Santa Barbara Economic Forecast estimated that 10 million tourists would contribute approximately \$1.3 billion to the local economy in 2008. The region's south-facing coast, mountainous backdrop, Spanish-style architecture, and sunny weather suggest a Mediterranean setting, which is why the City and its surroundings are known as the "American Riviera."

Santa Barbara's year-round temperate climate is a main driver of tourism. High temperatures typically range between the mid-60s and mid-70s throughout the year. The south-facing coast maximizes the beaches' exposure to sunlight while it minimizes their exposure to winds or rough surf. Many resort-style hotels lie in and around the City to accommodate the steady demand.

The chief tourist destinations of cultural significance are Santa Barbara's Mission and Presidio, which date from the area's Spanish colonization in the late 1700s. There are several other adobe structures in Santa Barbara that date from Spanish or Mexican rule. The County's wine country is approximately 30 miles outside the City, and nearby are the "Scandinavian" town of Solvang and the Los Padres National Forest, which includes the San Rafael Wilderness Area.

Government. Public Administration entities, such as the County of Santa Barbara and the City of Santa Barbara, and the cities of Lompoc, Santa Maria, and Goleta, employ more than 29,000 people in the Santa Barbara MSA.

Vandenberg Air Force Base. Vandenberg Air Force Base is headquarters for the 30th Space Wing. The 30th Space Wing manages space and missile testing for the Department of Defense and launches satellites into polar orbit from the west coast.

Table 4
LARGEST EMPLOYERS IN SANTA BARBARA COUNTY
2007

	Employer	Location	Type of Business	Number of Employees
1	UCSB	Goleta	Public Education	9,723
2	Vandenberg Air Force Base	Lompoc	National Security	4,374
3	County of Santa Barbara	Santa Barbara	Public Administration	4,269
4	Santa Barbara Cottage Hospital	Santa Barbara	Health Care and Social Assistance	2,762
5	Santa Barbara City College	Santa Barbara	Public Education	2,157
6	Santa Barbara School District Administration	Santa Barbara	Public Education	1,618
7	Raytheon Electronic Systems	Santa Barbara County	Durables Manufacturing	1,613
8	Santa Maria Bonita School District	Santa Maria	Public Education	1,600
9	City of Santa Barbara	Santa Barbara	Public Administration	1,539
10	Lompoc Unified School District	Lompoc	Public Education	1,452
11	Marian Medical Center	Santa Maria	Health Care and Social Assistance	1,440
12	Allan Hancock College	Santa Maria	Public Education	1,355
13	Sansum Santa Barbara Medical Foundation Clinic	Santa Barbara	Health Care and Social Assistance	1,100
14	Santa Barbara County Education Office	Santa Barbara	Public Education	1,048
15	Bacara Resort and Spa	Goleta	Accommodation and Food Services	830
16	Albertsons Stores	Santa Barbara County	Retail Trade	804
17	Pacific Capital Bancorp	Santa Barbara	Finance/Insurance	775
18	Den-Mat Corporation	Santa Maria	Durables Manufacturing	755
19	Goleta Union School District	Goleta	Public Education	750
20	Santa Maria Joint Union School District	Santa Maria	Public Education	728
21	Orcutt Union School District	Santa Maria	Public Education	707
22	Federal Correction Institution	Lompoc	Public Administration	530
23	C & D Zodiac	Santa Maria	Durables Manufacturing	525
24	Costco	Santa Barbara County	Wholesale Trade	507
24	City of Lompoc	Lompoc	Public Administration	507
26	Lompoc Hospital	Lompoc	Health Care and Social Assistance	500
26	Four Seasons Biltmore	Santa Barbara	Accommodation and Food Services	500

Source: UC Santa Barbara Economic Forecast, Santa Barbara County Economic Outlook, 2008.

Summary

Like most areas of the nation, the Santa Barbara Airport Service Region has experienced economic recession over the past year. Unemployment in the Santa Barbara MSA as of March 20, 2009 was estimated to be 8.3% compared to 5.1% a year earlier. The unemployment rate for the Santa Barbara MSA is very close to the national unemployment rate of 8.1%, but lower than that of the State of California (10.5%).

Historically, from 1995 through 2007, the Santa Barbara MSA experienced growth in population, employment, and PCPI. On the basis of this historical growth, the Santa Barbara MSA is expected to continue to generate growth in passenger demand at the Airport once the national, state, and local economics begin to recover. Factors that

are expected to contribute to economic growth in the Santa Barbara MSA and associated increases in airline travel over the longer term include (1) diversity in the economic base, which lessens its vulnerability to weaknesses in particular industry sectors, (2) strength in higher education and health care, and (3) strength in the leisure and hospitality industry.

AIRLINE SERVICE

Table 5 lists the scheduled major and national airlines and the regional and commuter airlines that provide service between the Airport and destinations throughout the United States.

Currently, the airlines serving the Airport are scheduled to provide 34 daily scheduled nonstop flights to 9 markets. All but two of the destination airports with nonstop service from Santa Barbara are connecting passenger hubs of the airlines that fly there.

HISTORICAL AIRLINE TRAFFIC

Enplaned Passengers

Table 6 presents data on historical enplaned passengers at the Airport. From FY 1995 to FY 2000, the total number of enplaned passengers at the Airport increased an average of 7.9% per year. This includes an extraordinary 35.8% increase from FY 1996 to FY 1997, largely as a result of United Airlines' introduction of Shuttle by United service to San Francisco and America West's introduction of service to Phoenix.

Travel demand was depressed by the national economic recession in 2000-2001 and further affected by passenger reactions to the September 11, 2001, terrorist attacks, anxieties about airline travel, and heightened security. However, in FY 2003 (the first full fiscal year after 9/11) the number of enplaned passengers at the Airport increased 9.8% over FY 2002. By FY 2004, the total number of enplanements surpassed that of FY 2000. FY 2005 set a new record high for enplanements at the Airport; 436,206. This is consistent with the United States as a whole, whose number of enplaned passengers did not exceed the amount prior to the September 11 terrorist attacks until 2004.

As shown on Table 6, the total number of enplaned passengers at the Airport increased an average of 2.7% per year from FY 1995 through FY 2008. Looking at a longer term, from FY 1990 through FY 2008 (18 years), the total number of enplaned passengers at the Airport increased an average of 3.0% per year, from 249,393 to 421,809.

Table 5
SCHEDULED AIRLINES SERVING SANTA BARBARA MUNICIPAL AIRPORT
April 2009

<u>Published airline</u>	<u>Operating airline</u>	<u>Destination(s)</u>	<u>Average daily departures</u>
United Airlines	SkyWest Airlines	Los Angeles	5
		San Francisco	8
		San Jose	3
		Denver	<u>2</u>
			18
American Airlines	American Eagle	Los Angeles	6
US Airways	Mesa Airlines	Phoenix	4
		Las Vegas	<u>1</u>
			5
Alaska Airlines	Horizon Air	Sacramento	2
		Seattle	<u>1</u>
			3
Delta Air Lines	SkyWest Airlines	Salt Lake City	2
Allegiant Air	Allegiant Air	Las Vegas	<u>less than 1*</u>
			34

Note: As of April 6, 2009, American discontinued its nonstop flight to Dallas/Fort Worth. For the purposes of this analysis, this flight is omitted.

*Three departures per week.

Source: Official Airline Guides, Inc., online database, March 2009.

The period from 2004 through 2008 has been particularly challenging for the airline industry. Oil prices reached \$51.00 per barrel in October 2004, and continued to climb, causing airlines to reduce operations and raise fares to offset rising fuel costs. Oil prices rose to over \$60.00 per barrel by August 2005, as Hurricane Katrina disabled many oil refineries in the Gulf Coast area, and reached \$78 per barrel in July 2006. The decreases in numbers of enplaned passengers at the Airport in FY 2006 and FY 2007 were partly the result of fare increases by the airlines in response to these factors, but were primarily the result of the airlines decreasing seat capacity at the Airport.

Collectively, the airlines reduced seat capacity at the Airport by 3% in FY 2006 and by an additional 6% in FY 2007. While total seat capacity increased 6% in FY 2008, with the introduction of scheduled service by ExpressJet and Allegiant, the airlines began to reduce seat capacity in the first quarter of FY 2009. ExpressJet ceased

branded operations and discontinued service in September 2008. As shown in Table 6, enplaned passengers are down 5.3% through the first 8 months of FY 2009, compared to FY 2008.

Table 6
HISTORICAL ENPLANED PASSENGERS
Santa Barbara Municipal Airport
Fiscal Years ending June 30

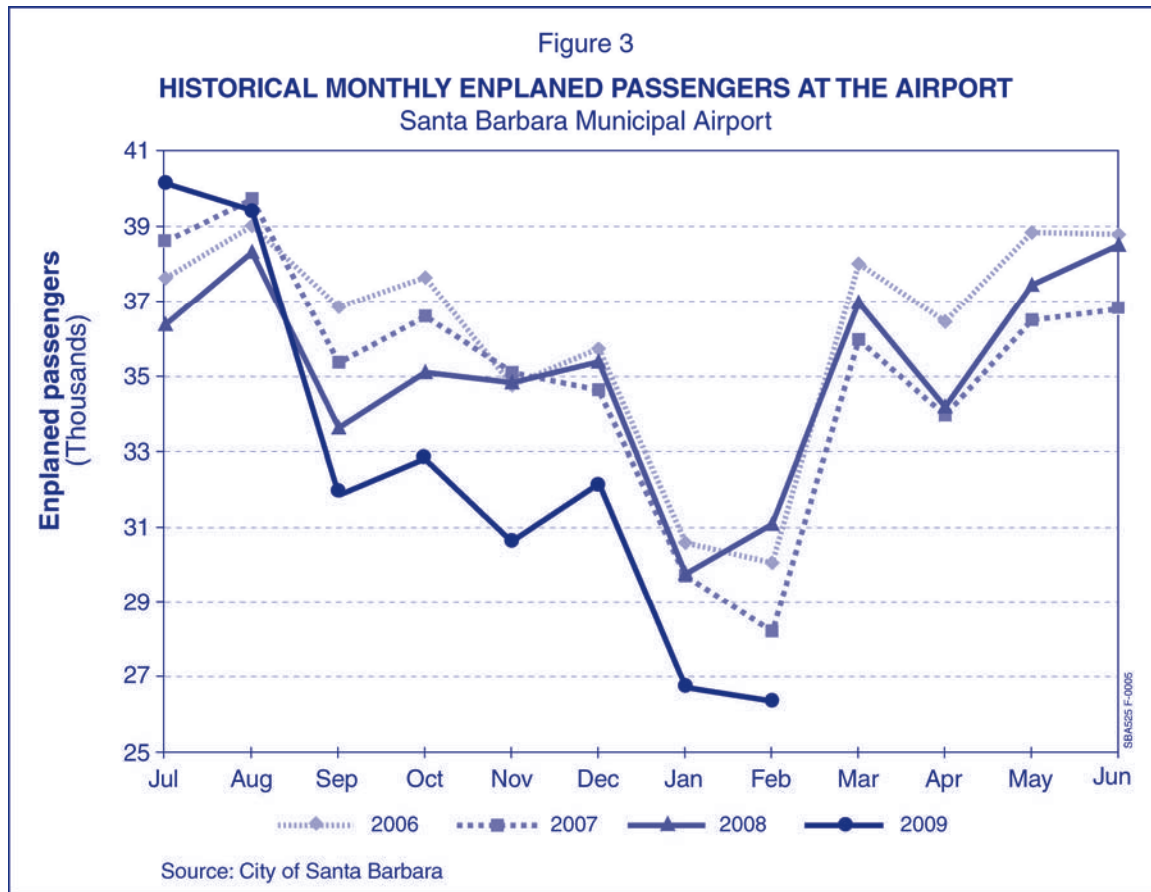
Year	Enplaned passengers	Average annual increase (decrease)
1995	269,707	
1996	289,438	7.3%
1997	393,099	35.8
1998	415,279	5.6
1999	410,451	(1.2)
2000	394,672	(3.8)
2001	393,963	(0.2)
2002	353,001	(12.9)
2003	363,041	9.8
2004	400,579	6.3
2005	436,206	8.9
2006	434,608	(0.4)
2007	421,361	(3.0)
2008	421,809	0.1
First 8 months		
2008	274,620	
2009	260,103	(5.3)
	Average annual increase (decrease)	
1995-2000	7.9%	
2000-2008	0.8	
1995-2008	2.7	

Source: City of Santa Barbara.

Monthly Enplaned Passengers

Figure 3 presents monthly enplanement data for FY 2006 through the first 8 months of FY 2009 and demonstrates the seasonal and cyclical nature of the Airport's market. Demand for air travel in the Airport's service region remains generally strong throughout the year, except for the months of January and February. Despite higher average airfares (29% higher than the national average, as discussed later; see Table 8) and the airlines' historical and expected reduction in seat capacity (see the section "Key Factors Affecting Future Airline Traffic"), enplanements in FY 2008

remained steady. However, as mentioned previously, enplanements are down 5.3% through the first 8 months of FY 2009.



Airline Market Shares

Table 7 presents data on historical airline market shares of enplaned passengers at the Airport for selected years since 2000. September is the month used in this analysis because historically its number of scheduled seats approximates the average monthly number.

As shown, United Airlines has the largest share of enplaned passengers; 72% in 2000, decreasing to 40% in 2008. Both American Airlines and US Airways have maintained similar shares of enplaned passengers, ranging from 15% to 22% each from 2002 to 2008. The other airlines serving the Airport—Delta Air Lines, Alaska Airlines, and Allegiant Airlines—are new entrants to the Airport.

The last mainline service by a major airline was provided by United Airlines, which devolved to its regional affiliates in November 2001.

Table 7
MARKET SHARE BY AIRLINE
 Santa Barbara Municipal Airport
 Fiscal Years ending June 30

Airline	2000		2002		2004		2006		2008	
	Enplaned passengers	Percent share	Enplaned passengers	Percent share	Enplaned passengers	Percent share	Enplaned passengers	Percent share	Enplaned passengers	Percent share
United Airlines										
Mainline	134,502	34.1%	33,189	9.4%	0	0.0%	0	0.0%	0	0.0%
Regional affiliates	<u>149,670</u>	<u>37.9</u>	<u>186,237</u>	<u>52.8</u>	<u>198,252</u>	<u>49.5</u>	<u>196,601</u>	<u>45.2</u>	<u>170,017</u>	<u>40.3</u>
Subtotal	284,172	72.0%	219,426	62.2%	198,252	49.5%	196,601	45.2%	170,017	40.3%
American Airlines	66,409	16.8%	63,329	17.9%	62,517	15.6%	75,955	17.5	74,326	17.6
US Airways <i>(a)</i>	44,091	11.2	51,734	14.7	69,661	17.4	93,824	21.6	84,921	20.1
Alaska Airlines	0	0.0	0	0.0	38,669	9.7	34,085	7.8	40,145	9.5
Delta Air Lines	0	0.0	18,512	5.2	31,480	7.9	34,143	7.9	25,835	6.1
ExpressJet	0	0.0	0	0.0	0	0.0	0	0.0	24,636	5.8
Allegiant Air	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>1,929</u>	<u>0.5</u>
Total	394,672	100.0%	353,001	100.0%	400,579	100.0%	434,608	100.0%	421,809	100.0%

(a) In September 2005, America West and US Airways merged. Historical data for the two airlines are combined.

Source: Official Airline Guides, Inc., database retrieved from BACK Aviation, July 2008.

Airline Fares

Historically, airline fares have been a determinant of airline traffic demand in Santa Barbara, as they have been in the nation as a whole. Average fares from Santa Barbara have consistently been higher than average fares nationwide.

Table 8 shows average airfares from the Airport to its top 10 origin and destination (O&D) markets from 2000 through 2008. Nationwide, airfares increased in 2000 before decreasing in 2001 and 2002 due to the reduced demand for air travel as a result of the events of September 11, 2001, and an economic downturn, and the increasing market shares of the low-cost carriers. This was not the case in Santa Barbara, in large part because low-cost carriers did not serve the Airport at that time and are believed to have little influence on airfares at the Airport. The average fares in all U.S. markets (including Santa Barbara) increased slightly from 2002 to 2008, while the Airport's fares held steady until a recent increase of approximately 13% between 2006 and 2008. In contrast, the average fare nation-wide increased 5% between 2006 and 2008. Average fares to the Airport's top 10 markets were about 7.5% lower in 2008 than the average airfares to all markets served from the Airport, demonstrating that travel to popular destinations is slightly more affordable.

Competing Airports in the Region

Figure 4 shows the Airport on a map, along with other airports with scheduled commercial airline service that are within two hours' drive time of Santa Barbara. Table 9 shows these airports' proximity to downtown Santa Barbara and their average daily nonstop departures. For the purpose of this analysis, a regional/commuter aircraft is one with fewer than 100 seats.

Average fares at most of the comparison airports are lower than those at Santa Barbara, except those at Oxnard, Bakersfield, and San Luis Obispo airports. While shown because of their proximity to the Airport, scheduled service at those three airports, as well as Santa Maria Airport, averaged 7 flights per day as of April 2009. Table 10 provides data on both fares and yields (defined as airline revenue per passenger mile). From the first quarter of 2006 to the first quarter of 2008, both fares and yields have risen. Meanwhile, airlines reduced their capacity over the same period.

Table 8

**AVERAGE ONE-WAY AIRFARES FOR THE AIRPORT'S TOP 10
DOMESTIC ORIGIN AND DESTINATION MARKETS**

2000-2008
Fiscal Years ending June 30

Destination	2000	2002	2004	2006	2008	Average annual increase (decrease)
San Francisco (a)	\$112	\$112	\$120	\$129	\$159	4.5%
Seattle	126	133	137	165	165	3.5
Denver	191	182	171	160	201	0.6
New York (b)	294	258	255	260	268	(1.2)
Phoenix	107	109	140	174	176	6.4
Portland	133	131	139	158	158	2.2
Las Vegas	107	91	104	115	133	2.8
Washington (c)	279	274	265	256	287	0.4
Chicago (d)	227	203	195	201	210	(1.0)
Dallas (e)	281	228	200	224	215	(3.3)
All SBA markets	\$180	\$177	\$185	\$196	\$214	2.2%
All U.S. markets	\$158	\$145	\$149	\$158	\$166	0.7%

(a) San Francisco, Mineta San Jose, and Oakland international airports.

(b) Newark, John F. Kennedy, and LaGuardia international airports.

(c) Dulles, Reagan National, and Marshall Baltimore international airports.

(d) O'Hare and Midway international airports.

(e) Dallas/Fort Worth International Airport and Love Field.

Source: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic*, online database.



LEGEND

Drivetime from SBA airport:

..... 1 hour

———— 2 hours



Major airport

Regional airport

- - - - - County boundary

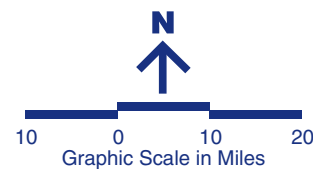


Figure 4
DRIVETIME FROM SANTA BARBARA

Santa Barbara Municipal Airport

April 2009

JACOBS
CONSULTANCY

Table 9
AIRLINE SERVICE AT AIRPORTS NEAR SANTA BARBARA
April 2009

Airport location	Driving distance (miles)	Average daily passenger airline nonstop departures		
		Mainline jet	Regional/ commuter	Total
Santa Barbara (Goleta)	10	(a)	33	34
Bakersfield	150	--	10	10
Burbank	90	65	17	82
Long Beach	120	32	9	41
Los Angeles International	100	513	171	684
Oxnard	35	--	3	3
San Luis Obispo	105	--	11	11
Santa Maria	75	--	4	4

(a) Less than one average daily departure.

Source: Official Airline Guides, Inc., online database, March 2009.

Table 11 presents average fares and yields for the top 10 destinations for passengers originating their journeys at the Airport. Average fares and yields are shown for the Airport, and for Burbank Bob Hope, San Luis Obispo, Long Beach, and Los Angeles International airports. Both Burbank Bob Hope and Long Beach are predominantly served by low-cost airlines, and Los Angeles International hosts such a large number of airlines that competition can reduce fares. Also, it should be noted that drive times from Santa Barbara to greater Los Angeles may be much longer than driving distances suggest, given the region's infamous traffic. Smaller airports (such as the Airport and San Luis Obispo Airport) had the highest yields on their nonstop routes to large O&D markets such as San Francisco and Phoenix.

The Airport serves a market with above average PCPI that is believed to be more able to pay higher fares, thus producing high yields, flying to both large O&D markets and airlines' connecting hubs.

Table 10

**COMPARISON OF AVERAGE DOMESTIC ONE-WAY FARES AND
YIELDS AT SELECTED AIRPORTS**

2000-2008
Fiscal Years ending June 30

Airport	2000	2002	2004	2006	2008
	Average one-way domestic airline fares				
Santa Barbara	\$180	\$177	\$185	\$196	\$214
Burbank	89	91	101	121	126
San Luis Obispo	184	160	182	201	219
Bakersfield	184	170	201	204	235
Los Angeles International	164	155	155	170	186
Santa Maria	235	239	228	201	199
Oxnard	158	188	230	229	275
Long Beach International	154	156	128	136	142
All U.S. airports	158	145	149	158	166
Average one-way domestic yields (per revenue passenger mile)					
Santa Barbara	\$0.14	\$0.12	\$0.12	\$0.14	\$0.15
Burbank	0.17	0.15	0.16	0.15	0.16
San Luis Obispo	0.12	0.11	0.12	0.14	0.14
Bakersfield	0.12	0.12	0.14	0.14	0.16
Los Angeles International	0.11	0.10	0.10	0.11	0.12
Santa Maria	0.16	0.16	0.13	0.16	0.19
Oxnard	0.13	0.13	0.13	0.16	0.19
Long Beach International	0.13	0.09	0.08	0.09	0.10
All U.S. airports	0.15	0.13	0.13	0.13	0.14

Source: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic*, online database.

Table 11

COMPARISON OF AVERAGE ONE-WAY AIRFARES AND YIELDS TO SANTA BARBARA'S TOP 10 MARKETS
First Quarter 2008

Market	Santa Barbara		Burbank		San Luis Obispo		Long Beach International		Los Angeles International	
	Fare	Yield	Fare	Yield	Fare	Yield	Fare	Yield	Fare	Yield
San Francisco (a)	\$162	\$0.62	\$97	\$0.31	\$253	\$1.30	\$77	\$0.22	\$95	\$0.29
Seattle	161	0.17	145	0.15	195	0.19	130	0.13	149	0.15
Denver	215	0.22	189	0.21	175	0.16	156	0.16	147	0.17
New York (b)	263	0.10	202	0.08	229	0.09	197	0.08	309	0.12
Phoenix	184	0.40	91	0.25	166	0.31	92	0.26	92	0.25
Portland	150	0.18	140	0.17	185	0.23	146	0.13	146	0.17
Las Vegas	128	0.35	91	0.41	105	0.20	79	0.34	92	0.39
Washington (c)	297	0.12	203	0.08	246	0.10	180	0.08	235	0.10
Chicago (d)	209	0.11	198	0.11	228	0.11	144	0.08	188	0.11
Dallas (e)	221	0.16	179	0.14	188	0.13	171	0.13	189	0.15
All markets	\$215	\$0.16	\$123	\$0.17	\$225	\$0.15	\$134	\$0.10	\$183	\$0.12

(a) San Francisco, Mineta San Jose, and Oakland international airports.

(b) Newark, John F. Kennedy, and LaGuardia international airports.

(c) Dulles, Reagan National, and Marshall Baltimore international airports.

(d) O'Hare and Midway international airports.

(e) Dallas/Fort Worth International Airport and Love Field.

Source: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic*, online database.

Passenger Origin-Destination Pattern

No airlines at the Airport currently offer nonstop passenger service to an international destination.

Air traffic is classified as origin-destination (O&D) or connecting. O&D passengers are those who begin or end their trip at the airport. Connecting passengers are those who pass through an airport to connect to a flight to another city that is their final destination. The Airport is predominantly an O&D airport, and connecting passengers are not a significant percentage of enplanements.

Table 12 presents the distribution of Airport passengers to and from the Airport's top 22 O&D markets during FY 2008. All cities accounting for 1.0% or more of total O&D passengers at the Airport are listed. The top 22 markets collectively accounted for 68% of O&D passengers at the Airport. The San Francisco Bay Area accounted for the largest share of O&D passengers, with 9.9%. The top five markets—San Francisco, Seattle, Denver, New York, and Phoenix—together accounted for nearly one-third of the Airport's O&D passengers. The narrow difference in the shares accounted for by these markets illustrates the strength of the overall O&D market at the Airport. Because the Airport is not predominately dependent on traffic to one particular destination, the effects of changing conditions at a particular airport or within a particular community on overall passenger traffic are minimized. Of the top 22 O&D markets, 8 are long-haul destinations (more than 1,500 miles); 9 are medium-haul destinations (between 500 and 1,500 miles); and 5 are short-haul destinations (fewer than 500 miles). Figure 5 presents this information graphically.

Table 12

DOMESTIC PASSENGER DESTINATION PATTERN

Santa Barbara Municipal Airport
(Fiscal Year ending June 30, 2008)

Destination	Air miles from Santa Barbara	Percent of total originating passengers	Average daily scheduled nonstop departures <i>(a)</i>
San Francisco <i>(b)</i>	253	9.9%	11
Seattle	908	6.6	1
Denver	913	5.7	2
New York <i>(c)</i>	2,520	5.4	0
Phoenix	452	4.8	4
Portland	783	4.4	0
Las Vegas	287	3.9	1
Washington <i>(d)</i>	2,367	3.6	0
Chicago <i>(e)</i>	1,801	3.4	0
Dallas <i>(f)</i>	1,328	3.3	0
Boston	2,661	3.0	0
Salt Lake City	614	1.7	2
Philadelphia	2,457	1.6	0
Orlando	2,291	1.4	0
Tucson	537	1.3	0
Minneapolis	1,578	1.3	0
Los Angeles <i>(g)</i>	114	1.3	11
Houston <i>(h)</i>	1,465	1.2	0
Sacramento	311	1.2	2
Austin	1,319	1.1	0
Albuquerque	751	1.0	0
Miami <i>(i)</i>	2,420	<u>1.0</u>	<u>0</u>
Top 22 cities		68.1%	34
Other cities		<u>31.9</u>	<u>0</u>
All cities		100.0%	34

(a) Scheduled service for April 2009.

(b) San Francisco, Mineta San Jose, and Oakland international airports.

(c) Newark, John F. Kennedy, and LaGuardia international airports.

(d) Dulles, Reagan National, and Marshall Baltimore international airports.

(e) O'Hare and Midway international airports.

(f) Dallas/Fort Worth International Airport and Love Field.

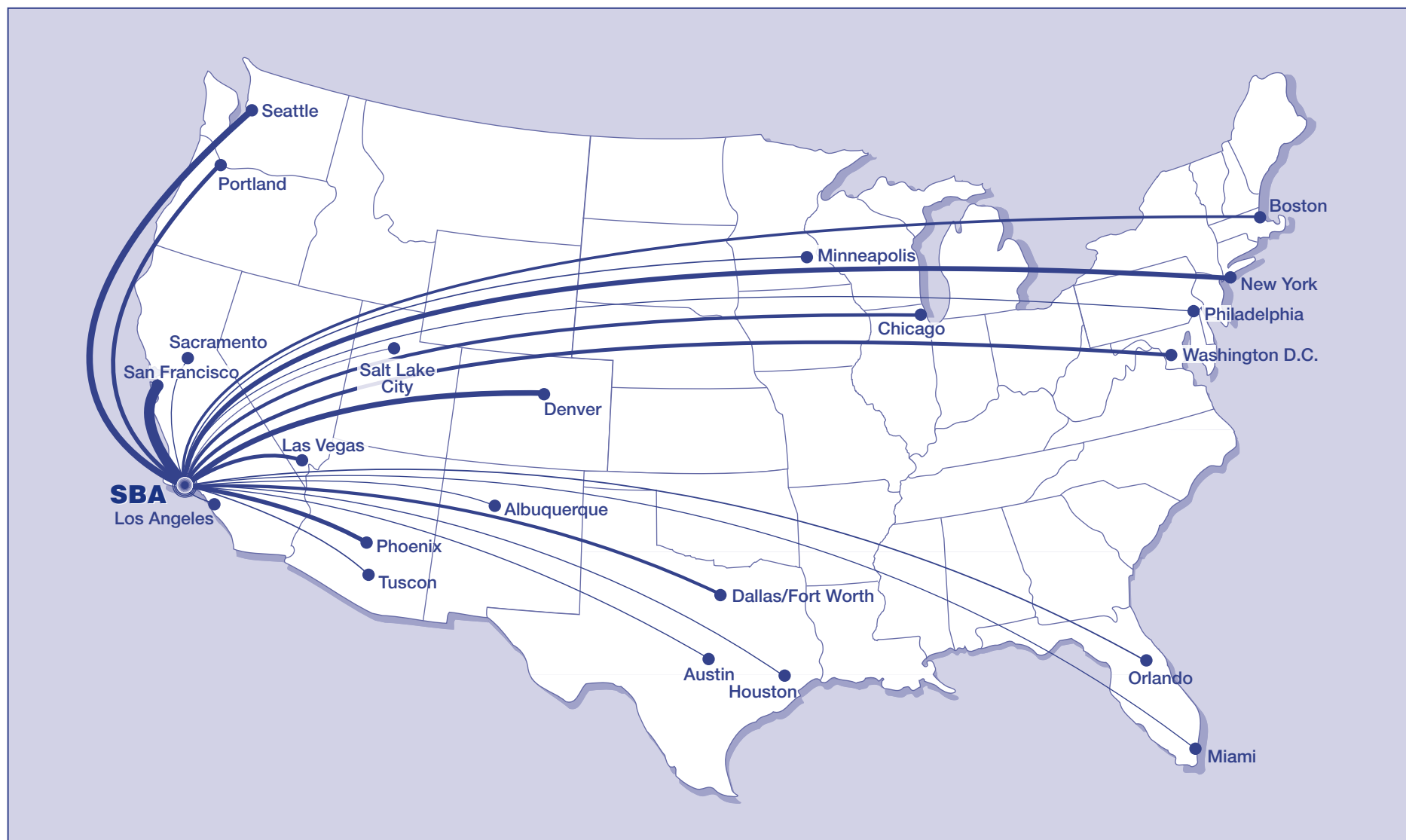
(g) Los Angeles International, Bob Hope, John Wayne, Ontario International, and Long Beach airports.

(h) Bush Intercontinental and Hobby airports.

(i) Miami and Fort Lauderdale international airports.

Sources: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic*, online database.

Official Airline Guides, Inc., online, March 2009.



Source: U.S. Department of Transportation, *Origin-Destination Survey of Passenger Traffic*, online database. Official Airline Guides, Inc., database retrieved from BACK Aviation, November 2008.

Figure 5
DOMESTIC PASSENGER DESTINATION PATTERN
 Santa Barbara Municipal Airport
 Fiscal Year 2008

Aircraft Landed Weight

Table 13 presents historical aircraft landed weight. From FY 1995 to FY 2008, landed weight increased from 323,131 (1,000-pound units) to 592,587 (1,000-pound units), representing an average annual increase of 3.6%. As presented below, total landed weight at the Airport is 11.2% lower for the first 8 months of FY 2009, compared to FY 2008, largely as a result of Express Jet ceasing operations.

Table 13
HISTORICAL AIRCRAFT LANDED WEIGHT
Fiscal Years ending June 30

Year	Landed weight (1,000-pound units)			Total	Average annual increase (decrease)
	Passenger airlines	Cargo airlines	U.S. Forest Service (a)		
1995	306,392	16,739	(no data)	323,131	--%
1996	330,718	16,439	0	347,156	7.4
1997	401,368	17,934	0	419,302	20.8
1998	420,161	16,679	0	436,840	4.2
1999	372,779	16,356	0	389,135	(10.9)
2000	329,380	16,937	0	346,317	(11.0)
2001	381,637	16,655	0	398,292	15.0
2002	372,671	15,755	18,520	406,945	2.2
2003	447,011	16,058	2,448	465,518	14.4
2004	508,023	16,985	4,733	529,741	13.8
2005	569,096	15,987	0	585,002	10.4
2006	577,485	21,980	1,883	601,348	2.8
2007	539,960	21,388	23,810	585,158	(2.7)
2008	570,172	22,415	0	592,587	1.3
First 8 months					
2008	374,639	15,130	0	389,769	
2009	328,748	17,187	0	345,935	(11.2)
	Average annual increase				
1995-2000	1.5%	0.2%		1.4%	
2000-2008	7.1	3.6		6.9	
1995-2008	3.7	1.7		3.6	

Source: City of Santa Barbara.

(a) The U.S. Forest Service occasionally utilizes the Airport, usually in support of its operations fighting forest fires.

Air Cargo

At the Airport in FY 2008, approximately 2,950 tons of cargo were handled (enplaned and deplaned). Historical records dating back to 1997 show that annual cargo handled at the Airport has ranged between 2,800 and 3,300 tons.

Aircraft Operations

Table 14 presents historical data on aircraft operations at the Airport by operational category. The number of total aircraft operations at the Airport decreased from 156,201 in 2005 to 122,455 in 2008 (at an average annual decrease of 7.8%). This decrease reflects the national trend toward offering fewer flights, which have resulted in higher load factors for the airlines. As the number of air carrier operations declined, the number of air taxi/commuter operations increased, reflecting the change in the types of airlines or aircraft serving the Airport.

Table 14
HISTORICAL AIRCRAFT OPERATIONS
Fiscal Years ending June 30

Year	Air carrier	Air taxi	General aviation	Military	Total	Average annual increase (decrease)
1995	4,668	43,870	117,100	1,245	166,883	--%
1996	4,515	44,819	122,559	1,337	173,230	3.8
1997	4,929	45,936	117,188	1,164	169,217	(2.3)
1998	6,443	46,477	112,452	836	166,208	(1.8)
1999	7,002	37,751	118,721	816	164,290	(1.2)
2000	10,151	31,498	119,152	895	161,696	(1.6)
2001	9,347	32,379	129,330	1,000	172,056	6.4
2002	7,395	32,527	118,107	928	158,957	(7.6)
2003	89	39,508	116,196	663	156,456	(1.6)
2004	3,123	38,475	105,060	813	147,471	(5.7)
2005	2,995	39,089	113,561	556	156,201	5.9
2006	3,478	35,302	103,129	692	142,601	(8.7)
2007	3,601	33,351	85,914	1,024	123,890	(13.1)
2008	5,057	32,514	83,844	1,040	122,455	(1.2)
First 8 months						
2008	3,297	21,937	54,527	568	80,329	
2009	2,450	24,704	43,904	1,175	72,233	(10.1)%
Average annual increase						
1995-2000	16.8%	(6.4%)	0.3%	(6.4%)	(0.6%)	
2000-2008	(8.3)	0.4	(4.3)	1.9	(3.4)	
1995-2008	0.5	(1.7)	(1.9)	(1.1)	(1.8)	

Source: City of Santa Barbara.

The number of general aviation operations at the Airport also declined from 2005 to 2008 (at an average annual decrease of 9.6%), but because general aviation is not a significant source of revenue at the Airport, the effects of this decline are financially negligible.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

Besides the economy of the Airport service region, discussed in the earlier section “Airport Service Region,” key factors that will affect airline traffic at Santa Barbara Municipal Airport include:

- Economic and political conditions
- Aviation security concerns
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Capacity of the national air traffic control system
- Capacity of the Airport

Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 2001 and stagnant economic conditions in 2002 contributed to reduced passenger numbers during those years. Economic recession in 2008 and 2009, combined with reduced discretionary income and increased airfares, has again contributed to reduced air travel demand.

With the globalization of business and the increased importance of international trade and tourism, growth in the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, public health concerns, and hostilities are now important influences on passenger traffic at major U.S. airports. Sustained future increases both in domestic and international passenger traffic will depend on stable and peaceful international conditions and global economic growth.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes for short trips.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in 2002. In early 2003, safety concerns were again heightened by the beginning of hostilities in Iraq and the perceived threat of retaliatory terrorist attacks.

Since September 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), and more intensive screening of passengers and baggage. In the summer of 2006, the discovery of a plot to attack transatlantic flights with liquid explosives led to further changes in security screening procedures.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks, hijackings, aircraft crashes, and international hostilities. Provided that intensified security precautions serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not security, factors.

Financial Health of the Airline Industry

The numbers of passengers at the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to provide service.

The 1990-1991 economic recession, coupled with increased operating costs and security concerns during the Gulf War, generated then-record financial losses in the airline industry. These losses put particular pressures on financially weak or highly indebted airlines, forcing many to seek bankruptcy protection, sell productive assets, lay off workers, reduce service, or discontinue operations in the early 1990s.

Between 1995 and 2000, the airline industry as a whole was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 attacks, increased fuel and other operating costs, and price competition, the industry again experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately \$40 billion.

To mitigate these losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Delta filed for bankruptcy in September 2005, before emerging in April 2007. US Airways twice filed for bankruptcy protection, in August 2002 and September 2004, before emerging in September 2005 following its merger with America West. In 2004, US Airways drastically reduced service at its

Pittsburgh hub. In December 2002, United filed for bankruptcy protection (emerged in February 2006). In 2003, American avoided filing for bankruptcy protection only after obtaining labor cost concessions from its employees and drastically reducing service at its St. Louis hub. In September 2005, on the same day as Delta, Northwest filed for bankruptcy protection (emerged in May 2008). In 2005, Delta eliminated its Dallas/Fort Worth hub and downsized its Cincinnati hub. Among smaller airlines, between 2003 and 2005, Hawaiian Airlines, ATA Airlines, Aloha Airlines, and Independence Air filed for bankruptcy protection. (Of these airlines, only Hawaiian was still operating as of April 2009.)

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, but in 2008, as oil and aviation fuel prices increased to unprecedented levels, the industry was thrown into a profitability crisis. The industry has responded by grounding older less fuel-efficient aircraft, adopting fuel-saving aircraft operating practices, hedging their fuel requirements, reducing scheduled seat capacity, eliminating unprofitable routes, laying off employees, reducing employee compensation, reducing other non-fuel expenses, increasing airfares, and imposing other fees and charges. In the fourth quarter of 2008, U.S. airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10% compared with the fourth quarter of 2007.

Various industry analysts have suggested that further industry-wide domestic capacity reductions may be required to achieve equilibrium between seat supply and passenger demand at airfares adequate to achieve airline profitability. The combination of reduced seat capacity, increased airfares, and weak economic conditions is expected to lead to reduced passenger numbers at most airports, at least through 2009.

Continuing losses could cause airlines to seek bankruptcy protection or liquidate. During 2008, Aloha, ATA, and Skybus Airlines, along with other small airlines, declared bankruptcy and ceased operations. Frontier Airlines filed for Chapter 11 protection in April 2008, but continues to operate. ExpressJet (under its own name) ceased operations in September 2008. The liquidation of one or more of the large network airlines could drastically affect air service at many connecting hub airports, present business opportunities for the remaining airlines, and change air travel patterns throughout the U.S. aviation system.

Airline Service and Routes

The Airport is the O&D gateway for air traffic to Santa Barbara County. The number of origin and destination passengers depends on the intrinsic attractiveness of the Santa Barbara region as a business and leisure destination and the propensity of its residents to travel.

Most major airlines have developed nationwide systems of hubs that allow them to offer high-frequency service in many city-pair markets. The Airport is a “spoke” in the systems of United (flies to 3 hubs), American, US Airways (2), Delta, and Alaska.

Since Santa Barbara is a spoke in the systems of several major airlines, its risk associated with the failure of one or two airlines is mitigated.

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips, where the automobile and other travel modes are potential alternatives, and for price-sensitive “discretionary” travel. The price elasticity of demand for air travel increases under weak economic conditions when the disposable income of potential air travelers is reduced. Airfares are influenced by capacity and yield management; passenger demand; market presence; labor, fuel, and other airline operating costs; airline debt burden; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport will depend on the level of airfares.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce fares nationwide between 2000 and 2005. Between those two years, the average domestic yield for U.S. airlines was reduced from 14.9 cents to 12.7 cents per passenger-mile. In 2006 and 2007, as airlines reduced capacity and were able to sustain fare increases, industry-wide yields increased, to an average of 13.8 cents in 2007. By mid-2008, yields had increased further, to 16.2 cents per passenger-mile. The ability of airlines to continue to increase and rationalize fares while controlling seat capacity, is seen as key to the industry regaining and sustaining profitability.

In many airline travel markets nationwide, price competition is provided by new entrant and other airlines with lower cost structures. In Santa Barbara, Allegiant, US Airways, and Alaska provide such competition. The largest low-cost airline, Southwest, has never operated at the Airport. As national network airlines have restructured their operations and reduced costs, they have enhanced their ability to compete on price with the “low-cost” airlines.

There is competition to only two destinations from Santa Barbara; Los Angeles and Las Vegas. US Airways is scheduled to discontinue its flight to Las Vegas in June 2009. Los Angeles, meanwhile, is not so much an airline service destination (since it is well within driving distance of Santa Barbara), as it is a connecting hub to long-haul flights.

Airline Consolidation and Alliances

In response to competitive pressures, consolidation of the U.S. airline industry has occurred. In April 2001, American completed an acquisition of failing Trans World Airlines. In August 2001, merger plans for United and US Airways were proposed, but rejected by the U.S. DOT as a result of concerns about reduced airline competition. In September 2005, US Airways and America West merged. In November 2006, the new US Airways proposed a merger with Delta while the latter was in bankruptcy, but the hostile merger proposal was rejected by Delta’s

management and creditors. In December 2006, AirTran initiated a hostile takeover offer for Midwest Airlines but withdrew its offer in August 2007 when it was outbid by a consortium of private investors and Northwest. In April 2008, Delta and Northwest announced their merger, which was approved in October 2008 by the U.S. Department of Justice. Various other merger combinations of American, Continental, United, and US Airways were rumored in early 2008, but in an environment of high fuel prices and weak demand, none are expected to be pursued in the near term. In the longer term, further airline consolidation is possible and could change air service patterns, particularly at the connecting hub airports of the merging airlines.

Alliances provide airlines with many of the advantages of mergers and all the large U.S. network airlines are members of such alliances with foreign flag airlines. Alliances typically involve marketing, code-sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines.

Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability. The invasion and occupation of Iraq, political unrest in Nigeria and other oil-producing countries, the rapidly growing economies of China, India, and other developing countries, and other factors influencing the demand for and supply of oil caused fuel prices to increase sharply beginning in 2003. In mid-2008, average fuel prices were over three times what they were in mid-2004 and represented the largest item of airline operating expense for most airlines. In the second half of 2008, oil prices fell precipitously as demand was reduced worldwide.

Airline industry analysts hold differing views on the extent to which prevailing high oil and aviation fuel prices are caused by actual or expected imbalances of supply and demand as opposed to commodity speculation. However, there is widespread agreement that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

While aviation fuel prices have not affected the ability of airlines to provide service, continued high prices will affect future airline service, airfares, and passenger numbers. Airline operating economics are also likely to be affected as regulatory costs are imposed on the airline industry to account for aircraft emissions contributing to global climate change.

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and

procedures. After 2001, air traffic delays decreased as a result of reduced numbers of aircraft operations but, as nationwide demand exceeds the 2000 level, flight delays and restrictions are again likely.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control and airport systems, future growth in airline traffic at the Airport will depend on the provision of increased capacity at the Airport itself. With the completion of the proposed Terminal Building and other facilities in the Capital Improvement Plan in accordance with the proposed schedule, capacity at the Airport does not appear to be a limiting factor in the foreseeable future, and is sufficient to accommodate forecast air traffic growth through the forecast period.

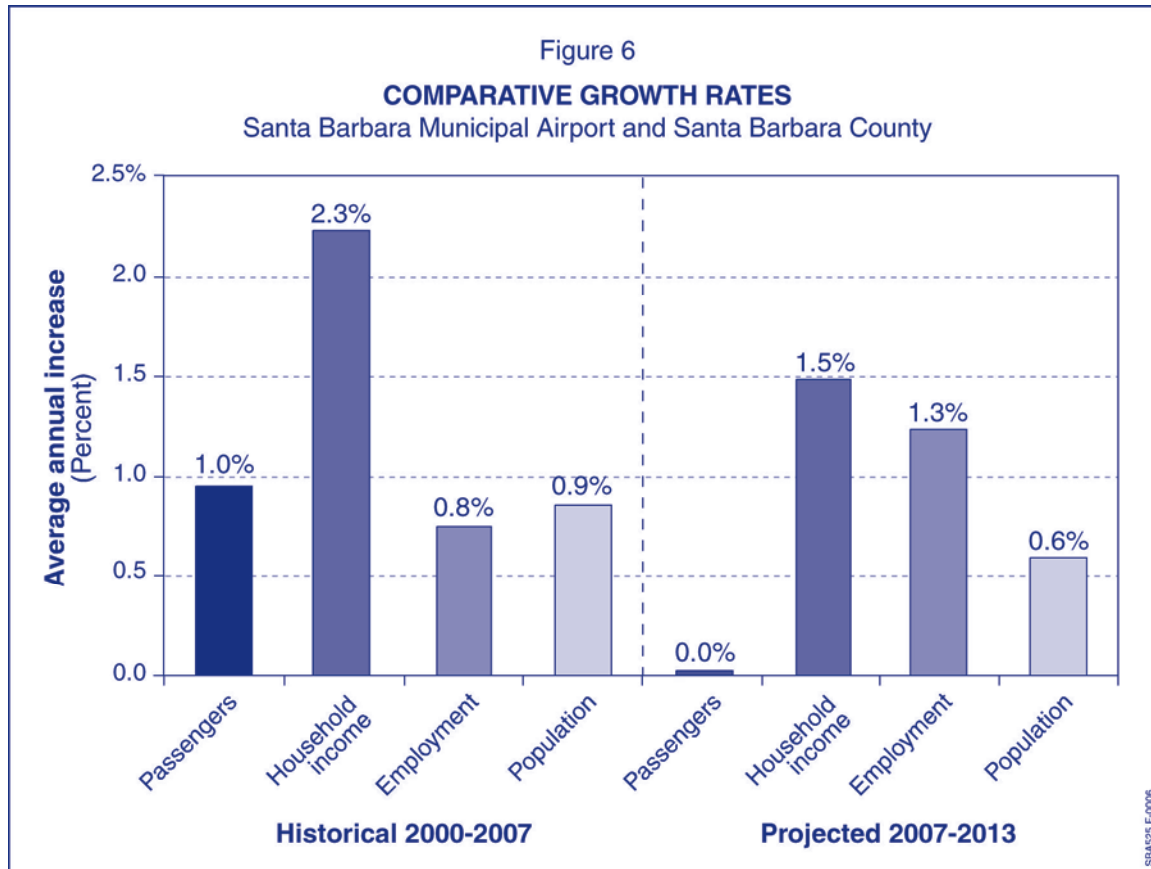
FORECAST AIRLINE TRAFFIC

Forecasts of airline traffic at the Airport through 2013 were developed, taking into account analyses of the economic basis for airline traffic, trends in historical airline traffic, and key factors likely to affect future airline traffic, all as discussed in earlier sections of this report.

Forecast

The passenger forecast is presented in Table 15.

Figure 6 presents historical and projected comparative growth rates for employment, household income, and population in Santa Barbara County and enplaned passengers at the Airport. The growth rates for employment and income were projected by the National Planning Association. As noted in the earlier section entitled “Airport Service Region,” the County, MSA, and Airport service region are, for the purposes of this analysis, one and the same—Santa Barbara County.



As shown, the forecast rate of increase in the number of enplaned passengers in relation to the projections of population, household income, and employment, is generally consistent with the most recent historical relationship from 2000-2007. Each of these time periods begin during downturns in the airline industry. Accordingly, passenger traffic is expected to be approximately 8% less in FY 2009.

Notwithstanding the current economic recession, it is assumed that future passenger traffic is expected to grow in accordance with the long-term trend (FY 1990-FY 2008) of approximately 3% per year, beginning in FY 2011.

In developing the forecast, it was further assumed that long term airline traffic at the Airport is expected to increase, as a function of growth in the population and economy of the Airport service region and as a result of increasing freeway congestion near Los Angeles International Airport. It was assumed that airline service at the Airport would not be constrained by the availability of aviation fuel, limitations in the capacity of the air traffic control system or the Airport, charges for the use of aviation facilities, or government policies or actions that restrict growth.

Table 15
HISTORICAL AND FORECAST AIRLINE TRAFFIC
 Santa Barbara Municipal Airport
 Fiscal years ending June 30

	Historical		Forecast				
	2007	2008	2009	2010	2011	2012	2013
Base Forecast							
Enplaned passengers	421,361	421,809	388,000	388,000	400,000	412,000	422,000
Percent change	(3.0%)	0.1%	(8.0%)	0.0%	3.1%	3.0%	2.4%
Airline landed weight (000s pounds)							
Passenger	539,960	570,172	504,000	504,000	514,000	527,000	535,000
Cargo	<u>21,388</u>	<u>22,415</u>	<u>20,000</u>	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>
	561,348	592,587	524,000	526,000	536,000	549,000	557,000
Percent change	(6.4%)	5.6%	(11.6%)	0.4%	1.9%	2.4%	1.5%

Sources: Historical—City of Santa Barbara.
 Forecast—Jacobs Consultancy, April 2009.

Passenger numbers were forecast on the basis of actual Airport records through February 2009, systemwide seat capacity guidance provided by the airlines, and Official Airline Guides' flight schedules (through September 2009). The number of enplaned passengers forecast for FY 2009, 388,000, represents an 8.0% decrease from the number enplaned in FY 2008. Passenger numbers for FY 2009 were forecast assuming that economic recession in the U.S. and Santa Barbara economies is likely to extend into 2010. Beginning in FY 2011, and through the remainder of the forecast period, passenger numbers were forecast to increase, at average rates lower than those for the period 1995-2008, on the basis of the following assumptions:

1. The U.S. economy is expected to recover and experience sustained growth averaging between 2.0% and 2.5% per year.
2. The economy of the Airport service region is expected to increase at a similar rate to that of the United States as a whole.
3. A generally stable international political environment and enhanced passenger and baggage screening procedures will ensure airline traveler confidence in aviation security without imposing unreasonable inconveniences.
4. There will be no major disruption of airline service or airline travel behavior as a result of international hostilities or terrorist acts or threats, or as a result of prolonged public health issues.

Baseline Forecast Assumptions

For the forecast, it was assumed that, through FY 2010:

- Economic recession would depress the demand for air travel
- Airlines would increase airfares and reduce domestic seat capacity consistent with published schedules, and would attempt to increase load factors

In recent months, there have been some developments and announcements that are expected to affect numbers of enplaned passengers and landed weights at the Airport in FY 2009. They include:

- **ExpressJet ends service.** ExpressJet ceased operations under its own name, effective September 2, 2008. Its service from the Airport to San Diego (less than 2 flights per day) and to Sacramento (2 per day) ended on that day.
- **Alaska (Horizon) adds service to Sacramento.** Horizon initiated nonstop service to Sacramento on November 9, 2008. The airline's former nonstop daily service to Portland now stops in Sacramento, and there is also a scheduled weekday nonstop flight to the State capital.
- **US Airways to end service to Las Vegas.** According to the Official Airline Guides' flight schedules, as of June 6, 2009, US Airways will discontinue its service to Las Vegas. This route is still served by Allegiant Airlines.
- **United Airlines to cut capacity to its hubs.** According to the Official Airline Guides' flight schedules, United is scheduled to cut total capacity at the Airport by 18% in the first half of CY 2009 as compared to the first half of CY 2008. Capacity to Los Angeles International Airport for the same period is scheduled to be 30% lower, and capacity to San Francisco and Denver international airports is scheduled to be 10% and 24% lower, respectively.
- **American Airlines discontinues flights to Dallas and changes aircraft.** On April 6, 2009, American Eagle is scheduled to discontinue its daily nonstop to Dallas. American Eagle replaced its 34-seat Saab 340 turboprop aircraft serving Los Angeles International Airport with a 44-seat Embraer RJ-140 on November 2, 2008, maintaining the same number of daily departures (6).

It is assumed that the County's per capita income makes the originating market relatively inelastic to fares, compared to California or the U.S. as a whole.

The total of enplaned passengers is estimated to be 8% lower in FY 2009 than in FY 2008.

The number of enplaned passengers is assumed to be flat in FY 2010 and to increase approximately 3.0% annually between FY 2011 and FY 2013.

Enplaned Passengers. Overall, the number of enplaned passengers is forecast to increase to 422,000 in FY 2013, returning to 2008 levels.

Landed Weight. Landed weight of passenger airlines is forecast to decrease 15.0% in FY 2009, principally as a result of scheduled capacity cuts by major carriers, and the loss of service by ExpressJet (which alone accounted for approximately 9% of landed weight from passenger airlines). Between FY 2011 and FY 2013, passenger airline landed weight is forecast to grow approximately 2.0% annually, reaching 535,000 thousand-pound units in FY 2013. Cargo airline landed weight is forecast to remain approximately at its FY 2008 amount of 22,000 thousand-pound in FY 2013.

Sensitivity Passenger Forecast

A sensitivity forecast was developed to provide the basis for testing the Airport's forecast financial results to assumed reductions in passenger numbers, which could occur under conditions such as prolonged economic downturn, restricted seat capacity, high airfares, or a hypothetical cessation of service by a major airline.

Specifically, it was assumed that:

- Airlines would adjust to economic recession by reducing domestic seat capacity and higher airfares
- One major airline (other than United) would cease service at the Airport effective July 2009, with replacement service by other airlines introduced in FY 2010 and FY 2011, to meet origin-destination passenger demand

Figure 7 presents the results of the sensitivity forecast, which forecasts 380,000 enplaned passengers in FY 2009, below the baseline forecast of 388,000 for FY 2009. The number of enplaned passengers is assumed to decrease an additional 2.0% in FY 2010 before increasing 2.2% per year from FY 2011 and FY 2013.

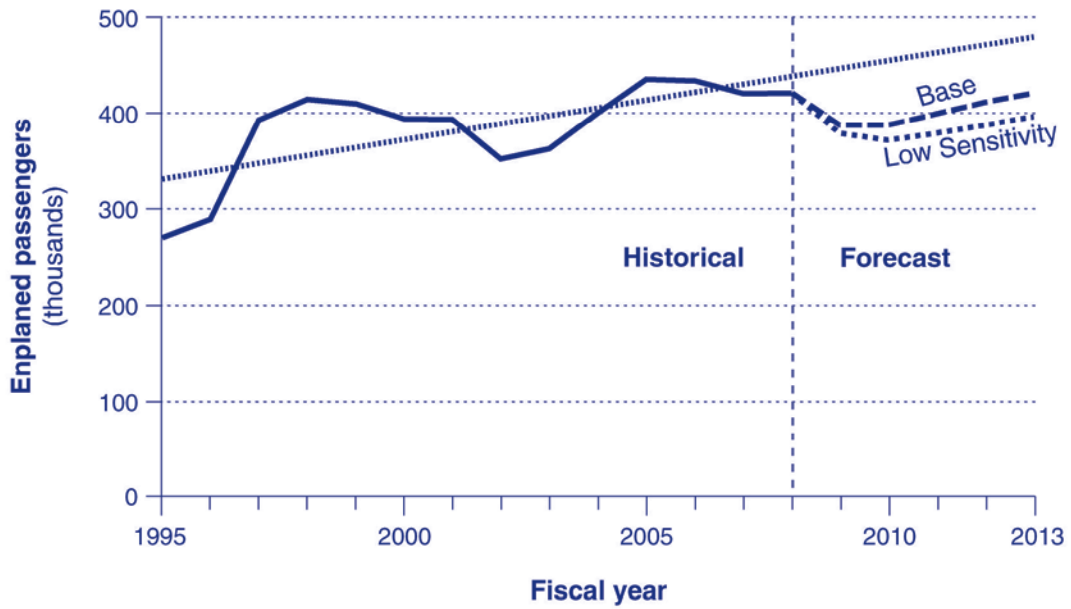
In FY 2011, the overall enplaned passenger numbers in the sensitivity forecast would be approximately 5.0% lower than the baseline forecast.

Figure 7

HISTORICAL AND FORECAST ENPLANED PASSENGERS

Santa Barbara Municipal Airport

Fiscal Years ending June 30



..... Trendline (Historical)

Sources: Historical—City of Santa Barbara
Forecast and Sensitivity—Jacobs Consultancy

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FINANCIAL ANALYSIS

FRAMEWORK FOR AIRPORT FINANCIAL OPERATIONS

The City of Santa Barbara, California, owns, and through its Airport Department (the Department), operates Santa Barbara Municipal Airport. The Department funds Airport operations and capital improvements with revenues generated from Airport rentals, fees, and charges, and with federal and State grants-in-aid. The Department maintains its financial records in accordance with generally accepted accounting principles as they apply to governmental entities. The Airport is an enterprise fund of the City.

There is an Airport Commission that advises the City Council on leasing policy, setting rates and charges, and the hiring of the Airport Director. The Commission consists of seven members, a minimum of four of whom are electors of the City and three of whom may be residents of Santa Barbara County, appointed for 4-year staggered terms by the City Council in accordance with the Santa Barbara Municipal Code. The Airport Commission also oversees the implementation of Airport policies through the Department, which has 54 employees.

The City of Santa Barbara Financing Authority (the Authority), on behalf of the City, intends to issue Revenue Bonds, Series 2009 (the 2009 Bonds), in the approximate principal amount of \$46.7 million.

Trust Agreement

The 2009 Bonds are being issued pursuant to a Trust Agreement, dated as of May 1, 2009, between the Authority and The Bank of New York Mellon Trust Company (the Trustee). The 2009 Bonds are secured by rental payments to be made in connection with the City's ground lease of the Airport Building Terminal site and facilities to the Authority and the City's lease back from the Authority of the new Airport Building Terminal and related site and facilities. The City's rental obligation to make principal and interest payments to the Authority (which the Authority will assign to the Trustee) is payable from the City's General Fund; however, this rental obligation will be reduced to the extent that the City makes installment payments from Airport Revenues pursuant to the 2009 Installment Payment Contract, dated as of May 1, 2009, between the City and the Authority.

There are currently no outstanding Bonds or other debt legally secured by or paid from Airport revenue.

Rate Covenant

The 2009 Installment Payment Contract establishes a Rate Covenant that requires the City, to the extent reasonably practicable, to fix, prescribe and collect rentals, rates, fees and charges for the services and facilities of the Airport that enables the City to collect such rentals, rates, fees and charges and other amounts which will be at least

sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Airport for such Fiscal Year; and (ii) one (1.0) times the debt service on all Installment Payments for such Fiscal Year.

Airport Operating Permit

Currently, the scheduled passenger airlines serving the Airport are American Eagle (American Airlines), SkyWest Airlines (Delta Connection and United Express), Mesa Airlines (US Airways), Horizon Airlines (Alaska Airlines), and Allegiant Airlines.

In addition, three all-cargo airlines (Ameriflight, Empire Airlines, and West Air) serve the Airport, all of which are affiliated with worldwide cargo integrators (UPS, DHL or FedEx).

On October 1, 2007, the City adopted an Airport Operating Permit (the Permit), which applies to all scheduled passenger and cargo airlines operating at the Airport. The Permit is revised and reissued annually, and allows for 30 days written notice of termination by either the City or the Scheduled Airline. The City's legal counsel has opined that the City has the right to fix, establish, and collect Airport rentals, fees, and charges to assure the revenue generation necessary to meet its annual Maintenance and Operation Costs and Debt Service requirements.

THE 2009-2011 CAPITAL IMPROVEMENT PROGRAM

Exhibit A* presents a summary of the 2009 – 2011 Capital Improvement Program (CIP). As shown, the total cost of the CIP is estimated by the Department to be \$54.7 million. Of that amount, the proposed new Terminal Building is estimated to cost \$49.1 million. In addition to the new Terminal Building, other projects in the Department's 2009-2011 Capital Improvement Program include, certain airfield improvements, a new water system, a new sewer system, and other miscellaneous Airport improvements. In addition, the Department is completing a joint use rental car facility (Quick Turnaround Area).**

ESTIMATED FINANCING

Exhibit A-1 presents a summary of the estimated projected costs and anticipated sources of funds. The City expects to pay certain project costs with the proceeds of the proposed 2009 Bonds (primarily for the new Terminal Building), revenue from Passenger Facility Charges (PFCs), FAA grants-in-aid, and cash from available Department funds. Assumptions and information regarding the estimated financing were provided by the Department and Morgan Stanley, the representative of the underwriters.

*All financial exhibits are presented at the end of this report.

**The rental car facility, approximate cost of \$7.8 million, is not shown on Exhibit A. It is nearly complete and scheduled to open in July 2009.

Sources of Funds

The estimated sources of funds for the new Terminal Project are (1) the proceeds from the sale of the proposed 2009 Bonds (\$18,448,000 paid from general Airport revenue and \$15,657,000 paid from PFC revenue); (2) PFC pay-as-you-go revenue (\$1,500,000), (3) Department funds (\$1,398,000); and, (4) FAA grants-in-aid (\$8,742,000 in entitlement grants and \$3,319,000 in discretionary grants).

Uses of Funds

The estimated uses of funds from the proposed 2009 Bonds are (1) the payment of a portion of project costs (\$36,906,000) of the 2009-2011 CIP, (2) a deposit to the Capitalized Interest Fund (\$5,687,000), (3) a deposit to the Debt Service Reserve Fund (\$3,183,000), and (4) the payment of issuance expenses, including the underwriter's discount and other costs of issuance (\$877,000).

BOND SIZING

Exhibit B summarizes the proposed bonds, which are backed by PFCs and Airport revenues. The interest on the PFC-related and Airport revenue-related Bonds (Series 2009) would be capitalized until July 2011, six months after the assumed completion date of the new Terminal Building. The City presently does not foresee the issuance of any additional debt by FY 2013.

DEBT SERVICE

Exhibit C presents Debt Service Requirements on the proposed 2009 Bonds for FY 2009 through FY 2013 based on the assumption that the 2009 Bonds have a term to final maturity of 30 years at a true interest cost of 5.19%, as provided by Morgan Stanley. The City collects and uses certain passenger facility charge (PFC) revenues to pay approved Debt Service amounts associated with the 2009 Bonds. As shown in Exhibit C, the total net Debt Service Requirement (after applying PFC revenues, capitalized interest, and interest earned on the Debt Service Reserve Fund) is forecast to be approximately \$1.8 million in FY 2013.

MAINTENANCE AND OPERATION COSTS

Exhibit D presents operating expenses for FY 2008 through FY 2013. Data for FY 2009 were obtained from the Department's Airport operating budget estimates. Maintenance and Operation Costs are shown by expense type and by cost center allocation.

Operating expenses include direct and indirect expenses. Direct expenses are those that can be charged to one of the direct cost centers—Airfield, Terminal Building, Commercial and Industrial, and Other Buildings and Areas. Indirect expenses, including expenses associated with the Administration and Maintenance Departments, are allocated to direct cost centers according to procedures established by the Department and are applied consistently each Fiscal Year.

Maintenance and Operation Costs

Operating expenses are forecast on the basis of historical Airport data; assumed inflationary increases in the unit costs of labor, services, utilities, and supplies; and other assumptions. It was assumed that, during the forecast period:

- The unit costs of salaries, wages, and benefits would increase an average of 3.9% per year.
- The unit cost of engineering would increase an average of 3.0% per year.
- The unit cost of allocated costs by the City would increase an average of 2.5% per year.
- The unit cost of Airfield Rescue and Fire Fighting (ARFF) would increase an average of 4.2% per year.
- The unit costs of supplies, services, and special projects would increase an average of 1.5% per year.
- The additional expenses associated with operating the new Terminal Building would be approximately \$450,000 to \$500,000 in FY 2012 and FY 2013, respectively (including utilities and personnel).
- Equipment costs are expected to be approximately \$80,000 per year.

In aggregate, Maintenance and Operation Costs are forecast to increase negligibly in FY 2009 and FY 2010, and approximately 6.5% in FY 2011 and FY 2012, when the new Terminal Building opens. Maintenance and Operation Costs are estimated at \$11.7 million in FY 2009 and are projected to increase to approximately \$13.7 million in FY 2013.

REVENUES

Exhibit E presents historical, estimated, and forecast revenues for FY 2008 through FY 2013. Revenues include scheduled passenger airline revenues from rentals and fees, as well as revenues from concessions, car rentals, parking, commercial and industrial rentals and fees, and interest income. Data for FY 2009 were obtained from the Department's Airport operating estimates.

The principal sources of Revenues estimated for FY 2009 and forecast for FY 2013 are summarized as follows:

<u>Sources of Airport Revenues</u>	<u>Estimated FY 2009</u>		<u>Forecast FY 2013</u>	
	<u>Amount</u>	<u>Percent of total</u>	<u>Amount</u>	<u>Percent of total</u>
Scheduled passenger airline revenues				
Terminal rentals	\$ 1,101,000	9%	\$ 2,896,000	18%
Landing fees	<u>1,020,000</u>	<u>8</u>	<u>1,241,000</u>	<u>8</u>
Total airline revenues	\$ 2,121,000	17%	\$ 4,137,000	26%
Nonairline revenues (a)	\$ 9,549,000	77%	\$11,488,000	71%
Interest and other income	<u>790,000</u>	<u>6</u>	<u>492,000</u>	<u>3</u>
Total Revenues	\$12,460,000	100%	\$16,117,000	100%
(a) Includes revenues from nonaeronautical sources, including Commercial and Industrial.				

Airline Revenues

Beginning in FY 2012, the calculation of airline rents and fees is based on the following methodology, to be incorporated into the Permit.

Terminal Building Rentals. Exhibit E-1 presents the calculation of budgeted and forecast airline Terminal Building rentals for FY 2008 through FY 2013. The methodology to determine rental rates is expected to change July 2011, after the new Terminal Building opens.

Rental rates are to be calculated to recover the total annual Terminal Building requirement, which includes the allocable (40%) share of Maintenance and Operation Costs, the allocable share of the deposit to the Operating Reserve Fund, the Debt Service requirement associated with projects in the terminal complex, and amortization of future City-funded assets. The total Terminal Building requirement is divided by the total rentable square footage in the Terminal Building to derive the Terminal Building rental rate per square foot.

The Terminal Building rental rate per square foot is then multiplied by the square footage of airline rented space to determine the total airline Terminal Building rentals. Total airline Terminal Building rentals are forecast to increase from a budgeted \$1,101,000 in FY 2009 to \$2,896,000 in FY 2013. In the old terminal, the rental rate is expected to range between \$74 and \$75 per square foot. In the new Terminal Building, through FY 2013, it is expected to range between \$64 and \$71 per square foot.

Landing Fees. Exhibit E-2 presents the calculation of the landing fee rate for FY 2008 through FY 2013. Beginning in FY 2010, airline landing fees are calculated to recover the residual cost of operating the Airport after crediting certain nonairline operating revenues, as well as airline terminal rentals, generated by the Airport, but not be less than \$2.00 per 1,000-lbs. of landed weight. The total Airport Cost is computed by adding the following items: (1) total direct and allocated Maintenance and Operation Costs for the Airport; (2) required deposits to the Operating Reserve Fund, (3) annual Debt Service; (4) required deposits to replenish the Capital Reserve Fund; and (5) amortization of all Airport-funded projects.

The resulting Airport Cost is then adjusted by crediting certain nonairline revenues, including up to 95% of budgeted revenues from the Commercial and Industrial cost center (up to an amount not to exceed \$4.5 million). Next, all Airport revenue from airline space rentals in the Terminal Building would be credited, to determine the Airline Landing Fee Requirement. The required amount would be divided by the projected landed weight to calculate the landing fee rate.

As shown in Exhibit E-2, scheduled passenger airline landing fee revenues are forecast to increase from \$1,020,000 in FY 2009 to approximately \$1,241,000 in FY 2013. The airline landing fee rate per 1,000-pound unit of landed weight is forecast to increase from an estimated \$1.98 in FY 2009 to \$2.32 in FY 2013.

Airline Payments (Cost) per Enplaned Passenger. As shown in Exhibit F, passenger airline payments are projected to increase from an estimated \$2.12 million in FY 2009 to an estimated \$4.14 million in FY 2013. Exhibit F also presents the estimated cost per enplaned passenger. It is expected to increase from \$5.47 in FY 2009 to \$9.80 in FY 2013.

Nonairline Revenues

The Department also receives revenues from ground transportation, terminal concessions, and commercial and industrial rentals at the Airport, which include: (1) public automobile parking, (2) rental cars, (3) food/beverage and news/gifts, and (4) other concession revenues. The principal sources of concession revenues estimated for FY 2009 and forecast for FY 2013 are as follows:

Public Automobile Parking. The Department currently operates the Airport's parking facilities. Public parking revenues are forecast to increase from \$2.6 million in FY 2009 to \$3.4 million in FY 2013. A 5% average parking rate increase was assumed to occur at the start of FY 2010.

Rental Cars. Rental car revenues are a function of passenger traffic, contract terms, and changes in the prices charged by the rental car companies. The City has agreements with four on-Airport companies—National, Budget, Enterprise, and Hertz—to operate rental car concessions at the Airport. The agreements are scheduled to expire on August 31, 2011.

Under the current agreements, the City receives a Minimum Annual Guarantee or 10% of gross receipts, whichever is greater.

The City also receives revenues from two off-Airport companies, Avis and Thrifty. Off-Airport rental car companies are required to pay the City 8% of gross revenues generated at the Airport per year.

Rental car revenues are forecast to increase in relation to the forecast changes in enplaned passengers and expected inflation. Rental car revenues are forecast to increase from a estimated \$1.7 million in FY 2009 to \$2.2 million in FY 2013.

Food/Beverage and News/Gifts. Food/beverage and news/gifts revenues are forecast to increase from the historical spend rate of \$0.50 per passenger in FY 2007 to \$0.80 once the new Terminal Building opens, due to a new and attractive concessions concept. Also, the spend rate is forecast to increase annually by 2.5%, to account for inflation.

Commercial and Industrial Buildings

As mentioned previously, the Airport owns 95 acres for commercial and industrial use. This land is effectively an office park for office space or light industry.

APPLICATION OF REVENUES

Exhibit F presents the forecast application of Revenues under the Trust Agreement.

All Airport Revenues are deposited into the Airport Revenue Fund and first applied to the payment of Maintenance and Operation Costs. Remaining Revenues are then applied to servicing Airport debt (the Installment Payment Fund), the Operating Reserve Fund, and the Capital Reserve Fund. Airport Revenues remaining after the foregoing deposits are made are deposited into the Capital (Surplus) Fund.

Capital Fund. The deposit to the Capital (Surplus) Fund is the remainder of any Airport revenues after all other obligations are met. This is expected to range from approximately \$734,000 in FY 2009 to \$503,000 in FY 2013, as shown in Exhibit F.

DEBT SERVICE COVERAGE

Exhibit G presents the forecast Net Revenues and the calculation of forecast Debt Service coverage. The first test shown is that which is required by the Rate Covenant. The second test accounts for other cash flows available to the Airport.

For FY 2009 through FY 2013, Net Revenues are forecast to exceed 130% of the Debt Service requirements (as reduced by PFCs) for the Revenue Bonds. Consequently, the Rate Covenant provision of the Installment Payment Contract is forecast to be met each year during the forecast period.

SENSITIVITY ANALYSIS

Summary of Results

The forecast of enplaned passengers reflects lower than expected negative growth in FY 2009 and FY 2010. Thereafter, the annual rate of growth would return to a longer term forecast level of approximately 2.2%. In this scenario, in FY 2011, upon the opening of the new Terminal Building, enplaned passengers would be approximately 5.0% lower than the baseline forecast. As such, enplaned passengers are forecast to be 397,000 in 2013 compared to 422,000 in the base case.

The forecast of landed weight also reflects lower than expected negative growth in FY 2009 and FY 2010. Thereafter, the annual rate of growth would return to a longer term forecast level of 0.9%. In FY 2011, upon the opening of the new Terminal Building, landed weight would be approximately 11.8% lower than the baseline forecast.

Assumptions

Santa Barbara would remain a strong origin-destination market, given its affluence relative to the rest of California and the nation. The Airport would remain a valuable spoke in the system of major airlines, and point-to-point travel to Las Vegas and Sacramento would continue to be popular. Since 2000, the proportion of County residents to Airport enplaned passengers has maintained an approximate ratio of 1:1.

However, there continues to be significant financial pressures on the airlines. As mentioned previously, in recent years the airlines (collectively) have reduced seat capacity nationally and at the Airport. As such, a sensitivity test forecast was developed to project financial results in view of the adverse economic conditions in the airline industry and the regional economy, such as a more prolonged economic recession, restricted seat capacity, higher airfares, or a hypothetical cessation of service by a major airline.

Specifically, it was assumed that:

- Fuel prices would continue to fluctuate at or above current levels
- Airlines would adjust to the economy through reduced domestic seat capacity (10%-20% between 2007 and 2009) and higher airfares
- One major airline (other than United Airlines) would discontinue service at the Airport effective July 2009, with replacement service by other airlines introduced in FY 2010 and FY 2011, to meet origin-destination passenger demand.
- Cargo landed weights would remain at approximately 22,000 thousand-pound units each year

Figure 7, shown earlier, displays the historical amounts and trend of enplaned passengers at the Airport, along with the baseline forecast and the sensitivity forecast.

Results

All other assumptions discussed in this report are the same, as reflected in the results presented below:

	2009	2010	2011	2012	2013
Enplaned passengers					
Forecast	388,000	388,000	400,000	412,000	422,000
Sensitivity projection	380,000	372,000	380,000	388,000	397,000
Passenger airline landed weight					
Forecast	504,000	504,000	514,000	527,000	535,000
Sensitivity projection	469,000	447,000	451,000	455,000	459,000
Passenger airline cost per enplaned passenger					
Forecast	\$5.47	\$5.44	\$5.32	\$8.95	\$9.80
Sensitivity projection	5.58	5.73	6.28	10.80	11.82
Debt Service coverage ratio					
Forecast	n.a.	n.a.	n.a.	1.62	1.34
Sensitivity projection	n.a.	n.a.	n.a.	1.62	1.34

The “residual” nature of the Airport’s proposed landing fee methodology provides the financial mechanism to mitigate the potential downside effects of lower air traffic activity by increasing airline rates and charges to generate sufficient revenues to meet the covenants of the Installment Payment Contract, although the level of airline cost per enplaned passenger would be higher than in the base case. As shown above, Debt Service coverage ratios are maintained at nearly identical levels in the sensitivity projection.

EXHIBIT A

PROJECT COSTS BY FISCAL YEAR

Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

Project Description	Escalated project cost	Drawdown by Fiscal Year			TOTAL
		2009	2010	2011	
Terminal project (a)					
Terminal, Roadways, and Parking	\$40,741,000	\$10,185,000	\$20,371,000	\$10,185,000	\$40,741,000
Temporary Improvements	4,507,000	2,254,000	2,253,000	-	4,507,000
Equipment, Furniture, and Fixtures	3,816,000	-	3,816,000	-	3,816,000
Subtotal Terminal Project	\$49,064,000	\$12,439,000	\$26,440,000	\$10,185,000	\$49,064,000
					-
Pavement (Airfield & Roadways)					-
Airport Operations Area paving	\$450,000	\$150,000	\$150,000	\$150,000	\$450,000
Street Resurfacing Program	450,000	150,000	150,000	150,000	450,000
Subtotal Parking and Roadways	\$900,000	\$300,000	\$300,000	\$300,000	\$900,000
					-
Other					-
Leased Building Maintenance	\$450,000	\$150,000	\$150,000	\$150,000	\$450,000
Hazardous Material Program	150,000	50,000	50,000	50,000	150,000
Building 255 Phase 2 remodel	261,000	261,000	-	-	261,000
Airport Water System	1,360,000	680,000	680,000	-	1,360,000
Airport Sewer System	2,320,000	-	1,160,000	1,160,000	2,320,000
Airport Infrastructure	150,000	50,000	50,000	50,000	150,000
Subtotal Other	\$4,691,000	\$1,191,000	\$2,090,000	\$1,410,000	\$4,691,000
Total	\$54,655,000	\$13,930,000	\$28,830,000	\$11,895,000	\$54,655,000

Source: City of Santa Barbara.

(a) Terminal project includes ramp work on the airfield.

EXHIBIT A-1

ESTIMATED PROJECT COSTS AND SOURCES OF FUNDS (3-YEAR CIP)

Santa Barbara Municipal Airport
City of Santa Barbara

Project Description	Escalated project cost	Sources of Funds						
		AIP		Department funds	PFCs		2009 Revenue Bonds	TOTAL
		Discretionary grants	Entitlement grants		Pay-as-you-go	2009 PFC-related Bonds		
Terminal project (a)								
Terminal, Roadways, and Parking	\$40,741,000	\$3,319,000	\$8,742,000	\$1,398,000	\$1,500,000	\$15,657,000	\$10,125,000	\$40,741,000
Temporary Improvements	4,507,000	-	-	-	-	-	4,507,000	4,507,000
Equipment, Furniture, and Fixtures	3,816,000	-	-	-	-	-	3,816,000	3,816,000
Subtotal Terminal Project	\$49,064,000	\$3,319,000	\$8,742,000	\$1,398,000	\$1,500,000	\$15,657,000	\$18,448,000	\$49,064,000
Pavement (Airfield & Roadways)								
Airport Operations Area paving	\$450,000	-	-	\$450,000	-	-	-	\$450,000
Street Resurfacing Program	450,000	-	-	450,000	-	-	-	450,000
Subtotal Parking and Roadways	\$900,000	-	-	\$900,000	-	-	-	\$900,000
Other								
Leased Building Maintenance	\$450,000	-	-	\$450,000	-	-	-	\$450,000
Hazardous Material Program	150,000	-	-	150,000	-	-	-	150,000
Building 255 Phase 2 remodel	261,000	-	-	261,000	-	-	-	261,000
Airport Water System	1,360,000	-	-	680,000	-	-	680,000	1,360,000
Airport Sewer System	2,320,000	-	-	-	-	-	2,320,000	2,320,000
Airport Infrastructure	150,000	-	-	150,000	-	-	-	150,000
Subtotal Other	\$4,691,000	-	-	\$1,691,000	-	-	\$3,000,000	\$4,691,000
Total	\$54,655,000	\$3,319,000	\$8,742,000	\$3,989,000	\$1,500,000	\$15,657,000	\$21,448,000	\$54,655,000

Source: City of Santa Barbara.

(a) Terminal project includes ramp work on the airfield.

EXHIBIT B

PROPOSED 2009 BONDS

Santa Barbara Municipal Airport
City of Santa Barbara

	2009 Revenue Bonds	2009 PFC-related Bonds	Total
Bond Proceeds			
Par Amount	\$27,555,000	\$20,115,000	\$47,670,000
Net Premium	(587,000)	(429,000)	(1,016,000)
	\$26,968,000	\$19,686,000	\$46,654,000
Deposit to Project Fund (a)	\$21,333,000	\$15,573,000	\$36,906,000
Deposits to other funds			
Capitalized Interest Fund	\$3,287,000	\$2,400,000	\$5,687,000
Debt Service Reserve Fund	1,839,000	1,343,000	3,182,000
	\$5,126,000	\$3,743,000	\$8,869,000
Delivery date expenses			
Cost of Issuance	\$231,000	\$169,000	\$400,000
Underwriter's Discount	276,000	201,000	477,000
	\$507,000	\$370,000	\$877,000
Additional proceeds	\$1,000	\$1,000	\$2,000
Total	\$26,968,000	\$19,686,000	\$46,654,000

Source: Morgan Stanley, the underwriter for the 2009 Bonds.

(a) Deposits differ from those in Ex. A-1. These do not include Interest earned on the Project Fund.

EXHIBIT C

DEBT SERVICE REQUIREMENT

Santa Barbara Municipal Airport

City of Santa Barbara

Fiscal Years ending June 30

	Historical	Estimated	Forecast			
	2008	2009	2010	2011	2012	2013
Debt Service Requirement						
2009 Revenue Bonds	\$ -	\$ -	\$1,435,000	\$1,331,000	\$1,836,000	\$1,836,000
Less: Interest from Debt Service Reserve Fund	-	-	-	-	(23,000)	(46,000)
Less: Capitalized Interest	-	-	(1,435,000)	(1,331,000)	(666,000)	-
Net Debt Service Requirement	\$ -	\$ -	\$ -	\$ -	\$ 1,147,000	\$ 1,790,000
2009 PFC-related Bonds	\$ -	\$ -	\$1,047,000	\$972,000	\$1,342,000	\$1,342,000
Less: Interest from Debt Service Reserve Fund	-	-	-	-	(17,000)	(34,000)
Less: Capitalized Interest	-	-	(1,047,000)	(972,000)	(486,000)	-
Less: PFC revenues applied to Debt Service	-	-	-	-	(839,000)	(1,308,000)
Net Debt Service Requirement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total net Debt Service Requirement	\$ -	\$ -	\$ -	\$ -	\$ 1,147,000	\$ 1,790,000

DEBT SERVICE ALLOCATION BY COST CENTER

Airfield	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Terminal Building (a)	-	-	-	-	778,000	1,214,000
Commercial and Industrial	-	-	-	-	-	-
Other (a)	-	-	-	-	369,000	576,000
Total	\$ -	\$ -	\$ -	\$ -	\$ 1,147,000	\$ 1,790,000

Source: Morgan Stanley, the underwriter for the 2009 Bonds.

(a) Projects not allocated to the Terminal Building are parking, water system, and sewer system.

EXHIBIT D
HISTORICAL, ESTIMATED, AND FORECAST MAINTENANCE AND OPERATION COSTS
Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

Historical	Estimated	Forecast			
2008 (a)	2009 (a)	2010 (a)	2011	2012	2013

MAINTENANCE AND OPERATION COSTS

Salaries and Benefits	\$4,485,157	\$4,595,000	\$4,874,000	\$4,961,000	\$5,154,000	\$5,355,000
Supplies and Services	3,005,820	2,848,000	2,551,000	2,934,000	2,978,000	3,022,000
Allocated Costs	1,465,695	1,526,000	1,304,000	1,603,000	1,643,000	1,684,000
ARFF	1,552,057	1,617,000	1,720,000	1,755,000	1,829,000	1,906,000
Engineering	359,175	320,000	345,000	340,000	350,000	360,000
Special Projects	547,029	697,000	743,000	718,000	729,000	740,000
Equipment	194,911	101,000	15,000	80,000	80,000	80,000
Appropriated Reserves	-	-	182,000	64,000	66,000	68,000
Incremental Operating Expense (new Terminal)		n/a	n/a	n/a	450,000	500,000
Total Maintenance and Operation Costs	\$11,609,844	\$11,703,000	\$11,734,000	\$12,454,000	\$13,278,000	\$13,715,000
Annual percent change		0.8%	0.3%	6.1%	6.6%	3.3%

MAINTENANCE AND OPERATION COSTS COST CENTER ALLOCATION

Airfield (30% of total M&O)	\$3,482,953	\$3,511,000	\$3,520,000	\$3,736,000	\$3,983,000	\$4,115,000
Terminal Building (40% of total M&O)	4,643,938	4,681,000	4,694,000	4,982,000	5,311,000	5,486,000
Commercial and Industrial (10% of total M&O)	1,160,984	1,170,000	1,173,000	1,245,000	1,328,000	1,372,000
Other (20% of total M&O)	2,321,969	2,341,000	2,347,000	2,491,000	2,656,000	2,743,000
Total	\$11,609,844	\$11,703,000	\$11,734,000	\$12,454,000	\$13,278,000	\$13,715,000

(a) Source: City of Santa Barbara.

EXHIBIT E
HISTORICAL, ESTIMATED, AND FORECAST REVENUES
Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

REVENUES	Historical	Estimated	Forecast			
	2008 (a)	2009 (a)	2010	2011	2012	2013
Airline Revenues						
Terminal space rentals (b)	\$1,155,865	\$1,101,000	\$1,101,000	\$1,101,000	\$2,633,000	\$2,896,000
Landing Fees (c)	1,149,237	1,020,000	1,008,000	1,028,000	1,054,000	1,241,000
Total	\$2,305,102	\$2,121,000	\$2,109,000	\$2,129,000	\$3,687,000	\$4,137,000
Commercial & Industrial	\$4,171,557	\$3,907,000	\$3,894,000	\$4,011,000	\$4,131,000	\$4,255,000
Non-Commercial Aviation	1,237,616	1,176,000	1,106,000	1,169,000	1,234,000	1,301,000
Total	\$5,409,173	\$5,082,000	\$5,000,000	\$5,180,000	\$5,365,000	\$5,556,000
Rental car (d)	\$1,965,757	\$1,696,000	\$1,739,000	\$1,894,000	\$2,060,000	\$2,215,000
Parking (e)	2,940,724	2,625,000	2,836,000	3,014,000	3,198,000	3,354,000
Concessions (f)	182,371	145,000	139,000	265,000	338,000	363,000
Total	\$5,088,852	\$4,467,000	\$4,714,000	\$5,173,000	\$5,595,000	\$5,932,000
Total Operating Revenues	\$12,803,127	\$11,670,000	\$11,822,000	\$12,482,000	\$14,647,000	\$15,625,000
Other						
Interest Income	\$711,049	\$487,000	\$310,000	\$310,000	\$310,000	\$310,000
TSA reimbursement	178,324	163,000	163,000	163,000	163,000	163,000
Other	114,564	140,000	19,000	19,000	19,000	19,000
Total	\$1,003,937	\$790,000	\$492,000	\$492,000	\$492,000	\$492,000
Total Revenues	\$13,807,064	\$12,460,000	\$12,314,000	\$12,974,000	\$15,139,000	\$16,117,000

(a) Source: City of Santa Barbara.

(b) See Exhibit E-1.

(c) See Exhibit E-2.

(d) Does not include CFCs.

(e) Assumes parking rates increases of approximately 5% in FY 2010.

(f) Assumes expanded concessions at the new terminal upon opening in 2011.

EXHIBIT E-1

CALCULATION OF AIRLINE TERMINAL BUILDING RENTAL RATES

Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

	EXISTING BUILDING		NEW BUILDING			
	Historical	Budget	Forecast			
	2008 (a)	2009 (a)	2010	2011 (b)	2012	2013
Airport Maintenance and Operation Costs (40% allocated to Terminal Building)					\$5,311,000	\$5,486,000
Deposit to the Operating Reserve Fund (c)					82,000	44,000
Net Debt Service Requirement allocated to the Terminal Building					778,000	1,214,000
Amortization (d)					164,000	164,000
Deficit/(credit) from prior fiscal year					-	-
Terminal Building cost					\$6,335,000	\$6,908,000
Less rental car revenue					(2,060,000)	(2,215,000)
Less concession revenue					(338,000)	(363,000)
Total Terminal Building Requirement					\$ 3,937,000	\$ 4,330,000
Terminal Building square feet (e)	21,962	21,962	21,962	21,962	61,238	61,238
Terminal Building rentable square feet (f)	15,373	15,373	15,373	15,373	42,867	42,867
Airline rented square feet (g)	15,373	14,678	14,678	14,678	40,952	40,952
Terminal Building rental rate (per square foot) (h)	\$ 73.94	\$ 75.00	\$ 75.00	\$ 75.00	\$ 64.29	\$ 70.71
Airline Terminal Building space rental revenue	\$ 1,155,865	\$ 1,101,000	\$ 1,101,000	\$ 1,101,000	\$ 2,633,000	\$ 2,896,000

(a) Source: City of Santa Barbara.

(b) Presents a fixed rental rate, with an assumed 6 months at the old terminal and 6 months at the new terminal for FY 2011. The new terminal is scheduled to open January 1, 2011. The square footage presented in FY 2011 is the annual average.

(c) The FY 2011 deposit is the portion of the Airport-wide deposit allocated to the Terminal Building. All following years' deposits are 25% of the incremental change in the Airport operating expense allocated to the Terminal Building.

(d) Amortization of all Airport cash-funded projects in the Terminal Building cost center.

(e) Total terminal building square feet.

(f) Total terminal rentable square feet, including ticketing, baggage, and concessions.

(g) Assumes 95.5% occupancy in the new Terminal Building.

(h) Rental factors (rate and square footage) may not produce stated revenues, due to the recalculation of rental rates every April 1. Rental rates for FY 2009, FY 2010, and FY 2011 are fixed.

EXHIBIT E-2

CALCULATION OF AIRLINE LANDING FEES

Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

	Historical	Budget	Forecast			
	2008 (a)	2009 (a)	2010	2011	2012	2013
Maintenance and Operation Costs (b)			\$11,734,000	\$12,454,000	\$13,278,000	\$13,715,000
Net Debt Service Requirement (c)			-	-	1,147,000	1,790,000
Deposit to Operating Reserve Fund (d)			8,000	180,000	206,000	109,000
Amortization (e)			-	-	290,000	290,000
Deposit to Capital Reserve Fund			118,000	-	-	-
Deficit/(credit) from prior fiscal year			-	-	-	-
Airport Cost Base			\$11,860,000	\$12,634,000	\$14,921,000	\$15,904,000
Less: 95% of Commercial and Industrial revenue (f)			(3,699,000)	(3,810,000)	(3,924,000)	(4,042,000)
Less: All other nonairline revenues			(6,311,000)	(6,834,000)	(7,321,000)	(7,725,000)
Less: Airline Terminal Building space rentals			(1,101,000)	(1,101,000)	(2,633,000)	(2,896,000)
Airline Landing Fee Requirement			\$749,000	\$889,000	\$1,043,000	\$1,241,000
Projected airline landed weight (1,000-pound units)	592,587	504,000	504,000	514,000	527,000	535,000
Projected landing fee rate (g) (h) (per 1,000-pound units of landed weight)	\$ 1.98	\$ 1.98	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.32
Airline revenue from landing fees	\$1,149,237	\$1,020,000	\$1,008,000	\$1,028,000	\$1,054,000	\$1,241,000

(a) Source: City of Santa Barbara.

(b) See Exhibit D.

(c) See Exhibit C.

(d) Equal to 25% of the annual change in Airport operating expenses.

(e) Amortization of all projects funded with Airport cash.

(f) See Exhibit E.

(g) Represents applicable landing fee rate for FY 2008 and FY 2009. Rates have been recalculated every October 1.

(h) Assumes a \$2.00 minimum landing fee rate from FY 2010 to FY 2013.

EXHIBIT F
FORECAST APPLICATION OF REVENUES

Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

	Estimated	Forecast			
	2009	2010	2011	2012	2013
Airport Revenues					
Airline Revenues	\$2,121,000	\$2,109,000	\$2,129,000	\$3,687,000	\$4,137,000
Non-airline Reveunes	10,339,000	10,205,000	10,845,000	11,452,000	11,980,000
Total Revenues (a)	\$12,460,000	\$12,314,000	\$12,974,000	\$15,139,000	\$16,117,000
Total passenger Airline Payments	\$2,121,000	\$2,109,000	\$2,129,000	\$3,687,000	\$4,137,000
Enplaned passengers	388,000	388,000	400,000	412,000	422,000
Total cost per enplaned passenger	\$5.47	\$5.44	\$5.32	\$8.95	\$9.80
Application of Revenues					
Maintenance and Operation Costs (b)	\$11,703,000	\$11,734,000	\$12,454,000	\$13,278,000	\$13,715,000
Debt Service (c)	\$ -	\$2,482,000	\$2,303,000	\$3,178,000	\$3,178,000
Less: Interest from Debt Service Reserve Fund	-	-	-	(40,000)	(80,000)
Less: Capitalized Interest	-	(2,482,000)	(2,303,000)	(1,152,000)	-
Less: PFC revenues applied to Debt Service	-	-	-	(839,000)	(1,308,000)
Net Debt Service Requirement	\$ -	\$ -	\$ -	\$1,147,000	\$1,790,000
Operating Reserve Fund	23,000	8,000	180,000	206,000	109,000
Capital Reserve Fund (d)	-	118,000	-	-	-
Capital Fund	734,000	454,000	340,000	508,000	503,000
	\$12,460,000	\$12,314,000	\$12,974,000	\$15,139,000	\$16,117,000

(a) See Exhibit E.

(b) See Exhibit D.

(c) See Exhibit C.

(d) The Capital Reserve Fund is maintained to the average annual amount of Airport cash-funded capital projects over the previous five years.

EXHIBIT G

DEBT SERVICE COVERAGE

Santa Barbara Municipal Airport
City of Santa Barbara
Fiscal Years ending June 30

		Estimated	Forecast			
		2009	2010	2011	2012	2013
Total Revenues (a)		\$12,460,000	\$12,314,000	\$12,974,000	\$15,139,000	\$16,117,000
Maintenance and Operation Costs (b)		11,703,000	11,734,000	12,454,000	13,278,000	13,715,000
Net Revenues	[A]	\$757,000	\$580,000	\$520,000	\$1,861,000	\$2,402,000
TEST PURSUANT TO THE RATE COVENANT (c)						
Net Debt Service Requirement (d)	[B]	\$ -	\$ -	\$ -	\$1,147,000	\$1,790,000
Debt Service coverage ratio	[A/B]	-	-	-	1.62	1.34
CASH FLOW TEST						
Net Revenues	[A]	\$757,000	\$580,000	\$520,000	\$1,861,000	\$2,402,000
PFC collections		1,532,000	1,532,000	1,580,000	1,629,000	1,668,000
Adjusted Net Revenues	[C]	\$2,289,000	\$2,112,000	\$2,100,000	\$3,490,000	\$4,070,000
Gross Debt Service Requirement		\$ -	\$ 2,482,000	\$ 2,303,000	\$ 3,178,000	\$ 3,178,000
Less: Interest from Debt Service Reserve Fund		-	-	-	(40,000)	(80,000)
Less: Capitalized Interest		-	(2,482,000)	(2,303,000)	(1,152,000)	-
Adjusted Debt Service Requirement	[D]	\$ -	\$ -	\$ -	\$1,986,000	\$3,098,000
Debt Service coverage ratio	[C/D]	-	-	-	1.76	1.31

(a) See Exhibit E.

(b) See Exhibit D.

(c) According to the Rate Covenant, the minimum coverage ratio is 1.0x.

(d) See Exhibit C. Debt Service is shown net of PFCs.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected provisions of the Trust Agreement, the Facility Lease, the Site Lease and the Installment Payment Contract are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Series 2009 Bonds are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

DEFINITIONS

Unless the context otherwise requires, the terms defined in this section shall for all purposes of the Trust Agreement, the Facility Lease, the Site Lease and the Installment Payment Contract, and any supplement or amendment thereof, and of any certificate, opinion, request or other document herein or therein mentioned have the meanings provided in the Trust Agreement, unless otherwise defined in such other document. Capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the Trust Agreement, the Facility Lease, the Site Lease and the Installment Payment Contract.

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Accreted Value

The term "Accreted Value" means, with respect to Capital Appreciation Bonds, as of the date of calculation, the Denominational Amount thereof plus the interest accrued thereon to such date of calculation, compounded from the date of initial delivery at the interest rate thereof on each January 1 and July 1, as determined in accordance with the Supplemental Trust Agreement authorizing such Bonds, assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of three hundred sixty (360) days composed of twelve (12) months of thirty (30) days each.

Act

The term "Act" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

Additional Payments

The term "Additional Payments" means all amounts payable to the Authority or the Trustee or any other person from the City as Additional Payments pursuant to the Facility Lease.

Airport

The term "Airport" means the airport known as the Santa Barbara Municipal Airport, located within the City, as it now exists, including, without limitation, runways, taxiways, landing pads, aprons, beacon sites, obstruction lights, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions, replacements, renewals and improvements thereto which may hereafter be undertaken, and any future airport or aviation facilities, or any interest therein, from time to time hereafter owned, operated or controlled in whole or in part by the City and determined by the City to be a part of the Airport.

Airport Revenue Fund

The term “Airport Revenue Fund” means the City of Santa Barbara Airport Revenue Fund established in the Installment Payment Contract, as summarized herein under the caption “INSTALLMENT PAYMENT CONTRACT –AIRPORT REVENUES – Allocation of Airport Revenues.”

Airport Revenues

“Airport Revenues” means all charges received for and all other income and receipts derived by the City from the, ownership, operation and use of and otherwise pertaining to the Airport, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport, or otherwise, and includes, except to the extent expressly excluded in the Installment Payment Contract, all revenues received by the City from the Airport, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport, or for any service rendered by the City in the operation thereof, all interest, profits and other income derived from the investment of moneys in any fund or account established under the Installment Payment Contract (other than the Rebate Fund) but, unless and until deposited in the Airport Revenue Fund, excluding:

- (a) moneys received as grants, appropriations or contributions from the United States of America, the State of California or any other governmental entity or agency, the use of which is limited by the grantor or donor to the cost of related Airport facilities or property;
- (b) proceeds from the Bonds or proceeds from loans or other borrowings obtained by the City;
- (c) moneys received with respect to any Net Rent Lease;
- (d) CFC Revenues and PFC Revenues,
- (e) moneys received from insurance proceeds other than loss of use or business interruption insurance proceeds, from the taking by or under eminent domain or from the sale of all or any part of the Airport; and
- (f) the proceeds received by the City from the sale or other disposition of all or part of the Airport property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges will be considered Airport Revenues.

Authority

The term “Authority” means the Santa Barbara Financing Authority created pursuant to the Act and its successors and assigns in accordance with the Trust Agreement.

Authorized Denominations

The term “Authorized Denominations” means, with respect to the Fixed Rate Bonds, \$5,000 or any integral multiple thereof, and, with respect to the Variable Rate Bonds, \$100,000 or any integral multiple thereof.

Available Leased Property

The term “Available Leased Property” means that portion of the Facilities available for use and occupancy by the City as of the date of recordation of the Facility Lease.

Base Rental Payments

The term “Base Rental Payments” means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Facility Lease.

Base Rental Payment Schedule

The term “Base Rental Payment Schedule” means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Facility Lease and attached to the Facility Lease.

Bond Counsel

The term “Bond Counsel” means counsel of recognized national standing in the field of law relating to municipal bonds, appointed by the Authority.

Bond Insurance Policy

The term “Bond Insurance Policy” means a policy of municipal bond insurance, if any, issued by a Bond Insurer that guarantees payment of the principal of and interest on a Series of Bonds.

Bond Insurer

The term “Bond Insurer” means the issuer of a Bond Insurance Policy, if any.

Bond Year

The term “Bond Year” means the twelve (12)-month period ending on July 1 of each year to which reference is made.

Bondholder; Owner

The term “Bondholder” or “Owner” means any person who shall be the registered owner of any Outstanding Bond.

Bonds, Series 2009 Bonds, Additional Bonds, Serial Bonds, Term Bonds

The term “Bonds” means the Series 2009 Bonds and all Additional Bonds.

The term “Series 2009 Bonds” means the Santa Barbara Financing Authority Revenue Bonds (Airport Project), Series 2009.

The term “Additional Bonds” means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the Trust Agreement.

The term “Serial Bonds” means Bonds for which no sinking fund payments are provided.

The term “Term Bonds” means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

Business Day

The term “Business Day” means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of New York or the State of California are authorized to remain closed, or a day on which the Federal Reserve system is closed.

Capital Appreciation Bonds

The term “Capital Appreciation Bonds” means Bonds the interest on which is compounded semiannually on each Interest Payment Date to the maturity date as specified in the accreted value table for such Bonds in an exhibit to a Supplemental Trust Agreement.

Capitalized Interest Account

“Capitalized Interest Account” means the account by that name established pursuant to the Trust Agreement.

Certificate of Completion

“Certificate of Completion” means a Certificate of the City filed with the Trustee, stating that construction of the Project has been substantially completed and that all Construction Costs have been paid or provided for.

Certificate of the Authority

The term “Certificate of the Authority” means an instrument in writing signed by any of the following officials of the Authority: Chair, Vice-Chair, Secretary or a designee of any such officer, or by any other person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Authority for that purpose.

Certificate of the City

The term “Certificate of the City” means an instrument in writing signed by any of the following City officials: City Administrator, Finance Director, City Attorney or by any such officials’ duly appointed designee, or by any other officer of the City duly authorized by the City Council of the City for that purpose.

CFC Act

The term “CFC Act” means California Civil Code Section 1936, including any amendments, successors or replacements thereto.

CFC Revenues

The term “CFC Revenues” means the CFC’s received by the City.

City

The term “City” means the City of Santa Barbara, a municipal corporation and charter city, duly organized and existing under and by virtue of the laws of the State.

Code

The term “Code” means the Internal Revenue Code of 1986, as amended.

Construction Costs

“Construction Costs” means all costs of constructing the Project, including, but not limited to:

(1) all costs which the Authority or the City shall be required to pay to a manufacturer, vendor or contractor or any other person under the terms of any contract or contracts for the construction, installation or improvement of the Project;

(2) obligations of the Authority, the City or others incurred for labor and materials (including obligations payable to the Authority, the City or others for actual out-of-pocket expenses of the Authority, the City or others) in connection with the construction, installation or improvements of the Project, including reimbursement to the Authority, the City or others for all advances and payments made in connection with the Project prior to or after delivery of the Bonds;

(3) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of construction, installation or improvement of the Project;

(4) all costs of engineering and architectural services, including the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and sales commissions, and for supervising construction, installation and improvement, as well as for the performance of all other duties required by or consequent to the proper construction, installation or improvement of the Project; and

(5) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the construction, installation or improvement of the Project.

Continuing Disclosure Agreement

The term “Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement executed by the City and the Trustee dated as of May 1, 2009, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Costs of Issuance

The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority and related to the authorization, execution and delivery of the Facility Lease, the Site Lease, the Installment Payment Contract, the Trust Agreement and the issuance and sale of the Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and charges for preparation, execution and safekeeping of the Bonds, title search and title insurance fees, fees of the Authority and any other authorized cost, charge or fee in connection with the issuance of the Bonds.

Costs of Issuance Fund

The term “Costs of Issuance Fund” means the fund by that name established pursuant to the Trust Agreement.

Current Interest Bonds

The term “Current Interest Bonds” means Bonds the interest on which is payable on each Interest Payment Date to the maturity date for each such Bond.

Customer Facility Charge or CFC

The term “Customer Facility Charge” or “CFC” means any fee imposed by the City from time to time under the CFC Act.

Debt Service

The term “Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or other period on all Outstanding Bonds, assuming that all Outstanding Serial Bonds are

retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds so long as such funded interest is in an amount equal to the gross amount necessary to pay such interest on the Bonds and is invested in Government Securities which mature no later than the related Interest Payment Date), (2) the principal amount of all Outstanding Serial Bonds maturing during such Fiscal Year or other period, and (3) the principal amount of all Outstanding Term Bonds required to be redeemed or paid (together with the redemption premiums, if any, thereon) during such Fiscal Year or other period; provided, that the foregoing shall be subject to adjustment and recalculation as follows.

(a) with respect to Capital Appreciation Bonds, the Accreted Value payment shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond; and

(b) with respect to Variable Rate Bonds, the interest payments shall be calculated at a rate equal to 150% of the highest rate borne by such Bonds in the last 12 months.

Demised Premises

The term “Demised Premises” means that certain real property situated in the City, described in the Facility Lease, together with any additional real property added thereto by any supplement or amendment thereto; subject, however, to any conditions, reservations, and easements of record or known to the City.

Denominational Amount

The term “Denominational Amount” means, with respect to Capital Appreciation Bonds, the initial offering price thereof, which represents the principal amount thereof, and, with respect to the Current Interest Bonds, the principal amount thereof.

Depository

The term “Depository” means DTC or another recognized securities depository selected by the Authority which maintains a book-entry system for the Bonds.

Dissemination Agent

The term “Dissemination Agent” means the Trustee or any successor appointed under the Continuing Disclosure Agreement.

DTC

The term “DTC” means The Depository Trust Company, New York, New York.

Engineer’s Report

The term “Engineer’s Report” means a report signed by an Independent Engineer.

Event of Default

The term “Event of Default” shall have the meaning specified in the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS – Events of Default and Acceleration of Maturities.”

Facilities

The term “Facilities” means the Demised Premises and the Project or any City buildings, other improvements and facilities, added thereto or substituted therefor, or any portion thereof, in accordance with the Facility Lease and the Trust Agreement; subject, however, to any conditions, reservations and easements of record known to the City.

Facility Lease

The term “Facility Lease” means that certain lease, entitled “Facility Lease (Airport Project),” by and between the City and the Authority, dated as of May 1, 2009, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof.

Financial Newspaper

The term “Financial Newspaper” means The Wall Street Journal or The Bond Buyer, or any other newspaper or journal printed in the English language, publishing financial news, and selected by the Authority.

Fiscal Year

The term “Fiscal Year” means the twelve (12) month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

Fixed Rate Bonds

The term “Fixed Rate Bonds” means Bonds of any Series which bear interest at a fixed interest rate from the date of such Bonds until the maturity or redemption date thereof.

Government Securities

The term “Government Securities” means (1) cash; (2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series--“SLGS”); (3) direct obligations of the U.S. Treasury which have been stripped by the Treasury itself, such as CATS, TIGRS and similar securities; (4) Resolution Funding Corp. (REFCORP) strips (interest component only) which have been stripped by request to the Federal Reserve Bank of New York in book entry form; (5) pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P, or if not rated by Moody’s, then pre-refunded bonds that have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA-rated pre-refunded municipal obligations; (6) obligations issued by agencies which are backed by the full faith and credit of the U.S., including: (a) U.S. Export-Import Bank direct obligations or fully guaranteed certificates of beneficial ownership, (b) Farmers Home Administration (FmHA) certificates of beneficial ownership, (c) Federal Financing Bank, (d) General Services Administration participation certificates, (e) U.S. Maritime Administration Guaranteed Title XI financing, (f) U.S. Department of Housing and Urban Development (HUD) Project Notes, Local Authority Bonds, New Communities Debentures--U.S. government guaranteed debentures, and U.S. Public Housing Notes and Bonds--U.S. government guaranteed public housing notes and bonds.

Independent Certified Public Accountant

The term “Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Authority, and who, or each of whom --

(1) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority or the City;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the Authority or the City; and

(3) is not connected with the Authority or the City as a member, officer or employee of the Authority or the City, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority or the City.

Independent Engineer

The term “Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to Airports, appointed and paid by the City, and who or each of whom --

(1) is in fact independent and not under the domination of the City;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the City; and

(3) is not connected with the City as a director, officer or employee of the City, but may be regularly retained to make reports to the City.

Installment Payment Date

The term “Installment Payment Date” means January 1, 2010 and thereafter on January 1 and July 1 of each year.

Installment Payments; Series 2009 Installment Payments

The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the City under and pursuant to the Installment Payment Contract.

The term “Series 2009 Installment Payments” means the Series 2009 Installment Payments scheduled to be paid pursuant to the Installment Payment Contract, as summarized herein under the caption “INSTALLMENT PAYMENT CONTRACT – INSTALLMENT PAYMENTS – Series 2009 Installment Payments.”

Installment Payment Contract; Series 2009 Installment Payment Contract

The term “Installment Payment Contract” means the Series 2009 Installment Payment Contract and all contracts, capital leases or other obligations of the City authorized and executed by the City under and pursuant to applicable law, the interest and principal and prepayment premium, if any, payments under and pursuant to which are on a parity with the Series 2009 Installment Payments and are secured by a pledge of and lien on the Airport Revenues.

The term “Series 2009 Installment Payment Contract” means the installment payment contract, dated as of May 1, 2009, between the City and the Authority.

Interest Account

“Interest Account” means the account by that name established pursuant to the Trust Agreement.

Interest Payment Date

The term “Interest Payment Date” means January 1 and July 1 in each year, commencing January 1, 2010.

Interest Payment Period

The term “Interest Payment Period” means the period from and including each Interest Payment Date (or, for the first Interest Payment Period, the date of the Bonds) to and including the day immediately preceding the next succeeding Interest Payment Date.

Investment Securities

“Investment Securities” means any investments which at the time are legal investments under the laws of the State for moneys held under the Trust Agreement and then proposed to be invested in the Trust Agreement, including, without limitation, the following:

(a) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America (“U.S. Government Securities”).

(b) Direct obligations of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America: (1) Export-Import Bank of the United States – direct obligations and fully guaranteed certificates of beneficial interest, (2) Federal Housing Administration – debentures, (3) General Services Administration – participation certificates, (4) Government National Mortgage Association (“GNMAs”) – guaranteed mortgage-backed securities and guaranteed participation certificates, (5) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates, (6) U.S. Department of Housing & Urban Development – local authority bonds, (7) U.S. Maritime Administration – guaranteed Title XI financings, and (8) Washington Metropolitan Area Transit Authority – guaranteed transit bonds.

(c) Direct obligations of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America: (1) Federal National Mortgage Association (“FNMA”) – senior debt obligations rated Aaa by Moody’s and AAA by S&P, (2) Federal Home Loan Mortgage Corporation (“FHLMC”) – participation certificates and senior debt obligations rated Aaa by Moody’s and AAA by S&P, (3) Federal Home Loan Banks – consolidated debt obligations, (4) Student Loan Marketing Association – debt obligations, and (5) Resolution Funding Corporation – debt obligations.

(d) The following are explicitly excluded from the securities enumerated in paragraphs (b) and (c) above: (1) All derivative obligations, without limitation inverse floaters, residuals, interest-only, principal-only and range notes, (2) Obligations that have a possibility of returning a zero or negative yield if held to maturity, (3) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date, and (4) Collateralized Mortgage-Backed Obligations (“CMOs”).

(e) Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody’s and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody’s and A or better by S&P.

(f) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody’s and A-1 or better by S&P.

(g) Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation (“FDIC”), including the Bank Insurance Fund, the Savings Association Insurance Fund and those of the Trustee and its affiliates.

(h) Certificates of Deposit, deposit accounts, federal funds or bankers’ acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, which may include the Trustee and its affiliates, provided that such

bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).

(i) Investments in money-market funds rated AAAm or AAAm-G by S&P, including funds for which the Trustee and its affiliates provide investment advisory or other management services.

(j) State-sponsored investment pools rated AA- or better by S&P.

(k) Repurchase agreements that meet the following criteria:

(1) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

(2) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or banks has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(3) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

(4) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to obligations of GNMA, FNMA or FHLMC described in (b)(4), (c)(1) and (c)(2) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including the principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMA, FNMA or FHLMCs. The repurchase agreement shall require (i) the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(5) The repurchase securities shall be delivered free and clear of any lien to the Trustee or to an Agent for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(6) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the Authority and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(7) The repurchase agreement shall have a term of one year or less, or shall be due on demand.

(8) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Bond Insurer directs otherwise: (i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement, (ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item (k)(4) above, or (iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(l) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

- (1) A master agreement or specific written investment agreement governs the transaction.
- (2) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P, (ii) domestic insurance companies rated Aaa by Moody's and AA by S&P, and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.
- (3) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P, (ii) domestic FDIC-insured commercial banks or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P, (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P, and (iv) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P; required collateral levels shall be as set forth in (l)(6) below.
- (4) The investment agreement shall provide that if the provider's rating fall below Aa3 by Moody's or Aa- by S&P, the provider shall within ten days either (i) repay the principal amount plus any accrued interest on the investment, or (ii) deliver Permitted Collateral as provided below.
- (5) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty to the Authority.
- (6) The investment agreement shall provide for the delivery of collateral described as follows ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date: (i) U.S. Government Securities at 104% of principal plus accrued interest, or (ii) obligations of GNMA, FNMA or FHLMC at 105% of principal and accrued interest.
- (7) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent there are excess amounts over the required levels. Market value, with respect to the collateral, may be determined by any of the following methods: (i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters, (ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices, or (iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being values.
- (8) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.
- (9) The provider shall grant the Trustee or the Agent a perfect first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under (l)(6) above, the Trustee and the Bond Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.
- (10) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two business days' notice, or immediately on demand for any reason for which the funds

invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following: (i) in the event of a deficiency in the debt service account, (ii) upon acceleration after an event of default, (iii) upon refunding of the Bonds in whole or in part, (iv) reduction of the debt service reserve requirement for the Bonds, or (v) if a determination is later made by a nationally recognized bond counsel that investment must be yield-restricted. Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the Authority's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the Bonds and to make deposits to the Reserve Fund.

(11) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities: (i) failure of the provider or the guarantor (if any) to make a payment when due or to deliver the Permitted Collateral of the character, at the times or in the amounts described above, (ii) insolvency of the provider or the guarantor (if any) under the investment agreement, (iii) failure by the provider to remedy any deficiency with respect to required Permitted Collateral, (iv) failure by the provider to make a payment or observe any covenant under the agreement, (v) the guaranty (if any) is terminated, repudiated or challenged, or (vi) any representation of warranty furnished to the Trustee or the Authority in connection with the agreement is false or misleading.

(12) The investment agreement must incorporate the following general criteria: (i) "cure periods" for payment default shall not exceed two business days, (ii) the agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Bond Insurer, (iii) neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under the guidelines) or amended without the prior consent of the Bond Insurer, (iv) if the investment agreement is for the Reserve Fund, reinvestment of funds shall be required to bear interest at a rate at least equal to the original contract rate, (v) the provider shall be required to immediately notify the Bond Insurer and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings, (vi) the agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim, (vii) the agreement shall require the provider to submit information reasonably requested by the Bond Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.

(m) Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service or the Reserve Fund) or draw down date (construction funds) that meet the following criteria:

(1) A specific written investment agreement governs the transaction.

(2) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P, (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P 1 or better by Moody's and A-/A-1 or better by S&P, and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(3) The forward delivery agreement shall provide for termination or assignment (to a qualified provider under the Trust Agreement) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.

(4) Permitted securities shall include the investments listed in (a), (b) and (c) above.

(5) The forward delivery agreement shall include the following provisions: (i) the permitted securities must mature at least one business day before a debt service payment date or scheduled draw. The

maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date; (ii) the agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event; (iii) any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service and debt service reserve fund replenishments; (iv) the provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency, or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to the Bond Insurer; and (v) the agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Bond Insurer.

(n) Forward delivery agreements in which the securities delivered mature after the funds may be required by provide for the right of the Authority or the Trustee to put the securities back to the provider under a put, guaranty or other hedging agreement, only with the prior written consent of the Bond Insurer.

(o) Maturity of investments shall be governed by the following: (1) investment of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments; (2) investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements; and (3) investment of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

(p) Local Agency Investment Fund of the State of California or any successor fund established pursuant to California law; provided that the Trustee may restrict investments in the Local Agency Investment Fund to the extent required to keep monies available for the purposes of the Trust Agreement.

Joint Powers Agreement

The term "Joint Powers Agreement" means the Joint Exercise of Powers Agreement by and between the City and the Redevelopment Agency of the City of Santa Barbara, dated April 1, 2002, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof.

Lease Event of Default

The term "Lease Event of Default" shall have the meaning specified in the Facility Lease, as summarized herein under the caption "FACILITY LEASE – DEFAULTS AND REMEDIES – Defaults and Remedies."

Maintenance and Operation Costs

"Maintenance and Operation Costs" means the reasonable and necessary costs of maintaining and operating the Airport, calculated in accordance with generally accepted accounting principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Airport in good repair and working order, and reasonable amounts for administration, overhead, wages of employees, insurance, taxes (if any) and other similar costs or charges required to be paid by the City to comply with the law or of the Bonds such as compensation of the Trustee, fees for credit enhancement of the Bonds, and accountant and engineering fees, but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the City, (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the City and (d) and costs and expenses attributable to Special Facilities to the extent required to be paid by lessees pursuant to the terms of any Special Facility lease.

Moody's

The term "Moody's" means Moody's Investors Services, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

Net Proceeds

The term "Net Proceeds" means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Net Rent Lease

"Net Rent Lease" means a lease, installment sale agreement or other agreement by the City, relating to a Special Facility designated as such by the City, pursuant to which the lessee or purchaser or other party agrees to pay to the City rentals, installment payments or other payments during the term thereof sufficient to pay when due all costs, including debt service, payable by the City with respect to Special Facility Bonds relating to such Special Facility and to pay in addition all operation and maintenance expenses relating to such Special Facility, including, without limitation, maintenance costs, insurance, and all property taxes and assessments.

Opinion of Counsel

The term "Opinion of Counsel" means a written opinion of Bond Counsel.

Outstanding

The term "Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – AMENDMENT OF THE TRUST AGREEMENT – Disqualified Bonds") all Bonds except

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – DEFEASANCE – Discharge of Bonds";
- (3) Bonds deemed tendered but not yet presented for purchase; and
- (4) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

Participating Underwriter

The term "Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

Passenger Facility Charge or PFC

The term "Passenger Facility Charge" or "PFC" means any passenger facility charge authorized from time to time under the PFC Act or PFC Regulations.

Payment Event of Default

The term “Payment Event of Default” means an event described in the Installment Payment Contract, as summarized herein under the caption “INSTALLMENT PAYMENT CONTRACT – EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY – Events of Default”

Permitted Encumbrances

The term “Permitted Encumbrances” means (1) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Facility Lease, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of Santa Barbara County and which the City certifies in writing will not materially impair the use of the Facilities; (3) the Site Lease, as it may be amended from time to time and the Facility Lease, as it may be amended from time to time; (4) the Trust Agreement, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Authority and the City consent in writing and certify to the Trustee will not materially impair the ownership interests of the Authority or use of the Facilities by the City; and (7) subleases and assignments of the City which will not adversely affect the exclusion from gross income of interest on the Bonds, including but not limited to subleases that are necessary or convenient for the purposes of operating the Project.

Person

The term “Person” means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

PFC Act or PFC Regulations

The term “PFC Act” or “PFC Regulations” means respectively 49 U.S.C. §40117, and Title 14, Code of Federal Regulations (CFR) Part 158, including any amendments, successors or replacements thereto (including Public Law No. 106-181).

PFC Project

The term “PFC Project” means a capital project for which PFC Revenues may be expended.

PFC Revenues

The term “PFC Revenues” means the Passenger Facility Charge receipts collected from enplaned passengers at the Airport, less any collection or service fee or other amount permitted to be retained by the collecting airlines, which have been approved by the Federal Aviation Administration, pursuant to the PFC Act and PFC Regulations, which are remitted to the City, in an amount not greater than the Installment Payments attributable to a PFC Project.

Principal Account

“Principal Account” means the account by that name established pursuant to the Trust Agreement.

Principal Office

The term “Principal Office” refers to the office of the Trustee noted in the Trust Agreement and such other offices as the Trustee may designate from time to time, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Principal Payment Date

The term “Principal Payment Date” means any date on which principal of the Bonds is required to be paid (whether by reason of maturity, redemption or acceleration).

Project

The term “Project” means the capital project described in the Trust Agreement.

Rating Category

The term “Rating Category” means one of the general long-term (or short-term, if so specifically provided) rating categories of either Moody’s or S&P, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebate Fund

The term “Rebate Fund” means the Rebate Fund established under the Trust Agreement.

Redemption Date

The term “Redemption Date” shall mean the date fixed for redemption of any Bonds.

Redemption Price

The term “Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Trust Agreement.

Record Date

The term “Record Date” means the close of business on the fifteenth (15th) calendar day (whether or not a Business Day) of the month preceding any Interest Payment Date.

Rental Payment Period

The term “Rental Payment Period” means the twelve month period commencing July 1 of each year and ending the following June 30, and the initial period commencing on the effective date of the Facility

Representation Letter

The term “Representation Letter” means the blanket letter of representation of the Authority to DTC or any similar letter to a substitute depository.

Reserve Facility

The term “Reserve Facility” means a surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds (a “municipal bond insurer”) if such municipal bond insurer shall be rated in the highest rating categories issued by Moody’s and by S&P at the time of deposit, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody’s and S&P at the time of deposit, or any combination thereof, deposited with the Trustee by the Authority to satisfy the Reserve Fund Requirement.

Reserve Facility Costs

The term “Reserve Facility Costs” means repayment of draws under the Reserve Facility, plus all related reasonable expenses incurred by the Reserve Facility provider, plus interest thereon at the Reserve Facility Rate.

Reserve Fund

The term “Reserve Fund” means the fund of that name established pursuant to the Trust Agreement.

Reserve Fund Requirement

The term “Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual debt service attributable to the Outstanding Bonds or (ii) 125% of average annual debt service attributable to the Outstanding Bonds; provided however, that the Reserve Fund Requirement with respect to any Series of Bonds shall be the least of (i) or (ii) above, or an amount equal to, or derived by the addition of, 10% of the proceeds from the sale of such Series of Bonds to the Reserve Fund.

Responsible Officer

The term “Responsible Officer” means any officer of the Trustee assigned to administer its duties under the Trust Agreement.

Revenue Fund

“Revenue Fund” means the Fund by that name established pursuant to the Trust Agreement.

Revenues

The term “Revenues” means (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all Series 2009 Installment Payments paid by the City and received by the Authority pursuant to the Series 2009 Installment Payment Contract and (iii) all interest or other income from any investment, pursuant to the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – REVENUES – Deposit and Investments of Money in Accounts and Funds,” of any money in any fund or account (other than the Rebate Fund) established pursuant to the Trust Agreement.

Series

The term “Series,” whenever used in the Trust Agreement with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Trust Agreement.

Site Lease

The term “Site Lease” means that certain lease, entitled “Site Lease,” by and between the City and the Authority, dated as of May 1, 2009, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof.

Site Lease

The term “Site Lease” means that certain site lease, dated as of May 1, 2009, between the City, as lessor and the Authority, as lessee, as the same may be amended from time to time in accordance with its terms.

S&P

The term “S&P” means Standard & Poor’s, a division of the McGraw-Hill Companies, Inc., and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term S&P shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

Special Facility

“Special Facility” means any facility designated by the City as such located on property included within the Airport relating to or used in connection with the Airport, the cost of which is financed with the proceeds of outstanding Special Facility Bonds.

Special Facility Bonds

“Special Facility Bonds” means bonds, notes or other evidences of indebtedness, including without limitation certificates of participation in leases, installment sale agreements and other agreements issued or incurred by the City but excluding Bonds, the proceeds of which were or are to be applied to the costs of any Special Facility (including the refinancing of such costs) and which are payable solely from all or a portion of the rentals, installment payments or other payments received pursuant to a Net Rent Lease of such Special Facility.

State

The term “State” means the State of California.

State Controller

The term “State Controller” means the Controller of the State.

Supplemental Trust Agreement

The term “Supplemental Trust Agreement” means any trust agreement then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory or supplemental to the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is executed and delivered pursuant to the provisions of the Trust Agreement.

Tax Certificate

The term “Tax Certificate” means the Tax Certificate and Agreement delivered by the Authority and the City at the time of the issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Total Payments

The term “Total Payments” has the meaning set forth in the Installment Payment Contract, as summarized herein in paragraph (a) under the caption “INSTALLMENT PAYMENT CONTRACT – INSTALLMENT PAYMENTS – Total Payments.”

Trust Agreement

The term “Trust Agreement” means the Trust Agreement, dated as of May 1, 2009, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

Trustee

The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., or any other association or corporation which may at any time be substituted in its place as provided in the Trust Agreement.

U&O Insurance Coverage Requirement

The term “U&O Insurance Coverage Requirement” means, as of any date of calculation, an amount of coverage for the rental interruption or use and occupancy insurance required pursuant to the Facility Lease equal to that portion of the maximum aggregate annual Base Rental payable on or after such date of calculation that is attributable to the portion of the Facilities rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Facilities) for a period of at least two years, except that such coverage may be subject to a deductible clause of not to exceed \$250,000 or a comparable amount adjusted for inflation.

Variable Rate Bonds

The term “Variable Rate Bonds” means Bonds of any Series which bear interest at a variable interest rate.

Written Request of the Authority

The term “Written Request of the Authority” means an instrument in writing signed by or on behalf of the Authority by the Chairman, the Executive Director, the Treasurer, Authority Counsel and the Secretary of the Authority, or his or her designee, or by any other person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Board of Directors of the Authority to sign or execute such a document on its behalf.

Written Request of the City

The term “Written Request of the City” means an instrument in writing signed by the City Administrator, Finance Director, Airport Director, City Attorney, Assistant City Attorney or his or her designee, or by any other officer of the City duly authorized by the City Council of the City in writing to the Trustee for that purpose.

FACILITY LEASE

LEASE OF DEMISED PREMISES AND PROJECT; TERM

Lease of Facilities. The Authority, as provided in the Facility Lease, leases to the City and the City, as provided in the Facility Lease, leases from the Authority the Facilities, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of the Facility Lease. The City, as provided in the Facility Lease, agrees and covenants during the term of the Facility Lease that, except as provided in the Facility Lease, it will use the Facilities for public and City purposes so as to afford the public the benefits contemplated by the Facility Lease.

Term; Occupancy. The term of the Facility Lease shall commence on the date of recordation of the Facility Lease in the office of the County Recorder of Santa Barbara County, State of California, or on May 1, 2009 whichever is earlier, and shall end on July 1, 2039 unless such term is extended or sooner terminated as provided in the Facility Lease. If on July 1, 2039, the Bonds shall not be fully paid, or if the rental payable under the Facility Lease shall have been abated at any time and for any reason, then the term of the Facility Lease shall be extended until all Bonds shall be fully paid, except that the term of the Facility Lease shall in no event be extended beyond July 1, 2050. If prior to July 1, 2039, all Bonds shall be fully paid, or provision therefor made, the term of the Facility Lease shall end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Substitution. The City and the Authority may substitute real property and improvements thereon as part of the Facilities for purposes of the Facility Lease, but only after the City shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(a) Executed copies of the Facility Lease or amendments thereto containing the amended description of the Facilities, including the legal description of the Demised Premises as modified if necessary.

(b) A Certificate of the City with copies of the Facility Lease or a Site Lease, if needed, or amendments thereto containing the amended description of the Facilities stating that such documents have been duly recorded in the official records of the County Recorder of Santa Barbara County.

(c) A Certificate of the City evidencing that the annual fair rental value of the Facilities which will constitute the Facilities after such substitution will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current year ending July 31 or in any subsequent year ending July 31.

(d) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Facilities which will constitute the Facilities after such substitution. The term “Good Merchantable Title” shall mean such title as is satisfactory and sufficient for the needs and operations of the City.

(e) A Certificate of the City stating that such substitution does not adversely affect the City’s use and occupancy of the Facilities.

(f) An Opinion of Counsel (as such term is defined in the Trust Agreement) stating that such amendment or modification (i) is authorized or permitted under the Facility Lease; (ii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iii) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

RENTAL PAYMENTS; USE OF PROCEEDS

Base Rental Payments. The City, under the Facility Lease, agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of the Facilities (subject to the provisions of the Facility Lease, as summarized herein under the captions “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Payment Provisions,” “– Rental Abatement” and “– Installment Payment Contract; Installment Payments” and under the caption “FACILITY LEASE – EMINENT DOMAIN; PREPAYMENT – Eminent Domain”) annual rental payments with principal and interest components, the interest components being payable semi-annually, in accordance with the Base Rental Payment Schedule attached to the Facility Lease. Notwithstanding the foregoing or any other provision of the Facility Lease to the contrary, until such time as a Certificate of Completion has been delivered to the Trustee, the City’s obligation to pay Base Rental Payments shall be limited solely to (i) an amount representing the fair rental value for the use and occupancy of the Available Leased Property, subject only to abatement as provided in the Facility Lease, as summarized herein under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Rental Abatement” or (ii) amounts on deposit in the Interest Account, including the Capitalized Interest Account established within the Interest Account, pursuant to the Trust Agreement, and, if the Interest Account is exhausted, the Reserve Fund established pursuant to the Trust Agreement, and the City shall have no obligation to make any Base Rental Payments from any other source.

Base Rental Payments shall be calculated on an annual basis, for each Rental Payment Period, and each annual Base Rental shall be divided into two interest components, due on January 1 and July 1, and one principal component, due on July 1, except that no principal component shall be payable until July 1, 2012. Each Base Rental Payment installment shall be payable on the twenty-sixth (26th) day of the month immediately preceding its due date and any interest or other income with respect thereto accruing prior to such due date. The interest components of the Base Rental Payments shall be paid by the City as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the City under the Facility Lease, computed on the basis of a 360-day year composed of twelve 30-day months. Each annual payment of Base Rental (to be payable in installments as aforesaid) shall be for the use of the Facilities.

If the term of the Facility Lease shall have been extended pursuant to the Facility Lease, as summarized herein under the caption "FACILITY LEASE – LEASE OF DEMISED PREMISES AND PROJECT; TERM – Term; Occupancy," Base Rental Payment installments shall continue to be due on January 1 and July 1 in each year, and payable prior thereto as described in the Facility Lease, continuing to and including the date of termination of the Facility Lease. Upon such extension of the Facility Lease, the City shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the principal and interest components of the Base Rental Payments so that the principal components will in the aggregate be sufficient to pay all unpaid principal components with interest components sufficient to pay all unpaid interest components plus interest.

If at any time the Base Rental under the Facility Lease shall not have been paid by the City, for any reason whatsoever, and no other source of funds shall have been available to make the payments of principal and interest on the Bonds, the principal and interest components of the Base Rental shall be recalculated by the City to reflect interest on the unpaid principal components at the rate or rates specified in the Trust Agreement, and a revised payment schedule to the Facility Lease shall be prepared by the City and supplied to the Authority and the Trustee reflecting such reallocation.

Additional Payments. The City shall also pay such amounts (herein called the "Additional Payments") as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or any assignment of the Facility Lease, the Trust Agreement, its interest in the lease of the Facilities to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Facilities and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Trust Agreement, fees of auditors, accountants, attorneys or architects, and all other necessary 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 Bonds or of the Trust Agreement; but not including in Additional Payments amounts required to pay the principal of or interest on the Bonds.

The Authority has issued and may in the future issue bonds and has entered into and may in the future enter into leases to finance or refinance facilities other than the Facilities and the Project. The administrative costs of the Authority shall be allocated among said facilities and the Facilities, as hereinafter in this paragraph provided. The fees of the Trustee under the Trust Agreement, and any other expenses directly attributable to the Facilities shall be included in the Additional Payments payable under the Facility Lease. The fees of any trustee or paying agent under any indenture securing bonds of the Authority or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Facilities, shall not be included in the administrative costs of the Facilities and shall not be paid from the Additional Payments payable under the Facility Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of the Finance Director of the City or a duly authorized representative of the City, endorsed thereon, in making any determination that costs are payable as Additional Payments under the Facility Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Facilities.

Payment Provisions. Each installment of rental payable under the Facility Lease shall be paid in lawful money of the United States of America to or upon the order of the Authority at the corporate trust office of the Trustee in Los Angeles, California, or such other place as the Trustee shall designate. Any such installment of rental accruing under the Facility Lease which shall not be paid when due and payable under the terms of the Facility Lease shall bear interest at the rate of twelve percent (12%) per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due under the Facility Lease until the same shall be paid. Notwithstanding any dispute between the Authority and the City, the City shall make all rental payments when due without deduction or offset of any kind and shall not withhold any rental payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent rental

payments due under the Facility Lease or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this section on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund, the Interest Account or the Principal Account and available therefor.

All payments received shall be applied first to the interest components of the Base Rental Payments due under the Facility Lease, then to the principal components of the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Facility Lease.

The payment obligations under the Facility Lease shall be absolute and unconditional, free of deductions, offset, recoupment, diminution or set-off whatsoever, subject only to abatement as provided in the Facility Lease, as summarized herein under the caption "FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Rental Abatement."

Appropriations Covenant. The City covenants to take such action as may be necessary to include all such Base Rental Payments and Additional Payments due under the Facility Lease in its annual budgets, to make necessary annual appropriations for all such Base Rental Payments and Additional Payments as shall be required to provide funds in such year for such Base Rental Payments and Additional Payments. The City will deliver to the Authority and the Trustee within sixty (60) days of adoption of the City budget a Certificate of the City stating that the budget as adopted appropriates all moneys necessary for the payment of Base Rental Payments and Additional Payments under the Facility Lease for such Fiscal Year. Such budget may take into account the Installment Payments to be paid by the City under the Installment Payment Contract. The covenants on the part of the City contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Facility Lease agreed to be carried out and performed by the City.

The Authority and the City understand and intend that the obligation of the City to pay Base Rental Payments and Additional Payments under the Facility Lease shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained in the Facility Lease constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments due under the Facility Lease shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due under the Facility Lease as consideration for use of the Facilities. The Facility Lease shall not create an immediate indebtedness for any aggregate payments which may become due under the Facility Lease in the event that the term of the Facility Lease is continued. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due under the Facility Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Interest Account or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2009 Bonds, the Base Rental Payments shall be abated proportionately during any Rental Payment Period in which by reason of any damage or destruction (other than by condemnation which is provided in the Facility Lease for) there is substantial interference with the use and occupancy of the Facilities by the City, in the proportion in which the annual fair rental value of that portion of the Facilities rendered unusable bears to the annual fair rental value of the whole of the Facilities. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Facility Lease shall continue in full force and effect and the City waives any right to terminate the Facility Lease by virtue of any such damage or destruction.

Use of Proceeds. The parties to the Facility Lease agree that the proceeds of the Series 2009 Bonds will be used to finance the Project by depositing certain proceeds of the Series 2009 Bonds in accordance with the Trust Agreement.

Installment Payment Contract; Series 2009 Installment Payments. In consideration for the lease of the Facilities from the Authority to the City and in order to further secure and provide for the payment of rental due under the Facility Lease, the City agrees to execute and deliver the Series 2009 Installment Payment Contract and to pay to the Authority in immediately available funds the amounts due as Series 2009 Installment Payments thereunder. On any date upon which a Base Rental Payment installment is due, the City's obligation to pay such Base Rental Payment installment shall be deemed satisfied to the extent that the City's obligation to make Series 2009 Installment Payments has been satisfied as of such date.

MAINTENANCE; ALTERATIONS AND ADDITIONS

Maintenance and Utilities. During such time as the City is in possession of the Facilities, all maintenance and repair, both ordinary and extraordinary, of the Facilities shall be the responsibility of the City, which shall at all times maintain or otherwise arrange for the maintenance of the Facilities, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Facilities, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Facilities resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Facilities. In exchange for the rental provided in the Facility Lease, the Authority, under the Facility Lease, agrees to provide only the Facilities.

Changes to the Project. Subject to the terms of the Facility Lease, as summarized herein under the caption "FACILITY LEASE – COVENANTS – Liens," the City shall, at its own expense, have the right to remodel the Facilities or to make additions, modifications and improvements to the Facilities. All such additions, modifications and improvements shall thereafter comprise part of the Facilities and be subject to the provisions of the Facility Lease. Such additions, modifications and improvements shall not in any way damage the Facilities or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Facilities, upon completion of any additions, modifications and improvements made pursuant to this section, shall be of a value which is at least equal to the value of the Facilities immediately prior to the making of such additions, modifications and improvements.

INSURANCE

Fire and Extended Coverage Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease:

(a) insurance against loss or damage to any structures constituting any part of the Facilities by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$250,000 or comparable amount adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed. Such insurance may be provided by a joint purchasing authority or a similar program; and

(b) insurance against loss or damage by flood to any structures constituting any part of the Facilities but which insurance may also cover other properties of the City. Such insurance shall be in an amount equal to the lesser of (i) the amount of the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities and any other properties of the City so insured, excluding the cost of excavations, of grading and filling, and of the land or (ii) \$25,000,000 on a per occurrence basis subject to an aggregate claim limit of \$25,000,000 (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or comparable amount adjusted for inflation) or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all

outstanding Bonds to be redeemed. Such insurance may be provided a joint purchasing authority or a similar program.

In the event of any damage to or destruction of any part of the Facilities, caused by the perils covered by such insurance, the Authority, except as provided in the Facility Lease, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facilities, and the Trustee shall hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Facilities to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – REVENUES – Receipt and Deposit of Revenues in the Revenue Fund." Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental attributable to the portion of the Facilities so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facilities bears to the cost of the Facilities), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facilities and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the provisions of the Trust Agreement.

The Authority and the City shall promptly apply for Federal disaster aid or State of California disaster aid in the event that the Facilities are damaged or destroyed as a result of an earthquake occurring at any time. Any proceeds received as a result of such disaster aid shall be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Facilities, or, at the option of the City and the Authority, to redeem outstanding Bonds if such use of such disaster aid is permitted.

As an alternative to providing the insurance required by the first paragraph of this section, or any portion thereof, the City may, with the prior written consent of the Authority and the Bond Insurer, provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. Participation by the City in an insurance program established by or pursuant to a joint powers authority shall not constitute a self insurance method or plan of protection that requires the prior written consent of the Authority and the Bond Insurer. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City under the Facility Lease shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Liability Insurance. Except as provided in the Facility Lease, the City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and its members, directors, officers, agents and employees and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facilities, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$200,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$5,000,000

covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

As an alternative to providing the insurance required by the first paragraph of this section, or any portion thereof, the City, with the prior written consent of the Authority, may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable protection to the Authority, its members, directors, officers, agents and employees and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. Participation by the City in an insurance program established by or pursuant to a joint powers authority shall not constitute a self insurance method or plan of protection that requires the prior written consent of the Authority. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, independent insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this section and, when effective, would afford reasonable protection to the Authority, its members, directors, officers, agents and employees and the Trustee against loss and damage from the hazards and risks covered thereby. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan.

Rental Interruption or Use and Occupancy Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Facilities as the result of any of the hazards covered by the insurance required by the Facility Lease, as summarized herein under the caption “FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance,” in an amount not less than the U&O Insurance Coverage Requirement. Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under the Facility Lease attributable to such structure for a period of time during which the payment of rental under the Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in the Facility Lease, as summarized herein under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Base Rental Payments” (to the extent required for the payment of Base Rental) and under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Additional Payments” (to the extent required for the payment of Additional Payments) and any remainder shall be treated as Revenue under the Trust Agreement. Rental interruption or use and occupancy insurance shall not be self-insured.

Workers’ Compensation. The City shall also maintain worker’s compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Workers’ Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the City. Such insurance may be maintained by the City in the form of self-insurance.

Title Insurance. The City shall obtain, for the benefit of the Authority, upon the execution and delivery of the Facility Lease title insurance on the Demised Premises, in an amount equal to the aggregate principal amount of the Series 2009 Bonds, issued by a company of recognized standing duly authorized to issue the same, subject only to Permitted Encumbrances. Such policy shall be in form satisfactory to the Authority with endorsement so as to be payable to the Trustee for the use and benefit of the trust estate. All proceeds received by the Trustee under said policy shall be applied and disbursed by the Trustee in the same order and priority and for the same purposes as are provided in the Facility Lease, as summarized herein below under the caption “FACILITY LEASE – INSURANCE – Insurance Proceeds; Form of Policies.”

Insurance Proceeds; Form of Policies. All policies of insurance required by the Facility Lease, as summarized herein under the captions “FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance” and “– Rental Interruption or Use and Occupancy Insurance” shall name the City, the Authority and the Trustee as insured and shall contain a lender’s loss payable endorsement in favor of the Trustee substantially in accordance with the form approved by the Insurance Services Office and the California Bankers Association. The Trustee shall, to the extent practicable, collect, adjust and receive all moneys which may become due and payable under any such policies, may compromise any and all claims thereunder and shall apply the proceeds of such insurance as provided in the Facility Lease, as summarized herein under the caption “FACILITY LEASE –

INSURANCE – Fire and Extended Coverage Insurance” and “– Rental Interruption or Use and Occupancy Insurance.” All policies of insurance required by the Facility Lease shall provide that the Trustee shall be given thirty (30) days notice of each expiration thereof or any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance required under the Facility Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. The City shall pay when due the premiums for all insurance policies required by the Facility Lease.

The City will deliver to the Authority and the Trustee on or before September 15 in each year a written Certificate of an officer of the City stating whether such policies satisfy the requirements of the Facility Lease, setting forth the insurance policies then in force pursuant to the Facility Lease, as summarized herein under the caption “FACILITY LEASE – INSURANCE,” the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby, and, if any self-insurance program is being provided, the annual report of an actuary, independent insurance consultant or other qualified person containing the information required for such self-insurance program and described in the Facility Lease, as summarized herein under the captions “FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance,” “– Liability Insurance” and “– Workers’ Compensation.” Delivery to the Trustee of the certificate under the provisions of this section shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the Trustee, the City shall also deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in such schedule.

Any policies of insurance provided by a commercial insurer to satisfy the requirements of the Facility Lease, as summarized herein under the captions “FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance,” “– Liability Insurance” or “– Rental Interruption or Use and Occupancy Insurance” shall be provided by a commercial insurer rated “A” or better by A. M. Best Company or in one of the two highest rating categories by S&P and by Moody’s.

DEFAULTS AND REMEDIES

Defaults and Remedies.

(a) The following events shall be “Events of Default” under the Facility Lease and the terms “Event of Default” and “Default” shall mean, whenever they are used in the Facility Lease, any one or more of the following events:

(1) The City shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Facility Lease, as summarized herein under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Base Rental Payments,” provided, that the failure to deposit any Base Rental Payments abated pursuant to the Facility Lease, as summarized herein under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Rental Abatement” shall not constitute an Event of Default;

(2) The City shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Facility Lease, as summarized herein under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Additional Payments”; or

(3) The City shall breach any other terms, covenants or conditions contained in the Facility Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Authority to the City; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Authority shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within such period and is diligently pursued until the default is corrected.

(b) Upon the happening of any of the Events of Default specified in the Facility Lease, as summarized herein in paragraphs (a) or (e) under the caption “FACILITY LEASE – DEFAULTS AND REMEDIES – Defaults and Remedies,” it shall be lawful for the Authority or its assignee, subject to the terms of the Facility Lease, including subsection (c) of this section, to exercise any and all remedies available or granted to it pursuant to law or under the Facility Lease.

(c) Upon the occurrence of an Event of Default, the Authority or its assignee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the City’s right to possession of the Facilities, regardless of whether or not the City has abandoned the Facilities; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE CITY UNDER THE FACILITY LEASE OR OTHERWISE. In such event, the City shall remain liable and, under the Facility Lease, agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the City and, to pay the rent to the end of the term of the Facility Lease and further, under the Facility Lease, agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent under the Facility Lease (without acceleration).

(d) The Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code.

(e) In addition to any Event of Default resulting from breach by the City of any agreement, condition, covenant or term of the Facility Lease, if the City’s interest in the Facility Lease or any part thereof assigned, sublet or transferred without the written consent of the Authority (except as otherwise permitted by the Facility Lease, as summarized herein under the caption “FACILITY LEASE – COVENANTS – Assignment and Subleasing”), either voluntarily or by operation of law; or the City or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or the City shall abandon or vacate the Demised Premises or any portion thereof (except as permitted by the Facility Lease, as summarized herein under the caption “FACILITY LEASE – COVENANTS – Assignment and Subleasing”); then in each and every such case the City shall be deemed to be in default under the Facility Lease.

(f) Neither the City nor the Authority shall be in default in the performance of any of its obligations under the Facility Lease (except for the obligation to make Base Rental Payments pursuant to the Facility Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the City of the Authority, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

(g) The City and Authority and its successors and assigns shall honor the exclusive rights of the City to use the Demised Premises.

Waiver. Failure of the Authority to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Facility Lease, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent under the Facility Lease shall not be, or be construed to be, a waiver of any term, covenant or condition of the Facility Lease.

EMINENT DOMAIN; PREPAYMENT

Eminent Domain. If the whole of the Facilities, or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of the Facility Lease shall cease as of the day that possession shall be so taken. If less than the whole of the Facilities shall be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by

the City at the time of such taking, then the Facility Lease shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the rental due under the Facility Lease in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds shall be outstanding, any award made in eminent domain proceedings for taking the Facilities or any portion thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Facility Lease, as summarized herein below under the caption "FACILITY LEASE – EMINENT DOMAIN; PREPAYMENT – Prepayment." Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the City.

Prepayment. (a) The City shall prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent provided in the Facility Lease, as summarized herein under the caption "FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance" and under the caption "FACILITY LEASE – EMINENT DOMAIN; PREPAYMENT – Eminent Domain" (provided, however, that in the event of partial damage to or destruction of the Facilities caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Facilities, such proceeds shall be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed portion of the Facilities, pursuant to the procedure set forth in the Facility Lease, as summarized herein under the caption "FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance" for proceeds of insurance), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

(b) The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – DEFEASANCE" sufficient to defease Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on the Bonds to be includable in gross income for federal income tax purposes. The City, under the Facility Lease, agrees that if following such prepayment the Facilities are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments.

(c) Before making any prepayment pursuant to this article, the City shall, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given.

(d) When (1) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or date when the City may exercise its option to purchase the Facilities or any portion or item thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Government Securities, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Facilities, as the case may be; (2) all requirements of the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – DEFEASANCE – Discharge of Bonds" have been satisfied; and (3) an agreement shall have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds shall remain unpaid, then and in that event the right, title and interest of the Authority in the Facility Lease and the obligations of the City under the Facility Lease shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Government Securities applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item thereof shall be transferred and conveyed to the City. In such event, the Authority shall cause an accounting for such period or periods as may

be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority shall pay over to the City as an overpayment of Base Rental Payments all such moneys or Investment Securities held by it pursuant to the Facility Lease other than such moneys and such Investment Securities as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Investment Securities shall continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and shall be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

Option to Purchase; Sale of Personal Property. The City shall have the option to purchase the Authority's interest in any part of Facilities upon payment of an option price consisting of moneys or securities of the category specified in definition of the term Government Securities contained in the Trust Agreement (not callable by the issuer thereof prior to maturity) in an amount sufficient (together with the increment, earnings and interest on such securities) to provide funds to pay the aggregate amount for the entire remaining term of the Facility Lease of the part of the total rent under the Facility Lease attributable to such part of the Facilities (determined by reference to the proportion which the cost of such part of the Facilities bears to the cost of all of the Facilities) consisting of scheduled components, in integral multiples of \$5,000 and interest on such scheduled components to the applicable prepayment date. Any such payment shall be made to the Trustee and shall be treated as rental payments and shall be applied by the Trustee to pay the principal of the Bonds and interest on the Bonds and amounts owing to the Bond Insurer, if any, and to redeem Bonds if such Bonds are subject to redemption pursuant to the terms of the Trust Agreement. Upon the making of such payment to the Trustee and the satisfaction of all requirements set forth in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – DEFEASANCE – Discharge of Bonds," (a) the Base Rental thereafter payable under the Facility Lease shall be reduced by the amount thereof attributable to such part of the Facilities and theretofore paid pursuant to this section, (b) the Facility Lease, as summarized herein under the caption "FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Rental Abatement" and this section, shall not thereafter be applicable to such part of the Facilities, (c) the insurance required by the Facility Lease, as summarized herein under the captions "FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance," "– Liability Insurance" and "– Rental Interruption or Use and Occupancy Insurance" need not be maintained as to such part of the Project, and (d) title to such part of the improvements comprising any part of the Facilities, including the portion of the Demised Premises upon which such part of the Facilities is located shall vest in the City and the term of the Facility Lease shall end as to Facilities, including the portion of the Demised Premises upon which such part of the improvements comprising any part of the Facilities is located.

The City, in its discretion, may request the Authority to sell or exchange any personal property which may at any time constitute a part of the Facilities, and to release said personal property from the Facility Lease, if (a) in the opinion of the City the property so sold or exchanged is no longer required or useful in connection with the operation of the Facilities, (b) the consideration to be received from the property is of a value substantially equal to the value of the property to be released, and (c) if the value of any such property shall, in the opinion of the Authority, exceed the amount of \$100,000, the Authority shall have been furnished a certificate of an independent engineer or other qualified independent professional consultant (satisfactory to the Authority) certifying the value thereof and further certifying that such property is no longer required or useful in connection with the operation of the Facilities. In the event of any such sale, the full amount of the money or consideration received for the personal property so sold and released shall be paid to the Authority. Any money so paid to the Authority may, so long as the City is not in default under any of the provisions of the Facility Lease, be used upon the Written Request of the City to purchase personal property, which property shall become a part of the Facilities leased under the Facility Lease. The Authority may require such opinions, certificates and other documents as it may deem necessary before permitting any sale or exchange of personal property subject to the Facility Lease or before releasing for the purchase of new personal property money received by it for personal property so sold.

COVENANTS

Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Facilities during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the Authority's or the City's rights or obligations under the Facility Lease, and (c) for all other lawful purposes.

Liens. In the event the City shall at any time during the term of the Facility Lease cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Facilities, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Facilities and shall keep the Facilities free of any and all mechanics' or materialmen's liens or other liens against the Facilities or the Authority's interest therein. In the event any such lien attaches to or is filed against the Facilities or the Authority's interest therein, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment. The City, under the Facility Lease, agrees to and shall, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee and their respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorney's fees) as a result of any such lien or claim of lien against the Facilities or the Authority's interest therein.

Authority Not Liable. The Authority and its members, directors, officers, agents and employees shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Facilities. The City, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents and employees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Facilities, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Facilities regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Assignment and Subleasing. Except for the portions of the Facilities for which subleases are necessary or convenient for purposes of operating the Facilities, neither the Facility Lease nor any interest of the City under the Facility Lease shall be mortgaged, pledged, assigned, sublet or transferred by the City by voluntary act or by operation of law or otherwise, except with the prior written consent of the Authority, which, in the case of subletting, shall not be unreasonably withheld; provided such subletting shall not affect the tax-exempt status of the interest on the Bonds. No such mortgage, pledge, assignment, sublease or transfer shall in any event affect or reduce the obligation of the City to make the Base Rental Payments and Additional Payments required under the Facility Lease.

Title to Facilities. During the term of the Facility Lease, the Authority shall hold a leasehold estate to the Facilities and any and all additions which comprise fixtures, repairs, replacement or modifications thereof, except for those fixtures, repairs, replacements or modifications which are added thereto by the City and which may be removed without damaging the Facilities, and except for any items added to the Facilities by the City pursuant to the Facility Lease, as summarized herein under the caption "FACILITY LEASE – MAINTENANCE; ALTERATIONS AND ADDITIONS – Changes to the Project." This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to the Facility Lease.

Upon the termination or expiration of the Facility Lease, the Authority shall execute such conveyances, deeds and other documents as may be necessary to evidence the ownership of the Facilities by the City and to clarify the title of the City on the record thereof.

Tax Covenants. The City and the Authority will not make any use of the proceeds of the obligations provided in the Facility Lease or any other funds of the City or the Authority which will cause such obligations to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code. The City and the Authority will not make any use of the proceeds of the obligations provided in the Facility Lease or any other funds of the City or the Authority which will cause such obligations to be "federally guaranteed" and subject to inclusion in gross income for federal income tax purposes by reason of Section 149(b) of the Code. To that end, so long as any rental payments are unpaid, the City and the Authority, with respect to such proceeds and such other funds, will comply with all requirements of such Sections 148 and 149(b) and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City further covenants that it will not use or permit the use of the facilities financed or refinanced by the proceeds of the Bonds by any person not an “exempt person” within the meaning of Section 141(a) of the Code or by an “exempt person” (including the City) in an “unrelated trade or business,” in such manner or to such extent as would result in the inclusion of interest received under the Facility Lease in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the City is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or the City or the Authority under the Facility Lease or the Trust Agreement, the City shall so instruct the Trustee or the appropriate officials of the City in writing, and the Trustee or the appropriate officials of the City, as the case may be, shall take such actions as may be necessary in accordance with such instructions.

The provisions of this section shall not apply to any Series of Bonds which the City and the Authority shall certify to the Trustee is not intended to comply with the requirements of the Code necessary to make interest on such Series of Bonds excludable from gross income for federal income tax purposes.

Continuing Disclosure. The City, as provided in the Facility Lease, covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Facility Lease, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Facility Lease; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of the Bonds Outstanding and provided satisfactory indemnification is provided to the Trustee, shall) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the City to comply with its obligations under this section.

Taxes. The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Facilities or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of the Facility Lease as and when the same become due.

The City shall also pay directly such amounts, if any, in each year as shall be required by the Authority for the payment of all license and registration fees and all taxes (including, without limitation, income, excise, license, franchise, capital stock, recording, sales, use, value-added, property, occupational, excess profits and stamp taxes), levies, imposts, duties, charges, withholdings, assessments and governmental charges of any nature whatsoever, together with any additions to tax, penalties, fines or interest thereon, including, without limitation, penalties, fines or interest arising out of any delay or failure by the City to pay any of the foregoing or failure to file or furnish to the Authority or the Trustee for filing in a timely manner any returns, hereafter levied or imposed against the Authority or the Facilities, the rentals and other payments required under the Facility Lease or any parts thereof or interests of the City or the Authority or the Trustee therein by any governmental authority.

The City may, at the City’s expense and in its name, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the City that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Facilities will be materially endangered or the Facilities, or any part thereof, will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Purpose of Facility Lease. The City covenants that during the term of the Facility Lease, except as provided in the Facility Lease, (a) it will use, or cause the use of, the Facilities for public purposes and for the purposes for which the Facilities are customarily used, (b) it will not vacate or abandon the Facilities or any part thereof, and (c) it will not make any use of the Facilities which would jeopardize in any way the insurance coverage required to be maintained pursuant to the Facility Lease, as summarized herein under the caption “FACILITY LEASE – INSURANCE.”

DISCLAIMER OF WARRANTIES; VENDOR'S WARRANTIES; USE OF THE FACILITIES

Disclaimer of Warranties. THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE FACILITIES, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF THE FACILITIES OR A DEALER THEREIN, THAT THE CITY LEASES THE FACILITIES AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Authority be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Facility Lease or the existence, furnishing, functioning or the City's use of any item or products or services provided for in the Facility Lease.

Vendor's Warranties. The Authority, as provided in the Facility Lease, irrevocably appoints the City its agent and attorney-in-fact during the term of the Facility Lease, so long as the City shall not be in default under the Facility Lease, to assert from time to time whatever claims and rights, including warranties of the Facilities, which the Authority may have against the manufacturers, vendors and contractors of the Facilities. The City's sole remedy for the breach of such warranty, indemnification or representation shall be against the manufacturer or vendor or contractor of the Facilities, and not against the Authority, nor shall such matter have any effect whatsoever on the rights and obligations of the Authority with respect to the Facility Lease, including the right to receive full and timely payments under the Facility Lease. The City expressly acknowledges that the Authority makes, and has made, no representation or warranties whatsoever as to the existence or availability of such warranties of the manufacturer, vendor or contractor.

Use of the Facilities. The City will not install, use, operate or maintain the Facilities improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Facility Lease. The City shall provide all permits and licenses, if any, necessary for the installation and operation of the Facilities. In addition, the City, under the Facility Lease, covenants to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Facilities) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Facilities; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to the Facilities or its interest or rights under the Facility Lease.

MISCELLANEOUS

Law Governing. The Facility Lease shall be governed exclusively by the provisions of the Facility Lease and by the laws of the State of California as the same from time to time exist.

Validity and Severability. If for any reason the Facility Lease shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City under the Facility Lease, including the covenant to pay rentals under the Facility Lease, is unenforceable for the full term of the Facility Lease, then and in such event the Facility Lease is and shall be deemed to be a lease under which the rentals are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Facilities, and all of the rental and other terms, provisions and conditions of the Facility Lease, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Net-Net-Net Lease. The Facility Lease shall be deemed and construed to be a "net-net-net lease" and the City, as provided in the Facility Lease, agrees that the rentals provided for in the Facility Lease shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

Amendment or Termination. The Authority and the City may at any time agree to the amendment or termination of the Facility Lease; provided, however, that the Authority and the City agree and recognize that the Facility Lease is entered into in accordance with the terms of the Trust Agreement, and accordingly, that any such amendment or termination shall only be made or effected in accordance with and subject to the terms of the Trust Agreement.

SITE LEASE

Demised Premises. The City, under the Site Lease, leases to the Authority and the Authority, as provided in the Site Lease, hires from the City, on the terms and conditions set forth in the Site Lease, the real property situated in the City of Santa Barbara, State of California, and described in the Site Lease and made a part of the Site Lease (the “Demised Premises”), together with any additional real property added thereto by any supplement or amendment to the Site Lease, or any real property substituted for all or any portion of such property in accordance with the Site Lease and the Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the City and the buildings and all other facilities located thereon.

Term. The term of the Site Lease as to the Facilities shall commence on the date of recordation of the Site Lease in the office of the County Recorder of Santa Barbara County, State of California, or on May 1, 2009 whichever is earlier, and shall end on July 1, 2039, unless such term is extended or sooner terminated as provided in the Site Lease. If on July 1, 2039 the Bonds shall not be fully paid, or if the rental or other amounts payable under the Facility Lease shall have been abated at any time and for any reason, then the term of the Site Lease shall be extended until ten (10) days after the Bonds shall be fully paid, except that the term of the Site Lease shall in no event be extended beyond July 1, 2050. If prior to July 1, 2039 all Bonds and Reserve Facility Costs shall be fully paid, the term of the Site Lease shall end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Owner in Fee. The City covenants that it is either the owner in fee of or has a valid leasehold interest in the Demised Premises. The City further, under the Site Lease, covenants and agrees that if for any reason this covenant proves to be incorrect, the City will either institute eminent domain proceedings to condemn the property or institute a quiet title action to clarify the City’s title, and will diligently pursue such action to completion. The City further, under the Site Lease, covenants and agrees that it will hold the Authority and the Bondholders harmless from any loss, cost or damages resulting from any breach by the City of the covenants contained in this section to the extent that such breach interferes with the use and enjoyment of the Demised Premises.

Assignments and Subleases. Unless the City shall be in default under the Facility Lease, the Authority may not assign its rights under the Site Lease or sublet the Demised Premises and the Facilities, except pursuant to the Facility Lease, without the written consent of the City, which consent may be withheld in the City’s sole and absolute discretion.

Right of Entry; Easements. The City reserves the right for any of its duly authorized representatives to enter upon the Demised Premises at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination. The Authority agrees, upon the termination of the Site Lease, to quit and surrender the Demised Premises in the same good order and condition as the same were in at the time of commencement of the term under the Site Lease, reasonable wear and tear excepted, and the Authority further agrees that any permanent improvements and structures existing upon the Demised Premises at the time of the termination of the Site Lease shall remain thereon and title thereto shall vest in the City.

Upon the exercise of the option to purchase set forth in the Facility Lease, as summarized herein under the caption “FACILITY LEASE – EMINENT DOMAIN; PREPAYMENT – Option to Purchase; Sale of Personal Property,” and upon payment of the option price required therein, the term of the Site Lease shall terminate as to the portion of the Demised Premises upon which the part of the Facilities being so purchased is situated.

Default. In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for one hundred and eighty (180) days following notice and demand for correction thereof to the Authority and the Trustee, the City may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Facility Lease shall be deemed to occur as a result thereof; provided, however, that the City shall have no power to terminate the Site Lease by reason of any default on the part of the Authority if such termination would affect or impair any assignment or sublease of all or any part of the Demised Premises then in effect between the Authority and any assignee or subtenant of the Authority (other than the City under the Facility Lease). So long as any such assignee or subtenant of the Authority

shall duly perform the terms and conditions of the Site Lease, such assignee or subtenant shall be deemed to be and shall become the tenant of the City under the Site Lease and shall be entitled to all of the rights and privileges granted under any such assignment; provided, further, that so long as any Bonds are outstanding and unpaid in accordance with the terms thereof, the rentals or any part thereof payable to the Authority or Trustee shall continue to be paid to the Trustee on behalf of the Bondholders.

Waiver of Personal Liability. All liabilities under the Site Lease on the part of the Authority shall be solely liabilities of the Authority, as a public entity and agency, and the City, as provided in the Site Lease, releases each and every member, director, officer, agent or employee of the Authority of and from any personal or individual liability under the Site Lease. No member, director, officer, agent or employee of the Authority shall at any time or under any circumstances be individually or personally liable under the Site Lease to the City or to any other party whomsoever for anything done or omitted to be done by the Authority under the Site Lease.

The Authority and its members, directors, officers, agents, employees and assignees shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Demised Premises, the Facilities and the Project. The City, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents, employees and assignees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Demised Premises, the Facilities or the Project, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Demised Premises, the Facilities or the Project regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Taxes. The City, under the Site Lease, covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Demised Premises or the Facilities.

Eminent Domain. In the event the whole or any part of the Demised Premises or the Facilities is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is, as provided in the Site Lease, determined to be the amount of the then unpaid or outstanding Bonds and all other amounts due under the Trust Agreement, the Facility Lease and the Installment Payment Contract attributable to such part of the Facilities and shall be paid to the Trustee, and the balance of the award, if any, shall be paid to the City.

Amendment. With the prior written consent of the Bond Insurer, the Authority and the City may at any time agree to the amendment of the Site Lease; provided, however, that the Authority and the City agree and recognize that the Site Lease is entered into in accordance with the terms of the Trust Agreement, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Trust Agreement.

INSTALLMENT PAYMENT CONTRACT

THE PROJECT

Acquisition of the Project. In consideration for the Authority entering into the Site Lease and the Facility Lease with the City and issuing the Series 2009 Bonds to pay for the costs of the Project, the City agrees to execute and deliver this Series 2009 Installment Payment Contract. The Authority shall cause the Project to be acquired, designed, constructed, improved and installed by the City as its agent. The City shall enter into contracts, as agent for the Authority, providing for the complete acquisition, design, construction, improvement and installation of the Project. The City and the Authority have agreed that the City shall cause the acquisition, design, construction, improvement and installation of the Project to be diligently performed and that the City shall use its best efforts to cause the acquisition, design, construction, improvement and installation of the Project to be completed. Therefore, in consideration of the foregoing, the City and the Authority agree to execute, deliver and perform their respective obligations under this Series 2009 Installment Payment Contract.

INSTALLMENT PAYMENTS

Total Payments. The Total Payments to be paid by the City under the Installment Payment Contract to the Authority is the sum of the aggregate principal amount of the City's obligations under the Installment Payment Contract plus the interest to accrue on the unpaid balance of such principal amount from the effective date of the Installment Payment Contract over the term of the Installment Payment Contract, subject to prepayment as provided in the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – PREPAYMENT OF INSTALLMENT PAYMENTS." The interest to accrue on the unpaid balance of such principal amounts of Installment Payments is as specified in the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – INSTALLMENT PAYMENTS – Series 2009 Installment Payments" and shall be paid by the City as and constitutes interest paid on the principal amount of the City's obligations under the Installment Payment Contract.

Series 2009 Installment Payments. The City shall, subject to any rights of prepayment provided in the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – PREPAYMENT OF INSTALLMENT PAYMENTS," pay the Trustee, on behalf of the Authority, the Total Payments in Series 2009 Installment Payments on each Installment Payment Date for the payment of principal of (whether at maturity or upon redemption or acceleration), redemption premium, if any, and interest on the Series 2009 Bonds, until the principal of, redemption premium, if any, and interest on the Series 2009 Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Trust Agreement, in immediately available funds, for deposit in the Revenue Fund established pursuant to the Trust Agreement as follows:

Each Installment Payment shall be payable to the Authority on or before the twenty-fifth (25th) day of the month before its due date in lawful money of the United States of America; however, the Trustee shall not be under any obligation to acknowledge receipt of such funds or to demand payment thereof until each Installment Payment Date. In the event the City fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the City until such amount shall have been fully paid and the City agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Installment Payments if paid in accordance with their terms.

Obligation to Pay. The obligation of the City to make the Installment Payments is absolute and unconditional, and until such time as the Total Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – DISCHARGE OF OBLIGATIONS"), the City will not discontinue or suspend any Installment Payments required to be made by it under this section when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement, for any cause whatsoever; provided, however that in accordance with the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – MISCELLANEOUS – Liability of City Limited to Airport Revenues," the City's obligation to so make the Installment Payments is payable solely from Airport Revenues.

Authority Option to Repay. The Authority may, at any time, repay to the City an amount equal to that amount required to be deposited by the City to discharge its obligations under the Installment Payment Contract pursuant to the terms of the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – DISCHARGE OF OBLIGATIONS," which amount, if so paid, the City shall so deposit in the time, form and manner specified in such provisions.

AIRPORT REVENUES

Pledge of Airport Revenues. All Airport Revenues are, as provided in the Installment Payment Contract, irrevocably pledged to the payment of the Installment Payments as provided in the Installment Payment Contract and the Airport Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that out of the Airport Revenues there may be apportioned such sums for such purposes

as are expressly permitted by this article. This pledge shall constitute a first lien on the Airport Revenues, after the payment of the Maintenance and Operation Costs, for the payment of the Installment Payments and all other Installment Payment Contracts and Series 2009 Bonds in accordance with the terms of the Installment Payment Contract.

Allocation of Airport Revenues. (a) In order to carry out and effectuate the pledge and lien set forth in the Installment Payment Contract, as summarized herein above under the caption “INSTALLMENT PAYMENT CONTRACT –AIRPORT REVENUES – Allocation of Airport Revenues,” all Airport Revenues shall be deposited when and as available or received in the City of Santa Barbara Airport Revenue Fund, which fund is, as provided in the Installment Payment Contract, established (the “Airport Revenue Fund”), and which the City, under the Installment Payment Contract, covenants to maintain so long as any Installment Payments remain unpaid, and all moneys in the Airport Revenue Fund shall be so held in trust and applied and used solely as provided in the Installment Payment Contract. All moneys in the Airport Revenue Fund shall be set aside by the City at the following times in the following respective special funds in the following order of priority:

(i) *Maintenance and Operation Fund* (which is established under the Installment Payment Contract and which is held by the City and which the City, as provided in the Installment Payment Contract, agrees and covenants to maintain so long as any Installment Payments remain unpaid); and

(ii) *Installment Payment Fund* (which is established under the Installment Payment Contract and which is held by the City and which the City, as provided in the Installment Payment Contract, agrees and covenants to maintain so long as any Installment Payments remain unpaid) including the Series 2009 Installment Payment Account within such fund (to be held by the City); and

(iii) *The Reserve Fund* established pursuant to the Trust Agreement (the “Reserve Fund”), to the extent necessary to increase the amount therein to the Reserve Fund Requirement.

All moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in this section.

(b) *Maintenance and Operation Fund.* On or before the twenty-fifth (25th) day of each month, the City shall, from the moneys in the Airport Revenue Fund, pay for deposit in Maintenance and Operation Fund an amount at least equal to the Maintenance and Operation Costs becoming due in the next succeeding month.

(c) *Installment Payment Fund.* On or before the twenty-fifth (25th) day of each June and December, commencing December 25, 2009, the City shall, from the moneys in the Airport Revenue Fund, pay, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, for deposit in the Series 2009 Installment Payment Account within the Installment Payment Fund, (i) the aggregate amount of interest becoming due on the Series 2009 Installment Payments on the next Interest Payment Date; and (ii) for deposit into such fund or account as may be provided therefor, in the case of Series 2009 Bonds or Installment Payments other than the Series 2009 Installment Payments, a sum equal to the aggregate amount of interest becoming due on such Installment Payment Contracts and Bonds on the next Interest Payment Date; provided, that if interest is then accruing on the unpaid balance of the principal amount of any series or issue of Installment Payment Contracts or Bonds at other than a fixed rate, such amount with respect to such Installment Payment Contracts and Bonds shall be equal to one hundred ten percent (110%) of the amount of interest so accruing during the immediately preceding six (6) months on such unpaid principal amount, plus (iii) one-half (1/2) of the aggregate amount of principal becoming due (due to maturity, mandatory sinking fund payment or mandatory prepayment or otherwise) on the Series 2009 Installment Payments, Installment Payment Contracts and Bonds during the next succeeding twelve months, but excluding from such amounts of principal any series or issue of such Bonds or Installment Payment Contracts having twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year if such series or issue is secured by the proceeds of a letter of credit, revolving credit agreement or similar credit arrangement.

No deposit need be made in the Series 2009 Installment Payment Account if the amount available and contained therein is at least equal to the amount of interest becoming due under the Installment Payment Contract on the next succeeding Installment Payment Date (computed for purposes of this paragraph in the manner specified in

the preceding paragraph), plus the amount of principal becoming due under the Installment Payment Contract on the next succeeding Installment Payment Date.

All moneys in the Series 2009 Installment Payment Account shall be withdrawn by the City solely for the purpose of paying the Series 2009 Installment Payments to the Authority as they become due and payable in accordance with the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – INSTALLMENT PAYMENTS – Series 2009 Installment Payments"; provided, however, that such amounts as the City determines in the Tax Certificate to be necessary to comply with the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – COVENANTS OF THE CITY – Against Federal Income Taxation" may be withdrawn by the City and transferred and applied pursuant to such provisions.

(d) *Replenishment of Reserve Fund.* On or before the twenty-fifth (25th) day of each June and December, commencing December 25, 2009, the City shall, from the moneys in the Airport Revenue Fund pay for deposit into the Reserve Fund the amount of one-half (1/2) of the aggregate amount of any withdrawal from the Reserve Fund in order to make a payment of principal or interest on Bonds, so that the Reserve Fund is replenished to the Reserve Account Requirement (as that term is defined in the Trust Agreement) within one year following such withdrawal.

(e) *Surplus.* On the last day of each such December and June, all remaining moneys in the Airport Revenue Fund shall be deposited by the City in the Airport enterprise fund or in such other fund as may be determined by the City for expenditure for any lawful purpose of the City.

Additional Installment Payment Contracts. So long as the City is not in default under the Installment Payment Contract, the City may at any time execute any Installment Payment Contract, the Installment Payments under and pursuant to which are payable from Airport Revenues on a basis senior to or on a parity with the payment by the City of the Series 2009 Installment Payments as provided in the Installment Payment Contract; provided, that the audited rental rates, fees and charges for the services and facilities of the Airport for the Fiscal Year next preceding the date of the adoption by the City of the resolution authorizing the execution of such Installment Payment Contract, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant on such calculation on file with the City shall demonstrate compliance with the covenant with respect to Rates and Charges contained in all Installment Payment Contracts outstanding after the execution of such Installment Payment Contract.

Investments. Any moneys held by the City in the Airport Revenue Fund and in the Installment Payment Fund shall be invested in Investment Securities which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Installment Payment Contract.

The City may commingle any of the funds or accounts (except for funds held in the Rebate Fund, which shall be held separately) established pursuant to the Installment Payment Contract into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the City under the Installment Payment Contract shall be accounted for separately notwithstanding such commingling. For the purpose of determining the amount in any such fund or account, all Investment Securities credited to any fund or account shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value.

COVENANTS OF THE CITY

Compliance with Installment Payment Contract, Site Lease, Facility Lease and Trust Agreement. The City will punctually pay the Installment Payments in strict conformity with the terms of the Installment Payment Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Payment Contract required to be observed and performed by it, and will not terminate the Installment Payment Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Payment Contract required to be observed and performed

by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Payment Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the City or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement, the Site Lease and the Facility Lease required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Payment Contract, the Site Lease and the Facility Lease and the Trust Agreement that, subject to the terms of the Installment Payment Contract, as summarized herein under the caption “INSTALLMENT PAYMENT CONTRACT – MISCELLANEOUS – Partial Invalidity,” each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the payment with respect to the Project by the City pursuant to, and in accordance with, and as authorized under the Act.

Against Encumbrances. The City will not make any pledge of or place any lien on the Airport Revenues on a basis senior to or on a parity with the pledge and lien under the Installment Payment Contract for the Installment Payments except as may be permitted under the Installment Payment Contract.

Against Sale or Other Disposition of Airport. Except for Permitted Encumbrances, the City will not sell, lease or otherwise dispose of the Airport or any part thereof essential to the proper operation of the Airport or to the maintenance of the Airport Revenues. The City will not enter into any agreement or lease which impairs the operation of the Airport or any part thereof necessary to secure adequate Airport Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Authority with respect to the Airport Revenues or the operation of the Airport. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Airport, or any material or equipment which has become worn out, may be sold at not less than the market value thereof if such sale will not reduce the Airport Revenues and if the proceeds of such sale are deposited in the Airport Revenue Fund.

Against Federal Income Taxation. (a) The City will not directly or indirectly use or permit the use of any proceeds of the obligation provided in the Installment Payment Contract or any other funds of the City or take or omit to take any action that would cause such obligation to be an “arbitrage bond” within the meaning of Section 148(a) of the Code or a “federal guaranteed obligation” within the meaning of Section 149(b) of the Code.

To that end, as long as any Installment Payments are unpaid, the City will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided in the Installment Payment Contract. In the event that at any time the City is of the opinion that for purposes of this section it is necessary to restrict or to limit the yield on the investment of any moneys held by the City under the Installment Payment Contract or by the Trustee under the Trust Agreement, the City shall so instruct the Trustee in writing, and the Trustee, as appropriate, shall act in accordance with such instructions.

The City and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest component of the Installment Payments will not be included in gross income of the holders of the Bonds for federal income tax purposes and will take no action that would result in such interest being so included. The City, under the Installment Payment Contract, covenants to abide by all of the covenants, terms and conditions relating to the City set forth in the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY- Tax Covenants; Rebate Fund.”

The City will pay or cause to be paid the Rebate Requirement as provided in the Tax Certificate. This covenant shall survive payment in full of the Installment Payments.

(b) Notwithstanding any provision of this section or of the Installment Payment Contract, as summarized herein under the caption “INSTALLMENT PAYMENT CONTRACT – DISCHARGE OF OBLIGATIONS,” if the City receives an opinion of Bond Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Installment Payments or the Bonds, the City

may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the Installment Payment Contract shall be deemed to be modified to that extent.

(c) The provisions of this section shall not apply to any Bonds or Installment Payment Contracts which the City and the Authority shall certify to the Trustee are not intended to comply with the requirements of the Code necessary to make interest on such Bonds or Installment Payment Contracts excludable from gross income for federal income tax purposes.

Maintenance and Operation of the Airport; Budgets. The City will maintain and preserve the Airport in good repair and working order at all times and will operate the Airport in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Airport as they become due and payable. On or before the first date of each Fiscal Year (commencing July 1, 2009), the City will adopt and file with the Authority a budget approved by the City Council setting forth the estimated Maintenance and Operation Costs of the Airport. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the City with the Authority.

Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Airport Revenues or any part thereof or on any funds in the hands of the City prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments.

Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Airport, which records shall be available for inspection by the Authority at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Trustee and the Authority annually within two hundred ten (210) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2009):

(1) financial statements of the City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon; and

(2) a certificate of insurance as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Airport as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby and that such insurance satisfies the requirements of the Installment Payment Contract. The Trustee has no responsibility for the coverage or adequacy of any insurance or self-insurance.

(c) The City will provide annually not more than two hundred ten (210) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2009) a summary report (which may be in the form of the audited financial statements of the City) showing in reasonable detail the Airport Revenues and the Maintenance and Operation Costs of the Airport for such Fiscal Year to the Trustee and the Authority.

(d) The City shall keep, and shall cause the Trustee to keep proper books of record and account in accordance with the Trustee's standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Installment Payments and the proceeds of the obligations provided in the Installment Payment Contract. Such records shall specify the account or fund to which each investment (or portion thereof) held pursuant to the Installment Payment Contract and the Trust Agreement is to be allocated and shall set forth, in the case of each Investment Security, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (v) such other documentation as the City deems necessary.

Such records shall be open to inspection by the Authority at any reasonable time during regular business hours on reasonable notice. The Trustee shall furnish to the City regular reports on such dates and containing such information as the City shall require, covering the activities and responsibilities of the Trustee.

Protection of Security and Rights of the Authority. The City will preserve and protect the security of the Installment Payment Contract and the rights of the Authority to the Installment Payments under the Installment Payment Contract and will warrant and defend such rights against all claims and demands of all persons.

Amount of Rates and Charges. To the extent reasonably practicable, the City will fix, prescribe and collect rentals, rates, fees and charges for the services and facilities of the Airport and will establish a budget that will enable the City to collect such rentals, rates, fees and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Airport for such Fiscal Year; and (ii) one (1) times the debt service on all Installment Payments for such Fiscal Year, to the extent they are then unpaid or are not discharged in accordance with their terms.

Assignment of Authority's Rights. As security for the payment of the Bonds, the Authority will assign to the Trustee the Authority's rights under the Installment Payment Contract, including the right to receive payments under the Installment Payment Contract, and the Authority, as provided in the Installment Payment Contract, directs the City to make the payments required under the Installment Payment Contract directly to the Trustee. The City, as provided in the Installment Payment Contract, consents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the City and the Authority or the Trustee.

PREPAYMENT OF INSTALLMENT PAYMENTS

Prepayment. (a) Under the Facility Lease, the City may or shall, as the case may be, prepay from the proceeds of insurance or eminent domain proceedings certain Base Rental Payments. The City's obligation to make Installment Payments on any Installment Payment Date shall be deemed satisfied to the extent that any such prepayment of Base Rental Payments has been made as of such date.

(b) The Installment Payments, together with any prepayment premium due on the Bonds as set forth in the Trust Agreement, may be prepaid by the City upon notice to the Trustee as required in the Trust Agreement, as summarized in the Official Statement under the caption "THE BONDS – Redemption Terms of the Series 2009 Bonds – Optional Redemption" in whole or in part on any Installment Payment Date from any available funds.

(c) Notwithstanding any such prepayment, the City shall not be relieved of its obligations under the Installment Payment Contract, including its obligations under the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – INSTALLMENT PAYMENTS," until the Total Payments shall have been fully paid (or provision for payment thereof shall have been provided pursuant to the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – DISCHARGE OF OBLIGATIONS" and to the written satisfaction of the Authority).

Method of Prepayment. Before making any prepayment pursuant to the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – PREPAYMENT OF INSTALLMENT PAYMENTS – Prepayment," the City shall, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than forty-five (45) nor more than seventy five (75) days from the date such notice is given.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default. Any one or more of the following events shall constitute an Event of Default under the Installment Payment Contract:

(1) if default shall be made in the due and punctual payment of any Installment Payment or any Installment Payment Contract or Bond when and as the same shall become due and payable;

(2) if default shall be made by the City in the performance of any of the other agreements or covenants required in the Installment Payment Contract to be performed by it, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Authority; or

(3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

Remedies of the Authority. Upon an Event of Default, the Authority shall have the right: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform and carry out its or such person's duties under the Act and the agreements and covenants required to be performed by it or such person contained in the Installment Payment Contract; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or (c) by suit in equity upon the happening of an Event of Default to require the City and its directors, officers and employees to account as the trustee of an express trust.

Non-Waiver. Nothing in this article or in any other provision of the Installment Payment Contract shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Airport Revenues and the other funds pledged under the Installment Payment Contract for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Payment Contract.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the City and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred in the Installment Payment Contract upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Payment Contract or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When

(a) all or any portion of not less than \$100,000 of the Installment Payments shall have become due and payable in accordance with the Installment Payment Contract or a written notice of the City to prepay all or any portion of not less than \$100,000 of the Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Installment Payment Date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated

and set aside to the payment of all or any portion of not less than \$100,000 of the Installment Payments sufficient, in the opinion of a certified public accountant, Government Securities, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or to their prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee so long as such Installment Payments shall remain unpaid,

then and in that event, if an opinion of Bond Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the Installment Payment Contract, as summarized herein under this heading "INSTALLMENT PAYMENT CONTRACT – DISCHARGE OF OBLIGATIONS" shall not adversely affect the exclusion of the interest portion of the Installment Payments from gross income for federal income tax purposes, the right, title and interest of the Authority in the Installment Payment Contract and the obligations of the City under the Installment Payment Contract shall, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Government Securities applied to the payment of such Installment Payments). In such event, upon request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the City, as an overpayment of Installment Payments, all such moneys or such Government Securities held by it pursuant to the Installment Payment Contract other than such moneys and such Government Securities as are required for the payment or prepayment of the Installment Payments which moneys and Government Securities shall continue to be held by the Trustee in trust for the payment of the Installment Payments and shall be applied by the Trustee to the payment of the Installment Payments of the City.

MISCELLANEOUS

Liability of City Limited to Airport Revenues. Notwithstanding anything contained in the Installment Payment Contract, the City shall not be required to advance any moneys derived from any source of income other than the Airport Revenues and the other funds provided in the Installment Payment Contract for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Payment Contract. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Installment Payments is a limited obligation of the City payable solely from the Airport Revenues, and does not constitute a debt of the City, the Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of Installment Payment Contract Limited to Parties. Nothing contained in the Installment Payment Contract, expressed or implied, is intended to give to any person other than the City or the Authority any right, remedy or claim under or pursuant to the Installment Payment Contract, and any agreement or covenant required in the Installment Payment Contract to be performed by or on behalf of the City or the Authority shall be for the sole and exclusive benefit of the other party.

Successor Is Deemed Included in All References to Predecessor. Whenever either the City or the Authority is named or referred to in the Installment Payment Contract, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Authority, and all agreements and covenants required by the Installment Payment Contract to be performed by or on behalf of the City or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No director, officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Payment

Contract shall relieve any director, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the Installment Payment Contract.

Net Contract. The Installment Payment Contract shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term of the Installment Payment Contract the Installment Payments and all other payments required under the Installment Payment Contract, free of any deductions and without any abatement, diminution or set-off whatsoever.

California Law. The Installment Payment Contract shall be construed and governed in accordance with the laws of the State of California.

Effective Date and Termination Date. The Installment Payment Contract shall become effective upon its execution and delivery. The Installment Payment Contract shall terminate when all of the payments due under the Installment Payment Contract shall have been fully paid (or provision for the payment thereof shall have been made pursuant to the Installment Payment Contract, as summarized herein under the caption "INSTALLMENT PAYMENT CONTRACT – DISCHARGE OF OBLIGATIONS" and to the written satisfaction of the Authority).

Amendment or Termination. The Authority and the City may at any time agree to the amendment or termination of the Installment Payment Contract; provided, however, that the Authority and the City agree and recognize that the Installment Payment Contract is entered into in accordance with the terms of the Trust Agreement, and accordingly, that any such amendment or termination shall only be made or effected in accordance with and subject to the terms of the Trust Agreement.

TRUST AGREEMENT

THE BONDS

Authorization of Bonds; Series 2009 Bonds.

Bonds may be issued under the Trust Agreement from time to time in order to obtain moneys to carry out the purposes of the Authority. The maximum principal amount of Bonds which may be issued under the Trust Agreement is not limited. The Bonds may be issued in such Series as from time to time shall be established and authorized by the Authority, subject to the covenants, provisions and conditions contained in the Trust Agreement. The validity of the issuance of the Series 2009 Bonds shall not be dependent on or affected in any way by the proceedings taken by the Authority for the finance and refinancing of the Project or by any contracts made by the Authority or its agents in connection therewith, and shall not be dependent upon the performance by any person, firm or corporation of his or its obligation with respect thereto. The recital contained in the Series 2009 Bonds that the same are issued pursuant to the Act and pursuant to the Trust Agreement shall be conclusive evidence of their validity and of the regularity of their issuance, and all Series 2009 Bonds shall be incontestable from and after their issuance. The Series 2009 Bonds shall be deemed to be issued, within the meaning of the Trust Agreement, whenever the definitive Series 2009 Bonds (or any temporary Series 2009 Bonds exchangeable therefor) shall have been delivered to the purchaser thereof and the proceeds of sale thereof received.

Transfer and Payment of Bonds. Any Bond may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of the same Series and maturity for a like aggregate principal amount of Authorized Denominations. The Trustee shall require the payment by the Bondholder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

The Authority and the Trustee may, except as otherwise provided in the Trust Agreement, deem and treat the registered owner of any Bond as the absolute owner of such Bond for the purpose of receiving payment thereof

and for all other purposes, whether such Bond shall be overdue or not, and neither the Authority nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of and redemption premium, if any, on such Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on such Bond to the extent of the sum or sums so paid.

The Trustee shall not be required to register the transfer of or exchange any Bonds which have been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part as provided in the Trust Agreement, as summarized in the Official Statement under the caption “THE BONDS – Redemption Terms of the Series 2009 Bonds – Selection of Bonds for Redemption” or during the period established by the Trustee for selection of Bonds for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of the same Series and maturity of other authorized denominations. The Trustee shall require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege. The Trustee shall not be required to exchange any Bond which has been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part as provided in the Trust Agreement, as summarized in the Official Statement under the caption “THE BONDS – Redemption Terms of the Series 2009 Bonds – Selection of Bonds for Redemption” or during the period established by the Trustee for selection of Bonds for redemption.

Bond Registration Books. The Trustee will keep at its office sufficient books for the registration and transfer of the Bonds, which during normal business hours shall be open to inspection by the Authority, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Bonds in such books as provided in the Trust Agreement.

Mutilated, Destroyed, Stolen or Lost Bonds; Temporary Bonds. If any Bond shall become mutilated, the Trustee, at the expense of the Bondholder, shall thereupon authenticate and deliver a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled.

If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Bondholder, shall thereupon authenticate and deliver a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Bond issued under this section and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any Bond issued under the provisions of this section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Bonds of the same Series secured by the Trust Agreement. Neither the Authority nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Trust Agreement or for the purpose of determining any percentage of Bonds Outstanding under the Trust Agreement, but both the original and replacement Bond shall be treated as one and the same.

The Bonds issued under the Trust Agreement may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority, shall be in fully registered form and may contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Bond shall be executed and authenticated as authorized by the Authority, in accordance with the terms of the Act. If the Authority issues temporary Bonds it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Trust Agreement as definitive Bonds delivered under the Trust Agreement.

Special Covenants as to Book-Entry Only System for Bonds.

(a) Except as otherwise provided in subsections (b) and (c) of this section, all of the Bonds initially issued shall be registered in the name of Cede & Co., as nominee for DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Bond registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of such Bonds, representing the aggregate principal amount of the Bonds of such maturity. Upon initial issuance, the ownership of all such Bonds shall be registered in the registration records maintained by the Trustee pursuant to the Trust Agreement in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, the Authority and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal or redemption price of and interest on such Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Trust Agreement, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders of the Bonds and for all other purposes whatsoever; and neither the Trustee nor the Authority or any paying agent shall be affected by any notice to the contrary. Neither the Trustee nor the Authority or any paying agent shall have any responsibility or obligation to any "Participant" (which shall mean, for purposes of this section, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Bondholder, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or redemption price of or interest on the Bonds, (iii) any notice which is permitted or required to be given to Bondholders of Bonds under the Trust Agreement, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds, or (v) any consent given or other action taken by DTC as Bondholder of Bonds. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the Authority's obligations with respect to the payment of the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Bonds will be transferable to such new nominee in accordance with subsection (e) of this section.

(c) In the event that the Authority determines that the Bonds should not be maintained in book-entry form, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Bonds will be transferable in accordance with subsection (e) of this section. DTC may determine to discontinue providing its services with respect to the Bonds or a portion thereof, at any time by giving written notice of such discontinuance to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Bonds will be transferable in accordance with subsection (e) of this section. If at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor securities depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, then this section shall no longer be applicable and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds as provided below. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Bonds then Outstanding. In such event, the Bonds will be transferable to such securities depository in accordance with subsection (e) of this section, and thereafter, all references in the Trust Agreement to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of the Trust Agreement to the contrary, so long as all Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and

premium, if any, and interest on each such Bond and all notices with respect to each such Bond shall be made and given, respectively, to DTC as provided in or pursuant to the Representation Letter.

(e) In the event that any transfer or exchange of Bonds is authorized under subsection (b) or (c) of this section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – THE BONDS – Transfer and Payment of Bonds” and “Exchange of Bonds.” In the event Bond certificates are issued to Bondholders other than Cede & Co., its successor as nominee for DTC as holder of all the Bonds, another securities depository as holder of all the Bonds, or the nominee of such successor securities depository, the provisions of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – THE BONDS – Transfer and Payment of Bonds” and “Exchange of Bonds” shall also apply to, among other things, the registration, exchange and transfer of the Bonds and the method of payment of principal of, premium, if any, and interest on the Bonds.

ISSUANCE OF BONDS

Construction Fund.

(a) The Trustee, as provided in the Trust Agreement, agrees to establish and maintain the Construction Fund (the initial payment into which is provided for in the Trust Agreement). The Trustee shall hold the moneys in the Construction Fund and shall disburse such moneys therefrom to pay Construction Costs. Such disbursements shall be made from time to time upon receipt of a Written Request of the Authority which: (i) states with respect to each disbursement to be made: (A) the requisition number and the appropriate Account within the Construction Fund from which the disbursement is to be made, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred, is a Construction Cost and is a proper charge against the Construction Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Upon the delivery to the Trustee of a Certificate of Completion, the Trustee shall transfer any remaining balance of money in the Construction Fund, first, to City for deposit in the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, second, to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Fund Requirement, as directed in writing by the City, and third, the remainder to a separate subaccount within the Principal Account, which the Trustee shall establish and hold in trust, and which shall be entitled the “Surplus Subaccount.” The moneys in the Surplus Subaccount shall be applied (unless some other application of such moneys would not, in the opinion of Bond Counsel, adversely affect the tax-exempt status of interest on the Bonds) as directed in writing by the City to pay principal on the Series of Bonds from which such moneys were derived as such principal becomes due and payable, in annual amounts which bear the same ratio to the principal amount of such Series of Bonds maturing in such year that the amount deposited in the Surplus Subaccount bears to the original principal amount of such Series of Bonds. Notwithstanding the terms of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – REVENUES – Deposit and Investments of Money in Accounts and Funds,” the moneys in the Surplus Subaccount shall be invested at a yield no higher than the yield on such Outstanding Series of Bonds (unless, in the opinion of Bond Counsel, investment at a higher yield would not adversely affect the tax-exempt status of interest on the Bonds), and all such investment income shall be deposited in the Surplus Subaccount and expended or reinvested as provided above. The City shall be responsible for investment instructions complying with the yield requirements as set forth in this section.

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue Additional Bonds pursuant to a Supplemental Trust Agreement, payable from the Revenues as provided in the Trust Agreement and secured by a pledge of and charge and lien upon the Revenues as provided in the Trust Agreement equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued under the Trust Agreement, but only subject to the following specific conditions, which are conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall be in compliance with all agreements and covenants contained in the Trust Agreement.

(b) The Supplemental Trust Agreement shall require that the proceeds of the sale of such Additional Bonds shall be applied to the acquisition (by purchase or lease) of facilities to be added to the Facilities or for the refunding of Outstanding Bonds.

(c) The Supplemental Trust Agreement shall provide, if necessary, that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement.

(d) The Additional Bonds shall be payable as to principal only on a Principal Payment Date of each year in which principal is due and shall be payable as to interest only on an Interest Payment Date.

(e) The aggregate principal amount of Bonds issued and at any time Outstanding under the Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

(f) The Facility Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year shall at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(g) The Facility Lease shall have been amended so as to lease to the City the project being financed or refinanced from the proceeds of such Additional Bonds or facilities of comparable worth and economic life.

(h) The Installment Payment Contract shall have been amended, if necessary, so that the Installment Payments payable by the City thereunder in each Fiscal Year shall at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(i) If the proceeds of such Additional Bonds are to be used, in whole or in part, to finance or refinance construction on real property not described in the Facility Lease or the additional Facilities to be leased are not situated on property described in the Facility Lease, (1) a site lease shall have been executed so as to lease to the Authority such additional real property; and (2) the Facility Lease shall have been amended so as to lease to the City such additional real property.

Proceedings for Authorization of Additional Bonds. Whenever the Authority and the City shall determine to execute and deliver any Additional Bonds pursuant to the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds,” the Authority and the Trustee shall enter into a Supplemental Trust Agreement providing for the issuance of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds.

The Supplemental Trust Agreement shall prescribe the form or forms of such Additional Bonds and, subject to the provisions of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds,” shall provide for the distinctive designation, denominations, method of numbering, dates, payment dates, interest rates (or method of determining the rates, if variable), interest payment dates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds shall be issued, the City and the Authority shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth that (1) such Counsel has examined the Supplemental Trust Agreement and the amendment to the Facility Lease, the amendment to the Installment Payment Contract and the site lease required by the Trust Agreement, as summarized herein in paragraphs (f), (g) (h) and (i) under the caption

“TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds”; (2) the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the City and the Authority; and (3) said amendment to the Facility Lease, the amendment to the Installment Payment Contract and the site lease if any, when duly executed by the City and the Authority, will be valid and binding obligations of the City and the Authority.

(b) A Certificate of the Authority stating that the requirements of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds” have been met.

(c) A certified copy of a resolution or ordinance of the City authorizing the execution of the amendments to the Facility Lease and Installment Payment Contract required by the Trust Agreement, as summarized herein in paragraphs (f), (g) (h) and (i) under the caption “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds.”

(d) An executed counterpart or duly authenticated copy of any amendments to the Facility Lease and Installment Payment Contract required by the Trust Agreement, as summarized herein in paragraphs (e), (f), (g) and (h) under the caption “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds.”

(e) A Certificate of the City stating that the insurance required by the Facility Lease, as summarized herein under the caption “FACILITY LEASE – INSURANCE – Fire and Extended Coverage Insurance,” “– Liability Insurance” and “– Rental Interruption or Use and Occupancy Insurance” is in effect.

(f) If the proceeds of such Additional Bonds are to be used, in whole or in part, to finance or refinance construction or acquire facilities on real property not then described in the Facility Lease, an executed counterpart or duly authenticated copy of the site lease required by the Trust Agreement, as summarized herein in paragraph (i) under the caption “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds.”

(g) A title insurance policy insuring the Authority’s leasehold or fee title in the real property on which the Facilities are located, and, if the proceeds of such Additional Bonds are to be used to finance or refinance construction on real property not then described in the Facility Lease, a title insurance policy insuring the Authority’s leasehold or fee title in such real property, or, at the option of the Authority, an opinion of counsel or Certificate of the City or such other evidence of the Authority’s or City’s leasehold or fee interest in such real property as shall be acceptable to the Authority.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee’s receipt of Certificates of the City and of the Authority stating that all applicable provisions of the Trust Agreement have been complied with (so as to permit the issuance of the Additional Bonds in accordance with the Supplemental Trust Agreement then delivered to the Trustee), the Trustee shall execute and deliver said Additional Bonds in the aggregate principal amount specified in such Supplemental Trust Agreement to, or upon the Written Request of, the Authority.

REVENUES

Pledge of Revenues. All Revenues, any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund created pursuant to the Trust Agreement) and any other amounts (excluding Additional Payments) received by the Authority in respect of the Facilities are irrevocably pledged and assigned to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Trust Agreement, and the Revenues and other amounts pledged under the Trust Agreement shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. This pledge shall constitute a pledge of and charge and first lien upon the Revenues, all other amounts pledged under the Trust Agreement and all other moneys on deposit in the funds and accounts established under the Trust Agreement (excluding amounts on deposit

in the Rebate Fund created pursuant to the Trust Agreement) for the payment of the interest on and principal of the Bonds in accordance with the terms thereof.

Subject to the provisions of the Facility Lease, as summarized herein under the caption “FACILITY LEASE – RENTAL PAYMENTS; USE OF PROCEEDS – Installment Payment Contract; Installment Payments,” at least three (3) Business Days prior to each date on which an Installment Payment is due pursuant to the Installment Payment Contract or a Base Rental Payment is due pursuant to the Facility Lease, the Trustee shall notify the City of the amount of the Installment Payments or of the installment of Base Rental Payment needed to pay the principal of and interest on the Bonds due on the next following Interest Payment Date. Any failure to send such notice shall not affect the City’s obligation to make timely payments of Installment Payments or of the installments of Base Rental Payments.

Receipt and Deposit of Revenues in the Revenue Fund. In order to carry out and effectuate the pledge, assignment, charge and lien contained in the Trust Agreement and subject to the terms of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – REVENUES – Deposit and Investments of Money in Accounts and Funds,” the Authority agrees and covenants that all Revenues and all other amounts pledged under the Trust Agreement when and as received shall be received by the Authority in trust under the Trust Agreement for the benefit of the Bondholders and shall be transferred when and as received by the Authority to the Trustee for deposit in the Revenue Fund (the “Revenue Fund”), which fund is created and which fund the Trustee, as provided in the Trust Agreement, agrees and covenants to maintain in trust for Bondholders so long as any Bonds shall be Outstanding under the Trust Agreement. The City has been directed to pay all Installment Payments and Base Rental Payments directly to the Trustee. If the Authority receives any Installment Payments or Base Rental Payments, it shall hold the same in trust as agent of the Trustee and shall immediately transfer such Installment Payments or Base Rental Payments to the Trustee. All Revenues and all other amounts pledged and assigned under the Trust Agreement shall be accounted for through and held in trust in the Revenue Fund, and the Trustee shall have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement. All Revenues and all other amounts pledged and assigned under the Trust Agreement, whether received by the Authority in trust or deposited with the Trustee as provided in the Trust Agreement, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund; Reserve Fund.

(a) *Revenue Fund.* Subject to terms of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY- Tax Covenants; Rebate Fund,” all money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts or funds within the Revenue Fund (each of which is created under the Trust Agreement and each of which the Trustee, under the Trust Agreement, covenants and agrees to cause to be maintained) in the following order of priority:

- (1) Interest Account, and
- (2) Principal Account.

In addition, the Trustee shall established and maintain the Capitalized Interest Account within the Interest Fund until the date all amounts are transferred therefrom in accordance with subsection (b) of this section. All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Trust Agreement. On each Principal Payment Date, following payment of principal of and interest on the Bonds, any excess amount on deposit in the Revenue Fund shall be transferred to the Reserve Fund to the extent necessary to increase the amount therein to the Reserve Fund Requirement and any excess shall then be returned to the City as an excess payment of Base Rental Payments.

(b) *Interest Account.* On or before each Interest Payment Date, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date; provided, however, that on each Interest Payment Date occurring on or before the later of January 1, 2012 or the delivery to the Trustee of the Certificate of Completion, before making said deposit, if and to the extent available in the Capitalized Interest

Account within the Interest Account, an amount equal to the aggregate amount of interest coming due on such Interest Payment Date shall be transferred from the Capitalized Interest Account within the Interest Account to the Interest Account.

No deposit need be made in the Interest Account if the amount contained therein and available to pay interest on the Bonds is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

Upon the later of January 1, 2012 or the delivery to the Trustee of the Certificate of Completion, the Trustee shall transfer any amounts then remaining in the Capitalized Interest Account to the Interest Account.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(c) *Principal Account.* On or before each July 1, commencing July 1, 2010, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such July 1 into the respective sinking fund accounts for all Outstanding Term Bonds and the principal amount of all Outstanding Serial Bonds maturing on such July 1.

No deposit need be made in the Principal Account if the amount contained therein and available to pay principal of the Bonds is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such July 1 plus the aggregate amount of all sinking fund payments required to be made on such July 1 for all Outstanding Term Bonds.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each Series and maturity, designated as the “___ Sinking Account” (the “Sinking Account”), inserting therein the Series and maturity (if more than one such account is established for such Series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to selection of Bonds for redemption, the Trustee may, upon the Written Request of the Authority, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it shall become due and payable, whether at maturity or redemption, except that any money in any Sinking Account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such Sinking Account was created.

(d) *Reserve Fund.* The Authority, as provided in the Trust Agreement, agrees to establish a separate fund titled the “Reserve Fund” to be held by the Trustee. All money in the Reserve Fund shall be deposited with, used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Reserve Fund and transferred to the Revenue Fund on each Interest Payment Date, following the payment of any amounts due on such date. The Trustee shall notify the City if any withdrawal is made from the Reserve Fund for the purpose of funding the Interest Account or the Principal Account. If the Reserve Fund Requirement is satisfied by a Reserve Facility,

the Trustee shall draw on such Reserve Facility in accordance with its terms and the terms of the Trust Agreement, in a timely manner, to the extent necessary to fund any such deficiency in the Interest Account or the Principal Account. The Authority shall repay solely from Revenues any draws under a Reserve Facility and any Reserve Facility Costs related thereto. Interest shall accrue and be payable on such draws and expenses from the date of payment by a Reserve Facility provider at the rate specified in the agreement with respect to such Reserve Facility.

Before any drawing may be made on a Reserve Facility, the Trustee shall have withdrawn all cash and investments in the Reserve Fund to replenish the Principal Account and the Interest Account. If any obligations are due and payable under the Reserve Facility, any new funds deposited into the Reserve Fund shall be used and withdrawn by the Trustee to pay such obligations. The pledge of the Revenues by the Authority to secure the payment of the Reserve Facility Costs is on a basis that is subordinate to the pledge of Revenues to the Trustee for the Bonds.

Amounts in respect of Reserve Facility Costs paid to a Reserve Facility provider shall be credited first to the expenses due, then to interest due and then to principal due. As and to the extent payments are made to a Reserve Facility provider on account of principal due, the coverage under the Reserve Facility will be increased by a like amount, subject to the terms of the Reserve Facility.

Draws on all Reserve Facilities on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Reserve Facility Costs and reimbursement of amounts with respect to other Reserve Facilities shall be made on a pro-rata basis prior to the replenishment of any cash drawn from the Reserve Fund.

If the Authority shall fail to pay any Reserve Facility Costs in accordance with the above requirements, a Reserve Facility provider shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect Owners of the Bonds.

The Trust Agreement shall not be discharged until all Reserve Facility Costs owing to a Reserve Facility provider shall have been paid in full. The Authority's obligation to pay such amounts shall expressly survive payment in full of the Bonds.

The Authority may satisfy the Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Reserve Fund of a Reserve Facility, or any combination thereof.

(i) *Surety Bond or Insurance Policy.* A surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if such municipal bond insurer shall be rated in the highest rating categories issued by Moody's and by S&P. The term of such surety bond or insurance policy shall be equal to the term of the Series of Bonds which it secures. In the event a surety bond or insurance policy is deposited in the Reserve Fund in accordance with this section, notice of that event shall be given to Moody's and S&P by the Authority at the time of deposit.

(ii) *Letter of Credit.* A letter of credit may be deposited in the Reserve Fund to meet the Reserve Fund Requirement, provided that any such letter of credit must be issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody's and S&P. In the event a letter of credit is deposited in the Reserve Fund in accordance with this section, notice of that event shall be given to Moody's and S&P by the Authority at the time of deposit.

In the event that the rating on the unsecured long-term debt securities of the bank which has issued or confirmed any letter of credit is withdrawn or reduced by Moody's or S&P to a rate below the requirements set forth above, the Authority will obtain a substitute or replacement letter of credit within thirty (30) days from the date of

such reduction or withdrawal from a state, national or foreign bank meeting the requirements set forth above to the extent that, in the judgment of the Authority, such a substitute or replacement letter of credit is available upon reasonable terms and at a reasonable cost, or will deposit into the Reserve Fund a replacement surety bond or insurance policy meeting the requirements of this section, or the Authority shall deposit cash or other Investment Securities meeting the requirements of the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – REVENUES – Deposit and Investments of Money in Accounts and Funds" (to the extent the same are available from Revenues), in order to provide that there will be on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement.

Unless the Bonds have been fully paid and retired, the Trustee shall draw the full amount of any letter of credit credited to the Reserve Fund for such Bonds on the third Business Day preceding the date such letter of credit (taking into account any extension, renewal or replacement thereof) would otherwise expire, and shall deposit moneys realized pursuant to such draw in the Reserve Fund.

(iii) *Release of Moneys in Reserve Fund.* If the Authority causes a cash-funded Reserve Fund to be replaced with a Reserve Facility meeting the requirements of either (i) or (ii) above, amounts on deposit in the Reserve Fund shall, upon Written Request of the Authority to the Trustee, be transferred, subject to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation, to the City and applied for any lawful purpose.

Application of Insurance Proceeds. In the event of any damage to or destruction of any part of the Facilities covered by insurance, the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facilities, and the Trustee shall hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Facilities to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The City shall file a Certificate of the City with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the City, or from any combination thereof, are available in the event it elects to repair, reconstruct or replace the Facilities. The Trustee shall invest said proceeds in Investment Securities pursuant to the Written Request of the City, as agent for the Authority under the Facility Lease, and withdrawals of said proceeds shall be made from time to time upon the filing with the Trustee of a Written Request of the City, stating that the City has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Facilities, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair, reconstruction or replacement and the proceeds of use and occupancy insurance shall be paid to the Trustee as Base Rental Payments and applied in the manner provided by the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – REVENUES – Pledge of Revenues." Alternatively, the City, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Facilities, or that portion, in the case of partial damage or destruction of the Facilities, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Facilities, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facilities and thereupon shall cause said proceeds to be used for the redemption of Outstanding Bonds pursuant to the applicable provisions of the Trust Agreement, as summarized in the Official Statement under the caption "THE BONDS – Redemption Terms of the Series 2009 Bonds – Extraordinary Redemption." The City shall not apply the proceeds of insurance as set forth in this section to redeem the Bonds in part due to damage or destruction of a portion of the Facilities unless the Base Rental Payments on the undamaged portion of the Facilities will be sufficient to pay the initially-scheduled principal and interest on the Bonds remaining unpaid after such redemption.

Deposit and Investments of Money in Accounts and Funds. Subject to the terms of the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – COVENANTS OF THE AUTHORITY- Tax Covenants; Rebate Fund," all money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Investment Securities at the Written Request of the Authority. In the absence of any such Written Request of the Authority directing the investment of uninvested moneys held by the Trustee, the Trustee shall invest any such moneys in the money market fund set forth in the letter of authorization and direction executed by the Authority and delivered to the Trustee. If no specific money market fund had been specified by the

Authority, the Trustee shall make a request to the Authority for investment directions and, if no investment directions are provided, such amount shall be held in cash, uninvested, until specific investment directions are provided by the Authority to the Trustee. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement; provided, however, that moneys in the Reserve Fund shall be invested in Investment Securities with a term to maturity not exceeding five (5) years. For purposes of this restriction, Investment Securities containing a repurchase option or put option or withdrawal option by the investor shall be treated as having a maturity of no longer than such option. All interest or profits received on any money so invested in the Revenue Fund and the Reserve Fund shall be deposited in the Reserve Fund until the amount in the Reserve Fund is equal to the Reserve Fund Requirement, and then in the Revenue Fund. All investment earnings on the Construction Fund and the Surplus Subaccount shall be retained therein. The Trustee shall value Investment Securities held in the Reserve Fund no later than January 1 and July 1 in each year; provided that for purposes of this section the value of any such Investment Security shall be an amount equal to the lesser of the cost or the market value of such Investment Security. The Trustee and its affiliates may act as principal, agent, sponsor or advisor with respect to any investments. The Trustee shall not be liable for any losses on investments made in accordance with the terms and provisions of the Trust Agreement.

Investments purchased with funds on deposit in the Revenue Fund shall mature not later than the payment date or redemption date, as appropriate, immediately succeeding the investment.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

Subject to the terms of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY- Tax Covenants; Rebate Fund,” investments in any and all funds and accounts except for the Rebate Fund may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions in the Trust Agreement for transfer to or holding in particular funds and accounts amounts received or held by the Trustee under the Trust Agreement, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Trust Agreement.

COVENANTS OF THE AUTHORITY

Punctual Payment and Performance. The Authority will punctually pay out of the Revenues the interest on and principal of and redemption premiums, if any, to become due on every Bond issued under the Trust Agreement in strict conformity with the terms of the Trust Agreement and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Authority contained in the Trust Agreement and in the Bonds.

Against Encumbrances. The Authority will not make any pledge or assignment of or place any charge or lien upon the Revenues except as provided in the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – REVENUES – Pledge of Revenues,” and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except as provided in the Trust Agreement, as summarized herein under the captions “TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds” and “– Proceedings for Authorization of Additional Bonds.”

Tax Covenants; Rebate Fund.

(a) In addition to the accounts created pursuant to the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund; Reserve Fund,” the Trustee shall establish and maintain a fund separate from any other fund or account established and maintained under the Trust Agreement designated as the Rebate Fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to

satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding the provisions of the Trust Agreement, as summarized herein under the captions “TRUST AGREEMENT – REVENUES – Pledge of Revenues,” “– Receipt and Deposit of Revenues in the Revenue Fund,” and “– Deposit and Investments of Money in Accounts and Funds,” under the caption “TRUST AGREEMENT – AMENDMENT OF THE TRUST AGREEMENT – Amendment of the Trust Agreement” and under the caption “TRUST AGREEMENT – DEFEASANCE – Discharge of Bonds” relating to the pledge of Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund or account, the application of funds upon acceleration and the defeasance of Outstanding Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this section and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and shall have no liability or responsibility to enforce compliance by the Authority with the terms of the

Tax Certificate. The Trustee may rely conclusively upon the Authority’s determinations, calculations and certifications with regard to the calculations of Rebate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority’s calculations under the Trust Agreement.

(b) Any funds remaining in the Rebate Fund with respect to a Series of Bonds after redemption and payment of all such Series of Bonds and all other amounts due under the Trust Agreement or under the Facility Lease or the Installment Payment Contract relating to such Series of Bonds, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses of the Trustee and satisfaction of the Rebate Requirement (as defined in the Tax Certificate), shall be withdrawn by the Trustee and remitted to or upon the Written Request of the Authority.

(c) The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any of the Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code, “private activity bond” within the meaning of Section 141(a) of the Code, or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The Authority shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Bonds. In the event that at any time the Authority is of the opinion that for purposes of this paragraph it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement, the Authority shall so instruct the Trustee under the Trust Agreement in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(d) The Authority and the Trustee (as directed by the Authority and subject to the terms of the Trust Agreement, as summarized herein in paragraph (a) under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY- Tax Covenants; Rebate Fund”) specifically covenant to comply with the provisions and procedures of the Tax Certificate; provided that the Trustee shall not be bound by this covenant if an Event of Default has occurred and is continuing.

(e) The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(f) Notwithstanding any provisions of this section, if the Authority shall provide to the Trustee an Opinion of Counsel that any specified action required under this section or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this section, and, notwithstanding the provisions of the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – AMENDMENT OF THE TRUST AGREEMENT,” the covenants under the Trust Agreement shall be deemed to be modified to that extent.

(g) The foregoing provisions of this section shall not be applicable to any Series of Bonds or the proceeds thereof that the Authority determines upon the issuance thereof are to be taxable bonds, the interest on which is intended to be included in the gross income of the Owner thereof for federal income tax purposes.

Accounting Records and Reports. The Trustee will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books shall be available for inspection by the Authority at reasonable hours and under reasonable conditions with reasonable prior notice. The Trustee shall provide to the Authority monthly statements covering the funds and accounts held pursuant to the Trust Agreement. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the Trustee shall furnish or cause to be furnished to the Authority a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year. The Authority shall keep or cause to be kept such information as is required under the Tax Certificate.

Prosecution and Defense of Suits. The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Revenues or to the extent involving the failure of the Authority to fulfill its obligations under the Trust Agreement; provided, that the Trustee or any affected Bondholder at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the Authority, and will indemnify and hold harmless the Trustee against any reasonable attorney's fees or other reasonable expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Trust Agreement, except for any loss, cost, damage or expense resulting from the negligence or willful misconduct by the Trustee. Notwithstanding any contrary provision of the Trust Agreement, this covenant shall remain in full force and effect even though all Bonds secured by the Trust Agreement may have been fully paid and satisfied.

Maintenance of Revenues. The Authority will promptly collect all rents and charges due for the occupancy or use of the Facilities as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The Authority will promptly collect all amounts due under the Installment Payment Contract. The Authority will at all times maintain and vigorously enforce all of its rights under the Facility Lease and the Installment Payment Contract.

Amendments to Facility Lease and Installment Payment Contract. The Authority shall not supplement, amend, modify or terminate any of the terms of the Facility Lease or the Installment Payment Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent if such supplement, amendment, modification or termination (a) will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security given under the Trust Agreement for the payment of the Bonds (provided that such supplement, amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of providing for the payment of Additional Bonds as required by the Trust Agreement, as summarized herein in paragraph (e) or (g) under the caption "TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds" or substitution of real property pursuant to the Facility Lease, as summarized herein under the caption "FACILITY LEASE – LEASE OF DEMISED PREMISES AND PROJECT; TERM – Substitution"), (b) is to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the City, (c) is to cure, correct or supplement any ambiguous or defective provision contained therein, (d) is to accommodate any substitution in accordance with the Facility Lease, as summarized herein under the caption "FACILITY LEASE – LEASE OF DEMISED PREMISES AND PROJECT; TERM – Substitution," (e) is to modify the legal description of the Demised Facilities to conform to the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or substituted for the Demised Facilities pursuant to the provision of the Facility Lease, as summarized herein under the caption "FACILITY LEASE – LEASE OF DEMISED PREMISES AND PROJECT; TERM – Substitution," or (f) if the Trustee first obtains the written consent of the Bondholders of a majority in principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Installment Payments and Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Installment Payment Contract and

Facility Lease, respectively, to an amount less than the scheduled principal and interest payment on the Outstanding Bonds, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Trust Agreement on the Installment Payments and Base Rental Payments (except as expressly provided in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – ISSUANCE OF BONDS – Conditions for the Issuance of Additional Bonds," in the Installment Payment Contract and in the Facility Lease), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding.

Leasehold Estate. The Authority will be on the date of the delivery of the Bonds the owner and lawfully possessed of the leasehold estate described in the Facility Lease, and the Facility Lease will be on the date of delivery of the Bonds a valid subsisting demise for the term therein set forth of the property which it purports to demise. At the time of the delivery of the Bonds the City will be the owner in fee simple of the premises described therein, and the Facility Lease will be lawfully made by the City, and the covenants contained in the Facility Lease on the part of the City will be valid and binding. At the time of the delivery of the Bonds, the Authority will have good right, full power and lawful authority to lease said leasehold estate, in the manner and form provided in the Facility Lease, and the Facility Lease will be duly and regularly executed.

Without allowance for any days of grace which may or might exist or be allowed by law or granted pursuant to any terms or conditions of the Installment Payment Contract, the Facility Lease or the Site Lease, the Authority will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Payment Contract, the Facility Lease or the Site Lease to be kept, performed and complied with by it. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Installment Payment Contract, the Facility Lease or the Site Lease, or would or might be a ground for cancellation or termination of the Facility Lease by the lessee thereunder. The Authority will promptly deposit with the Trustee (to be held by the Trustee until the title and rights of the Trustee under the Trust Agreement shall be released or reconvened) any and all documentary evidence received by it showing compliance with the provisions of the Installment Payment Contract, the Facility Lease or the Site Lease to be performed by the Authority. The Authority, immediately upon its receiving or giving any notice, communication or other document in any way relating to or affecting the Installment Payment Contract, the Facility Lease or the Site Lease, or the leasehold estate thereby created, which may or can in any manner affect the estate of the lessor or of the Authority in or under the Installment Payment Contract, the Facility Lease or the Site Lease, will deliver the same, or a copy thereof, to the Trustee.

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

Events of Default and Acceleration of Maturities. If one or more of the following events (herein called "events of default") shall happen, that is to say:

(a) if default shall be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the Authority in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Authority in the performance of any of the other agreements or covenants required in the Trust Agreement to be performed by the Authority, and such default shall have continued for a period of sixty (60) days or such additional time (with respect to agreements or covenants that cannot be corrected or performed within such sixty (60) day period but the correction of which is being diligently pursued by the Authority) as is reasonably required to correct any such default after the Authority shall have been given notice in writing of such default by the Trustee;

(d) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of

America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

(e) if an Event of Default has occurred under the Facility Lease, as summarized herein under the caption “FACILITY LEASE – DEFAULTS AND REMEDIES – Defaults and Remedies”; or

(f) if an Event of Default has occurred under the Installment Payment Contract, as summarized herein under the caption “INSTALLMENT PAYMENT CONTRACT – EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY – Events of Default”;

then and in each and every such case during the continuance of such event of default the Trustee may, and upon the written request of the Bondholders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, by notice in writing to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Bondholders by first class mail of any such event of default which is continuing of which a Responsible Officer has actual knowledge or written notice.

This provision, however, is subject to the condition that if at any time after the principal of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee or the Bondholders of not less than a majority in aggregate principal amount of Bonds then Outstanding, by written notice to the Authority and to the Trustee, may on behalf of the Bondholders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the accounts and funds provided in the Trust Agreement, as summarized herein under the captions “TRUST AGREEMENT – ISSUANCE OF BONDS – Construction Fund,” under the captions “TRUST AGREEMENT – REVENUES – Receipt and Deposit of Revenues in the Revenue Fund,” “– Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund; Reserve Fund” and “– Application of Insurance Proceeds” upon the date of the declaration of acceleration by the Trustee as provided in the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS – Events of Default and Acceleration of Maturities” and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order--

First, to the payment of the reasonable fees, costs and expenses of the Trustee in providing for the declaration of such event of default and carrying out its duties under the Trust Agreement, including reasonable compensation to their accountants and counsel together with interest on any amounts advanced as provided in the Trust Agreement and thereafter to the payment of the reasonable costs and expenses of the Bondholders, if any, in carrying out the provisions of the Trust Agreement, including reasonable compensation to their accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and (to the

extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Institution of Legal Proceedings by Trustee. If one or more of the events of default shall happen and be continuing, the Trustee may, and upon the written request of the Bondholders of a majority in principal amount of the Bonds then Outstanding, and in each case upon being indemnified to its reasonable satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Bondholders of Bonds under the Trust Agreement and under the Facility Lease by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall, deem most effectual in support of any of its rights and duties under the Trust Agreement.

Non-Waiver. Nothing in this article or in any other provision of the Trust Agreement or in the Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of and redemption premiums, if any, on the Bonds to the respective Bondholders of the Bonds at the respective dates of maturity or upon prior redemption as provided in the Trust Agreement from the Revenues as provided in the Trust Agreement pledged for such payment, or shall affect or impair the right of such Bondholders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Trust Agreement and in the Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Bondholder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Bondholder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Bondholders by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bondholders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Authority, the Trustee and any Bondholder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Bondholder shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Bondholders, whether or not the Trustee is a Bondholder, and the Trustee is appointed under the Trust Agreement (and the successive Bondholders, by taking and holding the Bonds issued under the Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Bondholders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Bondholders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney in-fact.

Remedies Not Exclusive. No remedy conferred in the Trust Agreement upon or reserved to the Bondholders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Limitation on Bondholders' Right to Sue. No Bondholder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Bondholder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS – Events of Default and Acceleration of Maturities"; (b) the Bondholders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the

Trust Agreement or to institute such suit, action or proceeding in its own name; (c) said Bondholders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared under the Trust Agreement, in every case, to be conditions precedent to the exercise by any Bondholder of Bonds of any remedy under the Trust Agreement; it being understood and intended that no one or more Bondholders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement, and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the equal benefit of all Bondholders of the Outstanding Bonds.

THE TRUSTEE

The Trustee. The Bank of New York Mellon Trust Company, N.A. shall serve as the initial Trustee for the Bonds for the purpose of receiving all money which the Authority is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Trust Agreement and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Bonds presented for payment, with the rights and obligations provided in the Trust Agreement. The Authority agrees that it will at all times maintain a Trustee having a principal office in California.

The Authority, unless there exists any Event of Default as defined in the Trust Agreement, as summarized herein under the caption “TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS – Events of Default and Acceleration of Maturities,” may at any time remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided, that any such successor shall be a bank, banking institution, national banking association, or trust company, having (or whose parent holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state authority. If such bank, national banking association, banking institution, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank, national banking association, banking institution, or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Authority, and by mailing by first class mail to the Bondholders notice of such resignation. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. The successor Trustee shall send notice of its acceptance by first class mail to the Bondholders. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required by the Trust Agreement. The Bond Insurer shall be furnished with written notice of the resignation or removal of the Trustee and the appointment of any successor thereto.

The Trustee is authorized under the Trust Agreement to pay or redeem the Bonds when duly presented for payment at maturity or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof or upon the surrender thereof by the Authority and shall destroy such Bonds and a certificate of destruction shall be delivered to the Authority upon its request. The Trustee shall keep accurate records of all Bonds paid and discharged and cancelled by it.

The Trustee shall, prior to an event of default, and after the curing of all events of default that may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement. The Trustee shall, during the existence of any

event of default (that has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Liability of Trustee. The recitals of facts, agreements and covenants in the Trust Agreement and in the Bonds shall be taken as recitals of facts, agreements and covenants of the Authority, and the Trustee assumes no responsibility for the correctness of the same or makes any representation as to the sufficiency or validity of the Trust Agreement or of the Bonds, or shall incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it in the Trust Agreement, in the Bonds or in law or equity. The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement except for its own negligence or willful misconduct.

The Trustee shall not be bound to recognize any person as the Bondholder of a Bond unless and until such Bond is submitted for inspection, if required, and such Bondholder's title thereto satisfactorily established, if disputed.

The Trustee shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Bondholders of not less than a majority (or any lesser amount that may direct the Trustee in accordance with the Trust Agreement) in aggregate principal amount of the Bonds at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request, order or direction of any of the Bondholders pursuant to the provisions of the Trust Agreement unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the reasonable costs, expenses and liabilities that may be incurred therein or thereby. The Trustee has no obligation or liability to the Bondholders for the payment of the interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties under the Trust Agreement.

The Trustee shall not be deemed to have knowledge of any event of default (except payment defaults) unless and until a Responsible Officer shall have actual knowledge thereof or a Responsible Officer of the Trustee shall have received written notice thereof at its Principal Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of a default or event of default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

The Trustee may execute any of the trusts or powers under the Trust Agreement or perform any duties under the Trust Agreement either directly or by or through attorneys-in-fact, agents or receivers, but shall not be answerable for the negligence or misconduct of any such attorney-in-fact, agent or receiver appointed with due care. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Trust Agreement, but the Trustee shall not be answerable for the professional malpractice of any attorney-in-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms of the Trust Agreement, if such attorney-in-law or certified public accountant was selected by the Trustee with due care.

Whether or not therein expressly so provided, every provision of the Trust Agreement, the Facility Lease, the Installment Payment Contract or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this article.

The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or City of the Facilities or the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Facility Lease or the Trust Agreement for the existence, furnishing or use of the Facilities or the Project.

The Trustee shall be protected in acting upon any notice, resolution, requisition, request (including any Written Request of the Authority or the City), consent, order, certificate, report, opinion, facsimile transmission, electronic mail, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Before the Trustee acts or refrains from acting, the Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be established or proved prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority, which certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may in lieu thereof accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

No provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Trust Agreement, or in the exercise of its rights or powers.

The Trustee shall not be considered in breach of or in default in its obligations under the Trust Agreement or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee agrees to accept and act upon instructions or directions pursuant to the Trust Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the City agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee shall not be liable to the parties to the Trust Agreement or deemed in breach or default under the Trust Agreement if and to the extent its performance under the Trust Agreement is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Trustee and could not

have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the Trust Agreement shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything to the contrary in the Trust Agreement notwithstanding.

Compensation and Indemnification of Trustee. The Authority covenants to pay (but solely from Additional Payments) to the Trustee from time to time, and the Trustee shall be entitled to compensation for all services rendered by it in the exercise and performance of any of the powers and duties under the Trust Agreement of the Trustee, and the Authority will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee, in accordance with any of the provisions of the Trust Agreement (including the reasonable compensation and the reasonable expenses and disbursements of their counsel (including the allocated reasonable fees and disbursements of in-house counsel) and of all persons not regularly in their employ) except any such expense, disbursement or advance as may arise from their negligence or willful misconduct. The Authority, to the extent permitted by law, shall indemnify, defend and hold harmless the Trustee against any loss, damage, liability or expense incurred without negligence or willful misconduct on the part of the Trustee arising out of or in connection with the acceptance or administration of the trusts created under the Trust Agreement, including reasonable costs and expenses (including reasonable attorneys' fees and disbursements) of defending itself against or investigating any claim or liability in connection with the exercise or performance of any of its powers under the Trust Agreement. The rights of the Trustee and the obligations of the Authority under this section shall survive the discharge of the Bonds and the Trust Agreement and the resignation or removal of the Trustee.

Compliance with Continuing Disclosure Agreement. The City has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority shall have no liability to the Owners of the Bonds or any other person with respect to S.E.C. Rule 15c2-12. The City has agreed that if it shall act as the Dissemination Agent under the Continuing Disclosure Agreement, it will perform all of the provisions thereof to be performed by the Dissemination Agent. Notwithstanding any other provision of the Trust Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Facility Lease, as summarized herein under the caption "FACILITY LEASE – COVENANTS – Continuing Disclosure" or under this section. For purposes of this section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

AMENDMENT OF THE TRUST AGREEMENT

Amendment of the Trust Agreement.

(a) The Trust Agreement and the rights and obligations of the Authority and of the Bondholders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Bondholders of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – AMENDMENT OF THE TRUST AGREEMENT – Disqualified Bonds," are filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity or Series remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this section. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Bondholder of such Bond, or (2) permit the creation by the Authority of any pledge of or charge or lien upon the Revenues as provided in the Trust Agreement superior to or on a parity with the pledge, charge and lien created under the Trust Agreement for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such

amendment, or (4) modify any rights or obligations of the Trustee, the Authority, or the City without their prior written assent thereto, respectively. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Trust Agreement, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Trust Agreement pursuant to this subsection (a), the Trustee shall mail a notice on behalf of the Authority, setting forth in general terms the substance of such Supplemental Trust Agreement to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Trust Agreement.

(b) The Trust Agreement and the rights and obligations of the Authority and of the Bondholders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption, without the consent of any Bondholders, for any purpose that will not materially adversely affect the interests of the Bondholders, including (without limitation) for any one or more of the following purposes --

(i) to add to the agreements and covenants required in the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the Authority may deem desirable or necessary;

(iii) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Trust Agreement, as summarized herein under the caption "TRUST AGREEMENT – ISSUANCE OF BONDS" (which shall be deemed not to adversely affect Bondholders);

(iv) to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939; or

(v) to add any provisions required by the provider of a surety bond, insurance policy or letter of credit under the Trust Agreement, as summarized herein in paragraph (d) under the caption "TRUST AGREEMENT – REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund; Reserve Fund.

Any Supplemental Trust Agreement entered into pursuant to this paragraph shall not, for purposes of this paragraph, materially adversely affect the interest of the Bondholders so long as, in the case of Variable Rate Bonds, the Supplemental Trust Agreement shall not become effective until notice thereof shall have been given to Bondholders and thirty (30) days shall have passed during which time Owners of the Variable Rate Bonds shall have had the opportunity to tender their Bonds for purchase.

(c) Any amendment or supplement to the Trust Agreement, the Facility Lease, the Site Lease or the Installment Payment Contract shall be subject to the prior written consent of the Bond Insurer. Any rating agency rating the Series 2009 Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Authority shall cause the Bond Insurer to be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Disqualified Bonds. Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in this article, and shall not be entitled to consent to or take any other action provided in this article. Upon request of the Trustee, the Authority shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this section and the Trustee may conclusively rely on such certificate.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as provided in the Trust Agreement, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Bondholder of any Outstanding Bonds and presentation of his Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Bondholder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Bondholder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of this article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

DEFEASANCE

Discharge of Bonds.

(a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Bondholders of all Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated in the Bonds and in the Trust Agreement, and the Authority shall pay in full all other amounts due under the Trust Agreement, under the Facility Lease and under the Installment Payment Contract, then the Bondholders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Authority to the Bondholders of such Bonds under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds and for the payment of all other amounts due under the Trust Agreement, under the Facility Lease and under the Installment Payment Contract.

(b) Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, as summarized in the Official Statement under the caption "THE BONDS – Redemption Terms of the Series 2009 Bonds – Notice of Redemption; Cancellation; Effect of Redemption," (2) there shall have been deposited with the Trustee (A) money in an amount which shall be sufficient and/or (B) noncallable Government Securities, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Bondholders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

(c) In the event of an advance refunding (i) the Authority shall cause to be delivered, on the deposit date and upon any reinvestment of the defeasance amount, a report of an independent firm of certified public accountants ("Accountants") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date or redemption date ("Verification"), (ii) the escrow agreement shall provide that no (A) substitution of a defeasance obligation shall be permitted except with another defeasance obligation and upon delivery of a new Verification and (B) reinvestment of a defeasance obligation shall be permitted except as contemplated by the

original Verification or upon delivery of a new Verification, and (iii) there shall be delivered an Opinion of Bond Counsel to the effect that the Bonds are no longer “Outstanding” under the Trust Agreement; each Verification and defeasance opinion shall be addressed to the Authority and the Trustee.

Unclaimed Money. Anything contained in the Trust Agreement to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds or interest thereon which remains unclaimed for two (2) years after the date when such Bonds or interest thereon have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds have become due and payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bondholders shall not look to the Trustee for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Trustee may, and at the request of the Authority shall, at the expense of the Authority, cause to be published once a week for two (2) successive weeks in a Financial Newspaper of general circulation in Los Angeles and in San Francisco, California, and in the same or a similar Financial Newspaper of general circulation in New York, New York, a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Authority.

MISCELLANEOUS

Liability of Authority Limited to Revenues. Notwithstanding anything contained in the Trust Agreement, the Authority shall not be required to advance any money derived from any source other than the Revenues as provided in the Trust Agreement for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Trust Agreement. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose.

The Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided in the Trust Agreement, and the Authority is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the City, the State or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority as provided in the Trust Agreement. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

Benefits of the Trust Agreement Limited to Parties; Third Party Beneficiaries. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Authority, the Trustee, and the Bondholders any right, remedy or claim under or by reason of the Trust Agreement. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Authority, the Trustee, and the Bondholders.

Successor Is Deemed Included In All References To Predecessor. Whenever either the Authority or any member, officer or employee thereof or of the State is named or referred to in the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions with respect to the Project that are presently vested in the Authority or such member, officer or employee, and all agreements and covenants required under the Trust Agreement to be performed by or on behalf of the Authority or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Bondholders. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Bondholders may be in one or more instruments of similar tenor and may be executed by Bondholders in person or by their attorneys appointed in writing. The fact and date of the execution by any Bondholder or his attorney of any declaration, request or other instrument or of any writing

appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The ownership of any Bonds and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Bonds at the Principal Office of the Trustee. Any declaration, request, consent or other instrument or writing of the Bondholder of any Bond shall bind all future Bondholders of such Bond with respect to anything done or suffered to be done by the Trustee or the Authority in good faith and in accordance therewith.

Waiver of Personal Liability. No member, officer or employee of the Authority or the City shall be individually or personally liable for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds by reason of their issuance, but nothing contained in the Trust Agreement shall relieve any such member, officer or employee from the performance of any official duty provided by the Act or any other applicable provisions of law or the Trust Agreement.

Acquisition of Bonds by Authority. All Bonds acquired by the Authority, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Destruction of Cancelled Bonds. Whenever provision is made for the return to the Authority of any Bonds which have been cancelled pursuant to the provisions of the Trust Agreement, the Authority may, by a Written Request of the Authority, direct the Trustee to destroy such Bonds and furnish to the Authority a certificate of such destruction.

Content of Certificates. Every Certificate of the Authority with respect to compliance with any agreement, condition, covenant or provision provided in the Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or provision and the definitions in the Trust Agreement relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or provision has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or provision has been complied with.

Any Certificate of the Authority may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters information with respect to which is in the possession of the Authority, upon a representation by an officer or officers of the Authority unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Accounts and Funds. Any account or fund required in the Trust Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with corporate trust industry standards and with due regard for the protection of the security of the Bonds and the rights of the Bondholders.

Business Day. When any action is provided for in the Trust Agreement to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day which is not a Business Day, such action may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period.

Governing Law. The Trust Agreement shall be governed exclusively by the provisions of the Trust Agreement and by the laws of the State as the same from time to time exist.

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the City of Santa Barbara (the “City”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) and as dissemination agent (the “Dissemination Agent”) in connection with the issuance by the Santa Barbara Financing Authority (the “Authority”) of \$47,270,000 of its Revenue Bonds (Airport Project), Series 2009 (the “Series 2009 Bonds”). The Series 2009 Bonds are being issued pursuant to a Trust Agreement, dated as of May 1, 2009 (the “Trust Agreement”), by and between the Authority and the Trustee. Pursuant to the Facility Lease (Airport Project), dated as of May 1, 2009 (the “Facility Lease”) and the Installment Payment Contract, dated as of May 1, 2009 (the “Installment Payment Contract”), each by and between the Authority and the City, the City has covenanted to comply with its obligations hereunder and to assume all obligations for continuing disclosure with respect to the Series 2009 Bonds. The Series 2009 Bonds and additional Series of Bonds are referred to herein as the “Bonds.” The Series 2009 Bonds are being issued to finance the construction of a new passenger terminal building and related parking and roadway improvements at the City’s airport (the “Airport Project”). The City and Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Series 2009 Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

“*Annual Report*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2009 Bonds (including persons holding Series 2009 Bonds through nominees, depositories or other intermediaries).

“*Disclosure Representative*” shall mean the Finance Director of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Trustee from time to time.

“*Dissemination Agent*” shall mean The Bank of New York Mellon Trust Company, N.A., or any successor Dissemination Agent designated in writing by the City pursuant to Section 7 of this Disclosure Agreement and which has filed with the City and the Trustee a written acceptance of such designation. The City hereby designates the Trustee to be the initial Dissemination Agent and the Trustee hereby accepts such designation.

“*EMMA*” means the Electronic Municipal Market Access system information about which may be found at the following Internet address: <http://emma.msrb.org/>.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“*MSRB*” means the Municipal Securities Rule Making Board.

“*Participating Underwriter*” shall mean the original underwriter of the Series 2009 Bonds required to comply with the Rule in connection with offering of the Series 2009 Bonds.

“*Repository*” shall mean EMMA or any other repository designated for purposes of the Rule and recognized by the Securities and Exchange Commission.

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

“State “ shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City’s fiscal year, commencing with the report for the 2008-09 fiscal year, provide to the Repository at the address set forth in Section 13 an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof. The City shall provide a written certification with each Annual Report to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide the Repository an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent, to the extent the City has provided the Annual Report to the Dissemination Agent, shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of the Repository, and
- (ii) file a report with the City (if the Dissemination Agent is other than the City) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing the Repository to which it was provided.

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

(a) The City’s Consolidated Annual Financial Report (“CAFR”), which shall include the audited financial statements of the City, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available at the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following additional items with respect to the Series 2009 Bonds:

1. Principal amount of each Series of Bonds and any Parity Debt outstanding.
2. Balance in the Reserve Fund.
3. Updated information (to the extent material) on the status of the Airport Project.

4. Status of any significant legislative, administrative, and judicial challenges to the operation of the Airport known to the City.

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

6. The City is solely responsible for the content and format of the Annual Report.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies.
- (2) non-payment related defaults.
- (3) modifications to rights of Series 2009 Bond Holders.
- (4) optional, contingent or unscheduled bond calls.
- (5) defeasances.
- (6) rating changes.
- (7) adverse tax opinions or events affecting the tax-exempt status of the Series 2009 Bonds.
- (8) unscheduled draws on the debt service reserves reflecting financial difficulties.
- (9) unscheduled draws on the credit enhancements, reflecting financial difficulties.
- (10) substitution of the credit or liquidity providers or their failure to perform.
- (11) release, substitution or sale of property securing repayment of the Series 2009 Bonds.

(b) The Trustee shall, within two (2) Business Days of obtaining actual knowledge at the corporate trust office specified in Section 13 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f); provided that the failure by the Trustee to so notify the Disclosure Representative and make such request shall not relieve the City of its duty to report Listed Events as required by this Section 5, nor impose any liability on the Trustee.

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

(d) If the City has determined that the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a) (4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of

affected Series 2009 Bonds pursuant to the Trust Agreement and notice of a Listed Event under this Section 5 is only required following the occurrence of the Listed Event.

Section 6. Termination of Reporting Obligation. The City's, the Trustee's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance prior to redemption or payment in full of all of the Series 2009 Bonds. If such termination occurs prior to the final maturity of the Series 2009 Bonds, the City shall give notice of such termination on the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provisions of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions in Section 3(a), 4 or 5(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2009 Bonds or the type of business conducted;

(b) the undertaking as amended or taking into account such waiver would, in the opinion of nationally recognized bond counsel have complied with the requirements of the Rule at the time of the original issuance of the Series 2009 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Holders of the Series 2009 Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Series 2009 Bond Holders or Beneficial Owners of the Series 2009 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provisions of this Disclosure Agreement any Participating Underwriter or the Holders of at least 25% aggregate principal amount of the outstanding Series 2009 Bonds shall or any Holder or Beneficial Owner of the Series 2009 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2009 Bonds. If it performs the duties assigned to it hereunder, the Trustee shall not be responsible to any person for any failure by the City or the Dissemination Agent (if other than the Trustee) to perform duties or obligations imposed hereby, or for any decision of the City regarding the reporting of Listed Events. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the City pursuant to this Disclosure Agreement. If the Dissemination Agent is other than the City, the City will pay reasonable compensation to, and reimburse the expenses of, the Dissemination Agent.

Section 12. Beneficiaries. The Disclosure Agreement shall inure solely to the benefit of the City and Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial owners from time to time of the Series 2009 Bonds, and shall create no rights in any other person or entity.

Section 13. Use of Central Post Office. Notwithstanding any other provision of this Disclosure Agreement, the Annual Report and notices of material events shall be filed either directly with the Repository or, at the option of the City, through DisclosureUSA.org <<http://www.disclosureusa.org>> or any similar electronic filing service approved for such purpose by the Securities and Exchange Commission. If filed by the City or the Dissemination Agent with DisclosureUSA.org, Annual Reports and notices of material events will be forwarded automatically to the Repository and no separate filing with the Repository will be made by the City or the Dissemination Agent.

Section 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:

City of Santa Barbara
735 Anacapa Street
Santa Barbara, California 93102
Attention: Finance Director

To the Trustee and
initial Dissemination Agent:

The Bank of New York Mellon Trust Company, N.A.
700 South Flower Street, Suite 500
Los Angeles, California 90017
Attention: Corporate Trust Department

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: May 1, 2009

CITY OF SANTA BARBARA

By: _____
Mayor

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

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Santa Barbara Financing Authority
Name of Bond Issue: Santa Barbara Financing Authority
Revenue Bonds (Airport Project), Series 2009
Date of Issuance: June 10, 2009

NOTICE IS HEREBY GIVEN that the City of Santa Barbara (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 8.08 of the Facility Lease (Airport Project), dated as of May 1, 2009 and Section 5.17 of the Installment Payment Contract, dated as of May 1, 2009, each by and between the Authority and the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., on behalf of City

By: _____

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APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series 2009 Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the Series 2009 Bonds in substantially the following form:

[Date of Delivery]

Santa Barbara Financing Authority
Santa Barbara, California

Santa Barbara Financing Authority
Revenue Bonds (Airport Project) Series 2009
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Barbara Financing Authority (the “Authority”) in connection with the issuance of \$47,270,000 of its Revenue Bonds (Airport Project), Series 2009 (the “Series 2009 Bonds”), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and a Trust Agreement, dated as of May 1, 2009 (the “Trust Agreement”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed a Facility Lease (Airport Project), dated as of May 1, 2009 (the “Facility Lease”), by and between the Authority, as lessor, and the City of Santa Barbara, as lessee (the “City”), a Site Lease, dated as of May 1, 2009 (the “Site Lease”), by and between the City, as lessor, and the Authority, as lessee, an Installment Payment Contract, dated as of May 1, 2009 (the “Installment Payment Contract”), by and between the City and the Authority, the Trust Agreement, the Tax Certificate of the Authority and the City, dated the date hereof (the “Tax Certificate”), relating to the Series 2009 Bonds, opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2009 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Facility Lease, the Site Lease, the Installment Payment Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2009 Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2009 Bonds, the Trust Agreement, the Facility Lease, the Site Lease, the Installment Payment Contract and the Tax Certificate and their enforceability

may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint powers agencies and cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Facility Lease, the Site Lease or the Trust Agreement or the accuracy or sufficiency of the description of any such property contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2009 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2009 Bonds constitute the valid and binding limited obligations of the Authority.
2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Series 2009 Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Series 2009 Bonds) held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.
3. The Facility Lease and the Installment Payment Contract have been executed and delivered by, and constitute the valid and binding obligations of, the City and the Authority.
4. Interest on the Series 2009 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Series 2009 Bond for any period such Series 2009 Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2009 Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Interest on the Series 2009 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series 2009 Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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