

**\$2,165,472.41 (Initial Principal Amount)**

**\$7,200,000 (Accreted Value)**

**County of Riverside**

**Taxable Certificates of Participation**

**(United States District Court Project), Series 1999**

**Interest Rate: 7.59%**

**Price: 30.076%**

**Dated: Date of Delivery**

**Due Date: June 15, 2020**

The County of Riverside Taxable Certificates of Participation (United States District Court Project), Series 1999 (the "County Certificates") (along with the GSA Certificates (as hereinafter defined), collectively, the "Certificates") are being delivered to finance the construction and development of a United States District Courthouse located in Riverside, California (the "Facilities"). The County Certificates evidence and represent proportionate interests in the Base Rental (as defined herein) to be paid by the County of Riverside, California (the "County") pursuant to the Facilities Lease dated as of March 15, 1999 (the "Facilities Lease") by and between the Riverside District Court Financing Corporation, a non-profit public benefit corporation organized under the laws of the State of California (the "Corporation") and the County, under which the County leases the Leased Premises (as defined herein) from the Corporation. The GSA Certificates are not being offered by this Private Placement Memorandum.

The net proceeds received from the sale of the Certificates will be used to construct and develop the District Court, to fund a reserve fund for the Certificates and to pay costs of executing and delivering the Certificates. In the event the Completion Date (as defined herein) does not occur on or prior to the Required Completion Date (as defined herein), the County Certificates will be subject to mandatory tender for purchase on June 1, 2001 at a purchase price equal to the Accreted Value thereof as of the date of purchase. Such purchase will be made from amounts drawn by the Trustee under an irrevocable letter of credit to be issued by

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acting through its Los Angeles Branch (the "LOC Bank").

The County Certificates will be executed and delivered as fully registered Certificates, initially registered in the names of the purchasers thereof. The County and the Corporation intend to cause the Certificates to be made eligible for secondary trading through the facilities of The Depository Trust Company, New York, New York. Beneficial ownership of the County Certificates will be available in accreted values of \$100,000 and in increments of \$5,000 in excess thereof. Interest with respect to the County Certificates will accrue from the Date of Delivery and will be compounded semiannually on each June 15 and December 15 commencing June 15, 1999 (each a "Payment Date"), but will not be payable until December 15, 2015, after which principal and interest with respect to the County Certificates will be made as set forth under the caption "THE COUNTY CERTIFICATES - Debt Service Schedule" upon mandatory prepayment prior thereto).

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of March 15, 1999 (the "Trust Agreement"), by and among the County, the Corporation and U.S. Trust Company National Association, as trustee (the "Trustee"). The County has agreed in the Facilities Lease to pay all Base Rental, subject to abatement of such Base Rental in the event of substantial interference with the use or right of possession by the County of the Leased Premises by reason of material damage, destruction, condemnation or defects in the title to the Leased Premises. The County has covenanted in the Facilities Lease to take such action as may be necessary to include Base Rental and Additional Rental (as defined herein) in its annual budgets and to make the annual appropriations therefor.

**The County Certificates are subject to mandatory and optional prepayment prior to their maturity dates, as described herein. See "THE COUNTY CERTIFICATES — Prepayment Provisions."**

The scheduled payments of principal and interest evidenced and represented by the County Certificates will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the County Certificates by MBLA Insurance Corporation (the "Insurer").



**THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE FACILITIES LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE COUNTY CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE FACILITIES LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE COUNTY CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.**

**This cover page contains information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Private Placement Memorandum to obtain information essential to making an informed investment decision.**

**THE COUNTY CERTIFICATES ARE BEING OFFERED FOR SALE ONLY TO PURCHASERS WHO ARE "QUALIFIED INSTITUTIONAL BUYERS", AS SUCH TERM IS USED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT.**

*The County Certificates are offered when, as and if executed, delivered and received by the Placement Agent, subject to the approval of Kutak Rock, Pasadena, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Placement Agent by Hunton & Williams, New York, New York, for the LOC Bank by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and for the Insurer by its counsel. It is expected that the County Certificates will be available for delivery on or about April 29, 1999.*

**Dublind Securities**

**COUNTY OF RIVERSIDE**

County Executive Office  
4080 Lemon Street, 12<sup>th</sup> Floor  
Riverside, California 92501

**Board of Supervisors**

Roy Wilson, *Fourth District, Chairman*  
Robert Buster, *First District*  
John F. Tavaglione, *Second District*  
James A. Venable, *Third District*  
Tom Mullen, *Fifth District*

**County Officials**

Larry Parrish, *County Executive Officer*  
Anthony J. Bellanca, C.P.A., *Auditor-Controller*  
Paul McDonnell, *Treasurer-Tax Collector*  
William C. Katzenstein, *County Counsel*  
Edward C. Corser, *County Finance Director*

**SPECIAL SERVICES**

**Special Counsel**

Kutak Rock  
Pasadena, California

**Financial Advisor**

Dain Rauscher Incorporated  
San Francisco, California

**Trustee**

U.S. Trust Company National Association  
Los Angeles, California

## NOTICE TO INVESTORS

Because of the following restrictions, purchasers and transferees are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the County Certificates offered hereby

THE COUNTY CERTIFICATES ARE BEING OFFERED FOR SALE TO PURCHASERS WHO ARE "QUALIFIED INSTITUTIONAL BUYERS", AS SUCH TERM IS USED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). EACH PURCHASER WILL BE REQUIRED TO DELIVER TO THE COUNTY, THE CORPORATION AND THE PLACEMENT AGENT A LETTER, IN THE FORM OF APPENDIX F TO THIS PRIVATE PLACEMENT MEMORANDUM, PURSUANT TO WHICH SUCH PURCHASER WILL REPRESENT TO THE COUNTY, THE CORPORATION AND THE PLACEMENT AGENT THAT SUCH PURCHASER'S INTENTION IS TO ACQUIRE THE COUNTY CERTIFICATES (A) FOR INVESTMENT IN SUCH PURCHASER'S OWN ACCOUNT OR (B) FOR RESALE TO "QUALIFIED INSTITUTIONAL BUYERS" IN TRANSACTIONS UNDER RULE 144A, AND NOT IN ANY EVENT WITH THE VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF, AND THAT SUCH PURCHASER UNDERSTANDS THAT NO REGISTRATION STATEMENT HAS BEEN FILED UNDER THE SECURITIES ACT IN CONNECTION WITH THE SALE OF THE COUNTY CERTIFICATES, BY REASON OF A SPECIFIED EXEMPTION FROM THE REGISTRATION PROVISIONS OF THE SECURITIES ACT WHICH DEPENDS, AMONG OTHER THINGS, UPON THE BONA FIDE NATURE OF THE PURCHASER'S INVESTMENT INTENT AS EXPRESSED IN SUCH LETTER. SUCH PURCHASER WILL ALSO ACKNOWLEDGE THAT ANY SEPARATE SECURITIES OF THE COUNTY OR THE CORPORATION DEEMED INCLUDED WITH THE COUNTY CERTIFICATES ARE BEING PURCHASED PURSUANT TO AN EXEMPTION UNDER THE SECURITIES ACT AND MAY NOT BE TRANSFERRED UNLESS THEY ARE SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OR ANY EXEMPTION FROM SUCH REGISTRATION, INCLUDING, WITHOUT LIMITATION, THE EXEMPTION CONTAINED IN RULE 144A THEREUNDER, IS AVAILABLE. SUCH PURCHASER WILL ALSO REPRESENT THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A.

Certain of the information set forth herein has been obtained from the County, the Corporation, the Insurer, the LOC Bank and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Placement Agent. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Private Placement Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County, the Corporation, the LOC Bank or the Insurer since the date hereof. This Private Placement Memorandum is submitted in connection with the sale of the County Certificates and may not be reproduced or used, in whole or in part, for any other purpose unless authorized in writing by the County. This Private Placement Memorandum, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the County Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, sales person or other person has been authorized to give any information or to make any representations other than those contained in this Private Placement Memorandum. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, the LOC Bank, the Insurer or the Placement Agent.

This Private Placement Memorandum is not to be construed as a contract with the purchasers of the County Certificates. Statements contained in this Private Placement Memorandum which involve estimates,

projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

IN MAKING ANY INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COUNTY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

## TABLE OF CONTENTS

INTRODUCTION.....	1
PLAN OF FINANCING.....	2
The GSA Certificates .....	2
THE COUNTY CERTIFICATES.....	3
General.....	3
Debt Service Schedule .....	4
Prepayment Provisions.....	5
Book-Entry System.....	5
THE CORPORATION.....	6
THE LEASED PREMISES.....	6
ESTIMATED USES OF FUNDS.....	6
General.....	6
SECURITY AND SOURCES OF PAYMENT FOR THE COUNTY CERTIFICATES.....	7
Base Rental Payments.....	7
County's Obligation to Pay .....	8
THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT.....	8
The Letter of Credit.....	8
Reimbursement Agreement.....	8
CERTIFICATE INSURANCE.....	9
Year 2000 Readiness Disclosure.....	10
RISK FACTORS.....	10
Limited Obligation.....	10
Abatement .....	11
Risk of Uninsured Loss.....	11
Default and Limitations on Remedies.....	11
Limitation on Sources of Revenues .....	12
No Right to Accelerate Base Rental.....	12
Federal Welfare Reform.....	12
Bankruptcy .....	13
YEAR 2000 READINESS DISCLOSURE STATEMENT.....	13
RIVERSIDE COUNTY POOLED INVESTMENT FUND.....	13
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.....	15
Article XIII A of the State Constitution .....	15
Article XIII B of the State Constitution .....	15
Articles XIII C and XIII D of the State Constitution .....	16

Proposition 62.....	17
NO LITIGATION.....	18
TAX MATTERS.....	18
Characterization of the County Certificates as Indebtedness.....	19
Tax Consequences to Certificateholders.....	19
FINANCIAL ADVISOR.....	21
PLAN OF DISTRIBUTION.....	21
CERTAIN LEGAL MATTERS.....	21
MISCELLANEOUS.....	22

APPENDIX A	INFORMATION REGARDING THE COUNTY OF RIVERSIDE
APPENDIX B	STATEMENT OF INVESTMENT POLICY FOR THE RIVERSIDE COUNTY TREASURY
APPENDIX C	SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS
APPENDIX D	BOOK-ENTRY SYSTEM
APPENDIX E	ACCRETED VALUES
APPENDIX F	FORM OF PURCHASER'S LETTER
APPENDIX G	SPECIMEN CERTIFICATE INSURANCE POLICY
APPENDIX H	COMMERZBANK AKTIENGESELLSCHAFT

**PRIVATE PLACEMENT MEMORANDUM**

**\$2,165,472.41 (INITIAL PRINCIPAL AMOUNT)**

**\$7,200,000 (ACCRETED VALUE)**

**COUNTY OF RIVERSIDE**

**TAXABLE CERTIFICATES OF PARTICIPATION**

**(UNITED STATES DISTRICT COURT PROJECT), SERIES 1999**

**INTRODUCTION**

The purpose of this Private Placement Memorandum, which includes the cover page and Appendices hereto, is to furnish information concerning the County of Riverside, California (the "County"), and certain other information in connection with the sale by the County of the County of Riverside Taxable Certificates of Participation (United States District Court Project), Series 1999 (the "County Certificates"). Unless otherwise defined herein, all capitalized terms used herein shall have the meanings set forth in the Trust Agreement dated as of March 15, 1999 (the "Trust Agreement") by and among the County, the Riverside District Court Financing Corporation (the "Corporation") and U.S. Trust Company National Association, as trustee (the "Trustee"). See "APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS — Definitions".

The County Certificates are part of an integrated financing which consists of the County Certificates and the United States Government General Services Administration Certificates of Participation (United States District Court Project), Series 1999 (the "GSA Certificates" and, together with the County Certificates, the "Certificates"), evidencing proportionate interests in a portion of lease payments to be made by the United States of America, acting by and through the General Services Administration (the "Government") pursuant to U.S. Government Lease for Real Property No. GS-09B-96372, dated May 1, 1998, as amended and supplemented by a Supplemental Lease Agreement No. 1 dated April 26, 1999 (the "GSA Lease") between the County and the Government. The GSA Certificates are not being offered by this Private Placement Memorandum. The proceeds of the Certificates will be used to (i) finance the construction and development of a United States District Courthouse in Riverside, California; (the "Facilities"); (ii) fund a reserve fund for the Certificates; (iii) fund capitalized interest prior to the Required Completion Date; and (iv) pay the costs of executing and delivering the Certificates.

The County Certificates evidence proportionate interests in the base rental payments (the "Base Rental") to be paid by the County for the right of use and occupancy by the County of the Leased Premises under the Facilities Lease dated as of March 15, 1999 (the "Facilities Lease") by and between the Corporation and the County. Under the Facilities Lease, the County does not pay Base Rental with respect to the County Certificates at any time that the GSA Lease is in force and effect.

The Certificates will be executed and delivered pursuant to the Trust Agreement. The County, as lessor, and the Corporation, as lessee, have entered into the Site Lease dated as of March 15, 1999 (the "Site Lease"), which has a term commencing on the Closing Date and expiring on June 15, 2020, pursuant to which the Corporation will lease the District Court Site and the Administration Building Property from the County. The Corporation, as lessor, and the County, as lessee, have entered into the Facilities Lease, pursuant to which the Corporation has agreed to construct and develop the Facilities on the District Court Site and to lease the Facilities and Administration Building Property (the "Leased Premises"), to the County, for a term commencing on the Closing Date and expiring on June 15, 2020. The County, as lessor, has subleased the Facilities to the Government, pursuant to the GSA Lease, for a fifteen year term, commencing on the Completion Date, which is expected to occur on or about May 1, 2000 and which is required to occur on or prior to June 1, 2000 under the GSA Lease, unless extended in accordance therewith. Pursuant to an Assignment Agreement, dated as of March 15, 1999 (the "Assignment Agreement"), the Corporation will assign to the Trustee for the benefit of the Owners substantially all its right, title and interest in the Site Lease and the Facilities Lease, including its right to receive the Base Rental under the Facilities Lease and its rights to enforce the payment of amounts when due in the event of a default by the County or otherwise to protect the interests of the Owners.

Payment of the Accreted Value of the County Certificates is insured by a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by MBLA Insurance Corporation. See "CERTIFICATE INSURANCE".

In the event the Completion Date does not occur on or prior to the Required Completion Date, the County Certificates will be subject to mandatory tender for purchase on June 1, 2001, at a price equal to the Accreted Value thereof as of the date of purchase. The purchase price will be paid from amounts drawn by the Trustee under the Letter of Credit issued by Commerzbank Aktiengesellschaft, acting through its Los Angeles Branch (the "LOC Bank").

**THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR ADDITIONAL RENTAL PAYMENTS UNDER THE FACILITIES LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS UNDER THE FACILITIES LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.**

Brief descriptions of the County Certificates, the Trust Agreement, the Facilities Lease, the Assignment Agreement, the Corporation, the County, the LOC Bank, the Letter of Credit, the Insurer, the Policy and other information are included in this Private Placement Memorandum and the Appendices hereto. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the County Certificates, the Trust Agreement, the Facilities Lease, the Assignment Agreement, the Corporation, the County, the LOC Bank, the Letter of Credit, the Insurer, the Policy and other documents are qualified in their entirety by reference to the actual documents, copies of all of which are available for inspection at the corporate trust office of the Trustee in Los Angeles, California.

#### **PLAN OF FINANCING**

The sale of the County Certificates is part of an integrated financing plan pursuant to which the Corporation and the County are obtaining the financing required for the construction of the Facilities and related costs. As part of such financing plan, (i) the Corporation is leasing the District Court Site and certain other property from the County pursuant to the Site Lease, (ii) the Corporation will construct and develop the facilities and lease or sublease the Leased Premises to the County pursuant to the Facilities Lease, and (iii) the County is subleasing the District Court to the Government pursuant to the GSA Lease for a fifteen (15) year term commencing on the Completion Date. The County Certificates evidence and represent the rights of the registered owners thereof in the payments of Base Rental to be paid by the County pursuant to the Facilities Lease for the rental of the Leased Premises.

#### **The GSA Certificates**

Concurrently with the execution and delivery of the County Certificates, the County is executing and delivering the GSA Certificates. The GSA Certificates are not being offered by this Private Placement Memorandum. Prior to the Completion Date, interest with respect to the GSA Certificates will be paid from monies on deposit in the Capitalized Interest Account. In the event the Completion Date does not occur on or prior to the Required Completion Date, the GSA Certificates will be subject to mandatory tender for purchase on June 1, 2001 (the "Mandatory Date") at a purchase price equal to the principal thereof, plus accrued interest evidenced thereby to the date of purchase. The purchase price will be paid from amounts drawn by the Trustee under the Letter of Credit. From and after the Completion Date, Payments of interest and principal with respect to the GSA Certificates will be



made from the GSA Payments required to be paid by the Government under the GSA Lease. The GSA Payments have been assigned to the Trustee pursuant to the Assignment of Claims.

In the event of a total casualty to the District Court as a result of which the Facilities Lease and the GSA Lease are terminated in accordance with their respective terms, the payments of amounts due and owing with respect to the GSA Certificates and the County Certificates will be paid, pro rata according to the then Outstanding principal amount of the GSA Certificates and the then current Accreted Value of the County Certificates, from the net proceeds of casualty insurance maintained by the County.

## THE COUNTY CERTIFICATES

### General

The County Certificates will be executed and delivered in an initial principal amount of \$2,165,472.41 (accreting to \$7,200,000), will be dated the Date of Delivery, and will evidence and represent principal components and interest components of the Base Rental, from the date of the County Certificates to their final maturity date or prior prepayment date. The County Certificates have a maturity date of June 15, 2020. There are no scheduled payments of principal or interest with respect to the County Certificates prior to December 15, 2015, which is the first Payment Date following the final maturity date of the GSA Certificates. The County Certificates will be executed and delivered as fully registered certificates in final Accreted Values of \$100,000 and in increments of \$1,000 in excess thereof.

Interest represented by the County Certificates shall accrue from the Date of Delivery and will be compounded on each June 15 and December 15, commencing June 15, 1999 (each a "Payment Date") but will not be payable until December 15, 2015, after which date, payments of principal and interest with respect to the County Certificates will be made as set forth under "— Debt Service Schedule" (or upon mandatory prepayment prior thereto). The County Certificates will be executed and delivered as fully registered Certificates initially registered in the names of the purchasers thereof. The County and the Corporation intend to cause the County Certificates to be made eligible for secondary trading through the facilities of the Depository Trust Company, New York, New York ("DTC") as soon as practicable following the Closing Date. See "—Book-Entry System" hereinbelow and "APPENDIX D - BOOK-ENTRY SYSTEM".

THE COUNTY CERTIFICATES WILL BE SOLD TO ONLY PURCHASERS WHO ARE "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). NO TRANSFER OF A COUNTY CERTIFICATE SHALL BE MADE UNLESS SUCH TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR IS MADE IN ACCORDANCE WITH THE SECURITIES ACT AND SAID LAWS. EACH REGISTRATION OF EXCHANGE OR TRANSFER OF A COUNTY CERTIFICATE MAY BE MADE ONLY UPON DELIVERY OF A DULY EXECUTED WRITTEN INSTRUMENT OF TRANSFER OR EXCHANGE IN A FORM ACCEPTABLE TO THE TRUSTEE. EACH TRANSFEREE OF A COUNTY CERTIFICATE SHALL BE DEEMED BY ACCEPTANCE OF SUCH COUNTY CERTIFICATE TO HAVE REPRESENTED TO THE COUNTY AND THE CORPORATION THAT SUCH TRANSFEREE IS A "QUALIFIED INSTITUTIONAL BUYER" AT THE TIME OF THE ACQUISITION OF SUCH COUNTY CERTIFICATE.

Interest with respect to the County Certificates shall be payable on each Payment Date to the Owner thereof as of the close of business on the Record Date, such interest to be paid by check of the Trustee mailed to the Owner by first-class mail at its address as it appears on the Certificate Register, or by wire transfer to any Owner of \$1,000,000 or more of the County Certificates to the account in the United States specified by such Owner in a written request delivered to the Trustee on or prior to the Record Date for such Payment Date.

Accreted Value and premium, if any, with respect to any County Certificate are payable upon surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California. Accreted Value, premium, if

any, and interest with respect to the Series 1999 Certificates shall be payable in lawful money of the United States of America.

The principal (or Accreted Value) and premium, if any, evidenced and represented by the County Certificates will be payable upon surrender of the County Certificates at the corporate trust office of the Trustee in Los Angeles, California.

An Owner who owns County Certificates in an aggregate Accreted Value of \$1,000,000 or more may elect to receive payments due with respect to the County Certificates via wire transfer in immediately available funds to the account in the United States specified by such Owner in a written request delivered to the Trustee on or prior to the Record Date immediately preceding the applicable Payment Date.

#### Debt Service Schedule

Interest represented by the County Certificates shall accrue from the Date of Delivery and will be compounded as set forth below on each Payment Date, but will not be payable until December 15, 2015, after which payments of principal and interest will be made as follows:

Payment Date	Principal	Interest	Total	Principal Outstanding	Accreted Value
June 15, 1999	0.00	0.00	0.00	7,200,000.00	2,186,183.60
December 15, 1999	0.00	0.00	0.00	7,200,000.00	2,269,149.27
June 15, 2000	0.00	0.00	0.00	7,200,000.00	2,355,263.49
December 15, 2000	0.00	0.00	0.00	7,200,000.00	2,444,645.74
June 15, 2001	0.00	0.00	0.00	7,200,000.00	2,537,420.04
December 15, 2001	0.00	0.00	0.00	7,200,000.00	2,633,715.13
June 15, 2002	0.00	0.00	0.00	7,200,000.00	2,733,664.62
December 15, 2002	0.00	0.00	0.00	7,200,000.00	2,837,407.19
June 15, 2003	0.00	0.00	0.00	7,200,000.00	2,945,086.80
December 15, 2003	0.00	0.00	0.00	7,200,000.00	3,056,852.84
June 15, 2004	0.00	0.00	0.00	7,200,000.00	3,172,860.41
December 15, 2004	0.00	0.00	0.00	7,200,000.00	3,293,270.46
June 15, 2005	0.00	0.00	0.00	7,200,000.00	3,418,250.07
December 15, 2005	0.00	0.00	0.00	7,200,000.00	3,547,972.66
June 15, 2006	0.00	0.00	0.00	7,200,000.00	3,682,618.23
December 15, 2006	0.00	0.00	0.00	7,200,000.00	3,822,373.59
June 15, 2007	0.00	0.00	0.00	7,200,000.00	3,967,432.66
December 15, 2007	0.00	0.00	0.00	7,200,000.00	4,117,996.73
June 15, 2008	0.00	0.00	0.00	7,200,000.00	4,274,274.71
December 15, 2008	0.00	0.00	0.00	7,200,000.00	4,436,483.44
June 15, 2009	0.00	0.00	0.00	7,200,000.00	4,604,847.98
December 15, 2009	0.00	0.00	0.00	7,200,000.00	4,779,601.96
June 15, 2010	0.00	0.00	0.00	7,200,000.00	4,960,987.86
December 15, 2010	0.00	0.00	0.00	7,200,000.00	5,149,257.35
June 15, 2011	0.00	0.00	0.00	7,200,000.00	5,344,671.66
December 15, 2011	0.00	0.00	0.00	7,200,000.00	5,547,501.95
June 15, 2012	0.00	0.00	0.00	7,200,000.00	5,758,029.65
December 15, 2012	0.00	0.00	0.00	7,200,000.00	5,976,546.88
June 15, 2013	0.00	0.00	0.00	7,200,000.00	6,203,356.83
December 15, 2013	0.00	0.00	0.00	7,200,000.00	6,438,774.22
June 15, 2014	0.00	0.00	0.00	7,200,000.00	6,683,125.70
December 15, 2014	0.00	0.00	0.00	7,200,000.00	6,936,750.33
June 15, 2015	0.00	0.00	0.00	7,200,000.00	7,200,000.00
December 15, 2015	639,684.53	273,240.00	912,924.53	6,560,315.47	

Payment Date	Principal	Interest	Total	Principal Outstanding	Accreted Value
June 15, 2016	623,376.97	248,963.97	872,340.94	5,936,938.50	
December 15, 2016	647,034.12	225,306.82	872,340.94	5,289,904.38	
June 15, 2017	672,663.53	200,751.87	873,415.40	4,617,240.85	
December 15, 2017	698,191.11	175,224.29	873,415.40	3,919,049.73	
June 15, 2018	725,746.01	148,727.94	874,473.95	3,193,303.72	
December 15, 2018	753,288.08	121,185.88	874,473.95	2,440,015.64	
June 15, 2019	782,915.49	92,598.59	875,514.08	1,657,100.15	
December 15, 2019	812,627.13	62,886.95	875,514.08	844,473.02	
June 15, 2020	844,473.02	32,047.75	876,520.77	0.00	

### Prepayment Provisions

*Mandatory Prepayment.* The County Certificates are subject to mandatory prepayment on any date prior to their maturity date, upon notice as provided in the Trust Agreement, as a whole or in part by lot in authorized denominations from prepayments made, under the circumstances described in the Trust Agreement and the Facilities Lease (see "APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS — The Facilities Lease"), from money transferred to the Prepayment Account in the Certificate Fund representing the portion allocable to the County Certificates (calculated on a pro rata basis taking into account the then outstanding principal balance of the GSA Certificates and the Accreted Value of the County Certificates) of the net proceeds collected from a taking of the Leased Premises or a portion thereof under the power of eminent domain or from insurance covering damage to or destruction of the Leased Premises or a title defect relating to the Leased Premises, at a prepayment price equal to the Accreted Value thereof plus accrued but unpaid interest to the prepayment date plus the Make-Whole Premium.

*Optional Prepayment.* The County Certificates are subject to optional prepayment prior to maturity at the option of the County, as a whole or in part on any June 15 or December 15 of each year, from amounts deposited with the Trustee by the County in furtherance of the exercise of the County's option to purchase the Corporation's interest in the Leased Premises or any portion thereof in accordance with the Facilities Lease and from any other funds available therefor, at a prepayment price equal to the Accreted Value of the County Certificates to be prepaid, plus accrued but unpaid interest to the prepayment date plus the Make-Whole Premium.

*Notice of Prepayment.* Notice of prepayment will be delivered by first class mail, postage prepaid, to respective Owners of any County Certificates designated for prepayment at their addresses as they appear on the books of the Trustee as of the close of business on the day before such prepayment notice is given, mailed not less than 30 nor more than 60 days prior to the prepayment date. Such notice will set forth, among other things, the prepayment date, the place of prepayment and the prepayment price, and will state that the interest represented by the County Certificates designated for prepayment shall cease to accrue from and after such prepayment date. Notice of prepayment shall also be given to certain securities depositories and information services. The failure of any Owner to receive such prepayment notice or any defect therein shall not affect the validity of the prepayment of any County Certificates.

*Effect of Prepayment.* If the notice referred to hereinabove has been given and if the moneys necessary for the prepayment of the County Certificates identified in such notice (including interest to the applicable date of prepayment) have been set aside in the Prepayment Account of the Certificate Fund, the County Certificates identified in the notice to be prepaid shall become due and payable on such date of prepayment and from and after such prepayment date interest with respect to such County Certificates shall cease to accrue and become payable.

### Book-Entry System

The County Certificates will initially be issued in fully registered form in the names of the purchasers thereof. As soon as practicable following the Closing Date, the County and the Corporation intend to cause the

County Certificates to be made eligible for trading through the facilities of DTC. So long as Cede & Co. is the registered owner of the County Certificates (except as otherwise specified herein), as nominee of DTC, references herein to the Owners of the County Certificates shall mean Cede & Co. and shall not mean the actual purchasers of the County Certificates (except as otherwise specified herein). See "APPENDIX D — BOOK - ENTRY SYSTEM".

**THE CORPORATION**

The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California. The Corporation was formed in 1998 to assist the County by providing for the acquisition, construction and renovation of the Leased Premises and other public facilities and improvements. The Corporation is governed by a Board of Directors composed of the five members of the County Board of Supervisors

**THE LEASED PREMISES**

The U.S. District Court Project (the "District Court") is a 57,070 square foot, four-story building located at 3470 12<sup>th</sup> Street, Riverside, California. The project will consist of four U.S. District courtrooms, U.S. Marshals offices and fourteen secured parking spaces.

The ground floor will contain offices for the United States Marshal, with high security cellblock area with separate elevators to the court floors. The first floor of the building will contain a security entrance, offices for the Court Clerk and U.S. Attorney and jury assembly space. The third and fourth floors will contain the U.S. District courtrooms, judge chambers, and space for ancillary court functions.

The building will be steel frame construction with masonry exterior walls. The facility will meet the latest Federal Building requirements for bomb blast protection, as well as California seismic code design, and Federal & State Americans with Disability Act (ADA) access requirements.

The Robert T. Anderson Administrative Center is a 281,642 square foot, thirteen-story building located at 4080 Lemon Street, Riverside, California. The building was originally built in 1967 as a three-story building, with ten floors added in 1975.

**ESTIMATED USES OF FUNDS**

**General**

The following schedule sets forth the estimated sources and uses of funds pertaining to the offering:

**Sources of Funds**

Par amount of GSA Certificates .....	\$17,635,000.00
Proceeds from issuance of County Certificates .....	<u>2,165,472.41</u>
<b>Total Sources of Funds .....</b>	<b><u>\$19,800,472.41</u></b>

**Uses of Proceeds**

Deposits to Accounts under Trust Agreement .....	\$19,800,472.41
Construction Fund	
Costs of Issuance Account.....	578,804.49
District Court Construction Account.....	17,363,248.79
Certificate Fund	
Capitalized Interest Account .....	1,808,419.13
Reserve Fund.....	<u>50,000.00</u>
<b>Total Uses of Funds .....</b>	<b><u>\$19,800,472.41</u></b>

## SECURITY AND SOURCES OF PAYMENT FOR THE COUNTY CERTIFICATES

### Base Rental Payments

Pursuant to the Facilities Lease, the Corporation will lease the Leased Premises to the County for a term commencing on the Closing Date and ending on June 15, 2020, or at such earlier time as the Certificates have been paid or provision for their payment has been made in accordance with the provisions of the Facilities Lease and the Trust Agreement. As rental for the use and occupancy of the Leased Premises, the County agrees to pay the Base Rental. The Base Rental payments are composed of principal and interest components represented by the Certificates. Base Rental payments are due on each June 15 and December 15 during the Lease Term, commencing June 15, 1999, or on the next succeeding Business Day in the event that any such day is not a Business Day, unless there are any Bank Certificates outstanding in which event Base Rental shall be payable on the days set forth in the Reimbursement Agreement dated as of March 15, 1999 (the "Reimbursement Agreement") by and among the Corporation the County and the LOC Bank. To secure the performance of its obligation to pay Base Rental, the County will deposit the Base Rental with the Trustee on or before the first day of the month preceding the date on which such Base Rental is due, for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the prior Business Day.

The County has covenanted in the Facilities Lease to take such action as may be necessary to include all Base Rental and Additional Rental due under the Facilities Lease in its annual budget and to make the necessary annual appropriations for all such Base Rental and Additional Rental. The Corporation, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Owners substantially all its right, title and interest in the Site Lease and Facilities Lease, including its rights to receive and enforce payment of the Base Rental, but excluding its rights to indemnification and to payment or reimbursement of its costs and expenses. Pursuant to the Trust Agreement, the Base Rental payments are held in trust for the benefit of the Owners and will be used for the punctual payment of the interest and principal evidenced and represented by the County Certificates and will not be used for any other purpose while any of the Certificates remain Outstanding.

Except to the extent of (i) amounts held by the Trustee in the Certificate Fund or the Reserve Fund, (ii) amounts received in respect of rental interruption insurance or title insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the County Certificates, Base Rental and Additional Rental due under the Facilities Lease will be abated during any period in which, by reason of material damage, destruction, condemnation or defects in title to the Leased Premises, there is substantial interference with the use or right of possession by the County thereof. The amount of abatement will be such that the resulting Base Rental and Additional Rental represent fair rental value for the use and possession of the remaining portions of the Leased Premises as to which the County has beneficial use and occupancy and as to which such damage, destruction, theft, condemnation or title defects do not substantially interfere with the use and right of possession by the County. The Trustee may require a certificate from an appropriate representative of the County to the effect that the resulting total rental represents such fair rental value as described in the preceding sentence. Such abatement shall continue for the period commencing with the date of such substantial interference due to material damage, destruction, theft, condemnation or title defects to the Leased Premises and ending with the restoration of the Leased Premises to tenantable condition. See "RISK FACTORS—Abatement".

Should the County default under the Facilities Lease, the Trustee, as assignee of the Corporation, may terminate the Facilities Lease and re-enter the Leased Premises. The Trustee may also retain the Facilities Lease and (i) collect each installment of rent as it becomes due and enforce the terms of the Facilities Lease regardless of whether the County has abandoned the Leased Premises or (ii) re-enter the Leased Premises. However, in no event shall Base Rental payments and Additional Rental, if any, be accelerated. Furthermore, limitations exist with respect to the use of the Leased Premises that may limit the effectiveness of remedies available to the Trustee in the event of a default. See "RISK FACTORS—Limitation on Remedies".

## County's Obligation to Pay

*General Fund.* The obligation of the County to pay Base Rental payments when due is a current expense of the County, payable from the County General Fund. The full faith and credit of the County has not been pledged to the payment of the Base Rental payments.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OF ADDITIONAL RENTAL PAYMENTS UNDER THE FACILITIES LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OR TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS UNDER THE FACILITIES LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

*Triple Net Lease.* The Facilities Lease is a triple net lease; and the County agrees that the rents will be an absolute net return to the Corporation free and clear of any expenses, charges, counter-claims, recoupment or set-offs whatsoever.

*Additional Rental.* Under the Facilities Lease, the County agrees to pay Additional Rental as provided in the Facilities Lease, such as the costs of operating, maintaining and managing the Leased Premises, certain taxes and certain other costs related to the Leased Premises during the term of the Facilities Lease. See "APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — The Facilities Lease".

## THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The following summaries of certain provisions of the Letter of Credit and the Reimbursement Agreement do not purport to be complete, and are qualified by reference to the full text thereof. Copies of such documents are available to prospective investors upon request to the Trustee. See "MISCELLANEOUS".

### The Letter of Credit

The irrevocable Letter of Credit in an amount equal to \$20,730,230 (consisting of \$17,635,000 representing the principal amount evidenced by the GSA Certificates, \$556,208 representing interest evidenced thereby as of June 6, 2001 and \$2,539,022 representing the Accreted Value of the County Certificates as of June 6, 2001) is to be issued by the LOC Bank to the Trustee for the account of the Corporation and the County to allow the Trustee to draw funds sufficient to pay the principal and interest with respect to the GSA Certificates and the Accreted Value of the County Certificates in the event the GSA Certificates and the County Certificates are prepaid or tendered for purchase prior to the LOC Expiration Date (defined below). The term of the Letter of Credit will commence on the Closing Date and will expire on the earliest of (the "LOC Expiration Date"): (i) the date on which the LOC Bank honors payment of a final tender draft by the Trustee to pay all outstanding GSA Certificates and County Certificates; (ii) the Completion Date, as set forth in a written notice to the LOC Bank from the Trustee; (iii) the date on which the LOC Bank receives written notice from the Trustee that there are no longer any GSA Certificates or County Certificates outstanding; or (iv) June 6, 2001 (the "Stated Termination Date"), as such date may be extended by the LOC Bank by written notice to the Trustee. The Letter of Credit may not otherwise be canceled by the LOC Bank for any reason, including the failure by the Corporation and/or the County to pay any fees or other amounts due under the Reimbursement Agreement.

The Letter of Credit is transferable in its entirety to any transferee succeeding as trustee under the Trust Agreement, and may be successively transferred.

### Reimbursement Agreement

The Reimbursement Agreement provides for, among other things, the issuance of the Letter of Credit and for reimbursement by the Corporation of the amount drawn thereunder, plus interest thereon, pursuant to the terms

and conditions set forth therein. For information concerning the LOC Bank, see "APPENDIX H— Commerzbank Aktiengesellschaft".

### CERTIFICATE INSURANCE

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

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

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

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

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

As of December 31, 1997, the Insurer had admitted assets of \$5.3 billion (audited), total liabilities of \$3.5 billion (audited), and total capital and surplus of \$1.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1998, the Insurer had admitted assets of \$6.5 billion (audited), total liabilities of \$4.2 billion (audited), and total capital and surplus of \$2.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

#### **Year 2000 Readiness Disclosure**

MBIA Inc. is actively managing a high-priority Year 2000 (Y2K) program. The company has established an independent Y2K testing lab in its Armonk headquarters, with a committee of business unit managers overseeing the project. MBIA has a budget of \$1.13 million for its 1998-2000 Y2K efforts. Expenditures are proceeding as anticipated, and we do not expect the project budget to materially exceed this amount. MBIA has initiated a comprehensive Y2K plan that includes assessment, remediation, testing and contingency planning. This plan covers "mission-critical" internally developed systems, vendor software, hardware and certain third-party entities through which we conduct our business. Testing to date indicates that functions critical to the financial guarantee business, both domestic and international, were Y2K-ready as of December 31, 1998. Additional testing will continue throughout 1999.

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

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

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the financial strength of the Insurer "AAA".

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

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

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

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

#### **RISK FACTORS**

The following section describes certain risk factors affecting the payment of and security for the County Certificates. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the County Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Private Placement Memorandum in evaluating the County Certificates. There can be no assurance that other risk factors will not become material in the future.

#### **Limited Obligation**

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE FACILITIES LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR



PLEDGE ANY FORM OF TAXATION. NEITHER THE COUNTY CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE FACILITIES LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE COUNTY CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

#### **Abatement**

Except to the extent of (i) amounts held by the Trustee in the Certificate Fund or the Reserve Fund, (ii) amounts received in respect of rental interruption insurance or title insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the County Certificates, Base Rental and Additional Rental due under the Facilities Lease will be abated during any period in which, by reason of material damage, destruction, condemnation or defects in title to the Leased Premises, there is substantial interference with the use or right of possession by the County thereof. The amount of abatement will be such that the resulting Base Rental and Additional Rental represent fair rental value for the use and possession of the remaining portions of the Leased Premises as to which the County has beneficial use and occupancy and as to which such damage, destruction, theft, condemnation or title defects do not substantially interfere with the use and right of possession by the County. The Trustee may require a certificate from an appropriate representative of the County to the effect that the resulting total rental represents such fair rental value as described in the preceding sentence. Such abatement shall continue for the period commencing with the date of such substantial interference due to material damage, destruction, theft, condemnation or title defects and ending with the restoration of the Leased Premises to tenantable condition.

In the event that casualty insurance proceeds are unavailable because there is no coverage for the hazard or such proceeds are insufficient in amount to provide for complete repair or reconstruction or replacement of the Leased Premises, or in the event the Leased Premises are not repaired or replaced during the period of time that proceeds of the County's rental interruption insurance may be available in lieu of Base Rental payments (a period of approximately 24 months) and the period for which funds are available from the Reserve Fund, the Base Rental payments may be insufficient to cover payments to Owners of the County Certificates. See APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS — The Facilities Lease".

#### **Risk of Uninsured Loss**

The County has covenanted under the Facilities Lease to cause to be maintained certain insurance policies on the Leased Premises. These insurance policies do not cover all types of risk. For instance, the County does not covenant to maintain earthquake insurance if such insurance is not available at reasonable cost from reputable insurance carriers. Moreover, the insurance maintained by the County may provide for deductible amounts. The Leased Premises could be damaged or destroyed due to earthquake or other casualty for which the Leased Premises are uninsured. Under these circumstances, an abatement of Base Rental could occur and could continue indefinitely. There can be no assurance that the providers of the County's liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Premises will be sufficient to prepay the County Certificates.

#### **Default and Limitations on Remedies**

**In the event of a default, there is no remedy of acceleration of the Base Rental payments due over the term of the Facilities Lease. The County would only be liable for Base Rental payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's Base Rental payments. See APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS — The Facilities Lease".**

The remedies provided for in the Facilities Lease include, in addition to all other remedies provided at law, (i) terminating the Facilities Lease and re-entering the Leased Premises (without any right to damages with respect

to any period following termination) and (ii) retaining the Facilities Lease and (a) collecting each installment of rent as it becomes due and enforcing any other lease terms, regardless of whether the County has abandoned the Leased Premises or (b) re-entering the Leased Premises.

The enforcement of any remedies provided in the Facilities Lease and Trust Agreement may be limited by law (including limitations on a lessor's rights under real property leases and limitations on the rights of real property secured creditors) or could prove both expensive and time consuming. Although the Facilities Lease provides that if the County defaults the Trustee may re-enter the Leased Premises and re-let them, the Leased Premises may not be easily recoverable and, even if recovered, could be of little value to others because of their specialized nature, regulatory restrictions and other legal limitations as to the persons by whom and the circumstances under which the Leased Premises can be used. Moreover, due to the essential governmental nature and use of the Leased Premises, it is not certain whether a court would permit the exercise of a remedy removing the County from them.

Leased Premises may be substituted as more fully described in "APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—The Facilities Lease".

### **Limitation on Sources of Revenues**

There are limitations on the ability of the County to increase revenues payable to the County General Fund. The ability of the County to increase the ad valorem property taxes (which has historically been a primary source of revenues for counties in California) is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. California voters in 1986 approved an initiative statute which attempts to limit the imposition of new or higher taxes by local agencies, including the County. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS". In addition on November 5, 1996, the voters of the State approved Proposition 218, which further affects the ability of local agencies to levy and collect existing and future taxes, assessments, fees and charges. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS — Articles XIII C and XIII D of the State Constitution".

At the same time as limitations have been imposed on the ability of the County to raise revenues, State and Federally mandated expenditures for justice, health and welfare have increased. The annual increase in mandated expenditures has exceeded the annual increase in County revenues. In the event the County's revenue sources are less than its total obligations, the County could choose, or be required by federal or State law, to fund other municipal services before Base Rental payments.

### **No Right to Accelerate Base Rental**

Although the Trust Agreement permits the Trustee thereunder to accelerate the maturity of the County Certificates following certain Events of Default, the Facilities Lease does not provide for acceleration of payments to be made thereunder in the event of a default by the Government or the County, as the case may be.

### **Federal Welfare Reform**

California's response to federal welfare reform, Assembly Bill 1542, was signed into law August 11, 1997. This followed passage of federal welfare reform in August 1996. Provisions in AB 1542 and proposed changes in federal law have significantly mitigated earlier concerns about the potential for increased county general fund expenditures for the County's General Relief program.

The concern about General Relief impacts, due to the federal law change, was focused on the elimination of Supplemental Security Income (SSI) eligibility for legal immigrants. Subsequent federal budget action allows most legal immigrants who were in the U.S. as of August 22, 1996, to remain on SSI if they are otherwise eligible.

The concern about General Relief impacts, due to California's response to federal welfare reform, was focused on whether legal immigrants would continue to be eligible for the Aid to Families with Dependent Children (AFDC) program and whether individuals would be eligible for General Relief after their AFDC time limits expired.

AB 1542 replaces AFDC and GAIN, the current welfare-to-work program for AFDC recipients, with the new California Work Opportunity and Responsibility to Kids (CalWORKs) program. Legal immigrants who are eligible for CalWORKs due to time limit expiration are not eligible for county General Relief programs.

At this point, the County is receiving sufficient state and federal funding to implement the various provisions of AB 1542 without the need for additional County General Fund support.

### **Bankruptcy**

The County is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the County may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the County were to become a debtor under the Bankruptcy Code, the County would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding, and an Owner of a County Certificate would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the County or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the County; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the occurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of County Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the County's debt without the consent of all of the Owners of County Certificates, which plan may restructure, delay, compromise or reduce the amount of the claim of the Owners if the Bankruptcy Court finds that such a plan is fair and equitable. In addition, the Bankruptcy Code might invalidate any provision of the Facilities Lease or the County Certificates that makes the bankruptcy or insolvency of the County an event of default.

### **YEAR 2000 READINESS DISCLOSURE STATEMENT**

For several years, the County has been taking steps to minimize the financial and operational risks to the County associated with the effect of computer systems of the upcoming January 1, 2000 date which may be misread by many computers which use only two digits to record a year. With the aid of consulting firms the County has conducted impact analysis of all major systems, developed remediation measures and contingency plans, and actively committed resources to bring all mission critical processes into compliance.

The County's major mission critical systems are in various stages of remediation. The majority of the systems are expected to be Year 2000 compliant by July, 1999. The Transportation Land Management, Mental Health, Sheriff, Human Services Agency, and County financial systems are in the assessment stage and are expected to complete the validation/testing stage by the fourth quarter of calendar year 1999.

The County is conferring with its major business associates to assure that all business functions will continue uninterrupted as a result of Year 2000. Although the County cannot certify that all its business associates and suppliers will be fully compliant on a timely basis, it is taking steps to minimize any impact on its ability to meet its obligations.

Because of the unprecedented nature of the Year 2000 issue, the County cannot assure that its remediation efforts, and those of parties with whom the County conducts business, will be successful in whole or in part. However, the County is actively developing contingency plans for all operations to provide for continued service in the event that circumstances develop which are beyond its control or result from systems failures.

### **RIVERSIDE COUNTY POOLED INVESTMENT FUND**

The County Treasurer maintains one Pooled Investment Fund ("PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of January 31, 1999, the portfolio assets comprising the PIF had a market value of \$1,319,584,163.

State law requires that all operating moneys of the County, school districts and certain special districts be held by the County Treasurer. On April 30, 1997, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of "mandatory vs. discretionary" depositors. Collectively these mandatory deposits constituted approximately 91% of the funds on deposit in the County Treasury. In addition, the Auditor-Controller determined that 18 districts, constituting approximately 9% of the total funds on deposit in the County Treasury, represented discretionary deposits.

While State law permits other governmental jurisdictions, with the prior consent of the Board and the County Treasurer, to participate in the County's PIF, none have been authorized entry, nor are any pending consideration. The desire of the County is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are made in accordance with the County Treasurer's December 15, 1998 Investment Policy Statement (the "Policy Statement") which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. The Policy Statement specifically excludes future investments in all derivative securities and mutual bond funds, where the underlying portfolio assets are subject to daily market value adjustments. Investments are not authorized in reverse-repurchase agreements except for an unanticipated and immediate cash flow need that would otherwise cause the Treasurer to sell portfolio securities prior to maturity at a principal loss. Furthermore, the County Treasury is not engaged in any security lending agreement on the portfolio, and there is no contemplation of entering into a security lending agreement in the foreseeable future. The full text of the Policy Statement is set forth in Appendix B hereto.

The structure of the Pooled Investment Fund as of January 1, 1999 was:

Federal Agency Securities	\$646,805,952	49.02%
U.S. Treasury Bills & Notes	49,909,178	3.78%
Commercial Paper	369,518,983	28.00%
Cash and Money Market Funds	5,000,000	0.38%
Banker's Acceptances	72,950,050	5.53%
Collateralized Time Deposits <sup>1</sup>	10,000,000	0.76%
Repurchase Agreements	<u>165,400,000</u>	<u>12.53 %</u>
Total	\$1,319,584,163	100.00%

Weighted Average Yield            5.06%  
 Weighted Average Maturity        318 days

<sup>(1)</sup> Not rated; all other investments are government securities or rated investments.

Since the County began to mark-to-market the value of investment securities within the portfolio in December, 1994, the reported unrealized losses and gains of the portfolio since September, 1997 have been less than .2% of the portfolio balance. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In keeping with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Section 53844 requires that the investment income be credited to the specific fund from which the investment was made.

On December 20, 1994, the Board established an "Investment Oversight Review Committee" composed of the County Executive Officer, Auditor-Controller, Treasurer, County Counsel, County Superintendent of Schools and five County residents at large. The purpose of the committee was to review the prudence of the County's

investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board. Subsequently, this committee was reorganized to conform to new State requirements requiring the County to have a local oversight committee. The committee is utilized by the County to manage, audit, and safeguard public funds and to perform other internal control measures.

The County has obtained a rating on the PIF of "AAA/V-1+" from Fitch Investors Service, L.P., and a "AAA/MR1" rating from Moody's Investors Service. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

**The Placement Agent has made no independent investigation of the investments in the County PIF and have made no assessment of the current County Investment Policy. The value of the various investments in the County PIF will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the County PIF will not vary significantly from the values described herein.**

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

### Article XIII A of the State Constitution

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

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

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

### Article XIII B of the State Constitution

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any

city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The base year for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

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

As amended in June 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

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

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

#### **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 adds Articles XIII C and XIII D to the State Constitution, which affect the ability of the County to levy and collect both existing and future taxes, assessments, fees and charges.

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

In addition, Article XIII C removes limitations on the initiative power in matters of local taxes assessments, fees and charges. Consequently, the voters of the County could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "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. The County has identified its hotel tax as the only tax, assessment or fee (other than as described below) that could be subject to this initiative power. See "Statutory Limitations" below. No assurance can be given, however, that the voters of the County will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

Article XIII D contains several new provisions making it generally more difficult for local agencies, such as the County, to levy and maintain "assessments" for local services and programs. "Assessments" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. The provisions of Article XIII D will make it more difficult for the County to establish assessment-based programs in the future.

Article XIII D also contains several 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 the Article. 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 County 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 County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

The County's implementation of Proposition 218 has not had an impact on its General Fund. Parcel charges in 41 of the County's 67 county service areas ("CSAs") have been classified as fees and charges, assessments or special taxes under either Article XIII C or Article XIII D, and required the approval of local property owners or voters, as the case may be, prior to July 1, 1997, for the County to continue collecting such charges. The County adopted a policy that unless County residents and property owners within the affected CSAs approve continuance of the applicable parcel charges, it would cease such services rather than use amounts in the General Fund to support them. Of the 41 CSAs which required an election to continue collecting parcel charges, four CSAs voted not to continue their parcel charges. However, there was sufficient fund balances in three CSAs to continue services through Fiscal Year 1998-99. Three of the failed CSAs held elections and two CSAs reinstated a parcel charge for Fiscal Year 1998-99.

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 62**

A statutory initiative ("Proposition 62") was adopted by State voters at the November 4, 1986 General Election, which among other things (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote for the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of ad valorem taxes on real property by local governmental entities (except for county or city documentary transfer taxes), except as permitted by Article XIII A and (5) prohibits the

imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Carl Guardino*, 11 Cal. 4th 220 (1995) ( the "Santa Clara decision"), which upheld a Court of Appeal decision invalidating a 1/2-cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a "special tax," as required by Proposition 62. The Santa Clara decision did not address the question of whether or not it should be applied retroactively.

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) ("Woodlake"), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the California Constitution. The California Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on Woodlake. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the "window period" of August 1, 1985 until November 5, 1986.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the Legislature. After the passage of Proposition 218, however, certain provisions of Proposition 62 (e.g. voter approval of taxes) are governed by the State Constitution.

Prior to 1986 the County levied a hotel tax, and subsequently increased the hotel tax in 1990. In October, 1990, the County increased its hotel tax from 8% to 10%, the current tax levied on the occupancy of any hotel room in the unincorporated areas of the County. The County collected approximately \$167,000 as a result of this increase in Fiscal Year 1997-98 and estimates that overall approximately \$1.25 million will be collected as a result of the increase through June 30, 1999. If a court determined that the hotel tax increase in 1990 (after the effective date of Proposition 62) is in violation of Proposition 62, it would invalidate the increase and require, in accordance with Proposition 62, that the portion of the 1% general ad valorem property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the invalid hotel tax for each year that such tax increase was collected.

#### NO LITIGATION

No litigation is pending or threatened concerning the validity of the County Certificates, the Facilities Lease or the Trust Agreement, or contesting the County's ability to appropriate or make Base Rental payments, and an opinion of the Office of County Counsel to that effect will be furnished to the Placement Agent at the time of the execution and delivery of the County Certificates.

#### TAX MATTERS

The following is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of the County Certificates and is based on the advice of counsel. This summary is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change. The discussion does not deal with all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules. In addition, this summary is generally limited to investors who will hold the County Certificates as "capital assets" (generally, property held for investment) within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). Investors should consult their own tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of the County Certificates. Prospective investors should note that no rulings have



been or will be sought from the Internal Revenue Service (the "IRS") with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

#### **Characterization of the County Certificates as Indebtedness**

As expressed in the Trust Agreement, the County, the Corporation and the Trustee intend that for applicable tax purposes the County Certificates will be indebtedness of the County secured by the payments due from the County under the Facilities Lease. By accepting the County Certificates, the Beneficial Owners have agreed to treat the County Certificates as indebtedness of the County for federal income tax purposes. In this regard, upon closing of the offering of the County Certificates, Counsel will render its opinion to the effect that the County Certificates will be treated as indebtedness for federal income tax purposes. Beneficial Owners of County Certificates should note that interest payable with respect thereto will be included in gross income in full for federal income tax purposes.

The characterization of a transaction of a sale of property or a secured loan, for federal income tax purposes, is a question of fact based upon the economic substance of the transaction rather than its form or the manner in which it is characterized. While the IRS and the courts have set forth several factors to be taken into account in determining whether the substance of a transaction is a sale of property or a secured indebtedness, the primary factor in making this determination is whether the transferee has assumed the risk of loss or other economic burdens relating to the property and has obtained the benefits of ownership thereof. Notwithstanding the foregoing, in some instances, courts have held that a taxpayer is bound by the particular form it has chosen for a transaction, even if the substance of the transaction does not accord with its form.

The County believes that it has retained the preponderance of the primary benefits and burdens associated with the Facilities and should, thus, be treated as the owner of the Facilities for federal income tax purposes. Further the County believes that the County Certificates represent its indebtedness, and do not represent any type of ownership in the Facilities. It is possible that the IRS could assert that the County is not the owner of the Facilities, and that the County Certificates represent an ownership interest in the Facilities or an interest in a venture which would be deemed the owner of the Facilities. In that event, among other things, the income generated by the County Certificates would not be treated as interest income to the Beneficial Owners.

#### **Tax Consequences to Certificateholders**

*Interest Income and Original Issue Discount.* Generally, original issue discount ("OID") must be accrued using a yield that remains constant (the "Constant Yield Method") rather than in accordance with a Beneficial Owner's regular method of accounting. The IRS issued final regulations concerning the calculation and accrual of OID on January 27, 1994 which are applicable to the County Certificates (the "OID Regulations"). The legislative history of the OID provisions provides that the calculation and accrual of OID should be based on the prepayment assumption used by the parties in pricing the transaction.

OID is the excess of the stated redemption price at maturity of an obligation over its issue price. The issue price of an obligation issued for money is the first price at which a substantial portion of the issue is sold. The stated redemption price at maturity of an obligation includes all payments, other than interest unconditionally payable (i.e., late payments are penalized) at a fixed rate or certain qualified variable rates at fixed intervals of one year or less ("Qualified Stated Interest").

The County intends to treat the semiannual interest payments on the County Certificates as Qualified Stated Interest under the OID Regulations and accordingly, such interest will be taxable to the Beneficial Owners of the County Certificates in accordance with such Beneficial Owners' individual method of tax accounting. Generally, the OID Regulations require the accrual of interest that does not qualify as Qualified Stated Interest. If the discount with which a debt instrument is issued does not exceed a specified amount (the "de minimus amount"), such discount is included by an owner thereof in income in proportion to the receipt of principal payments rather than being treated as OID. The discount on the County Certificates, if any, is expected to be less than the de minimis

amount. It is possible that the IRS could assert that the interest payable with respect to the County Certificates is not unconditionally payable or otherwise does not qualify as Qualified Stated Interest. Such position, if successful, would require all Beneficial Owners to accrue income on the County Certificates under the OID Regulations rather than in accordance with their regular method of accounting.

A Beneficial Owner who buys a County Certificate for more than its principal amount generally will be eligible to elect to amortize such premium under the premium amortization rules of the Code. A Beneficial Owner who buys a County Certificate at a discount from its principal amount (or its adjusted issued price if issued with OID) greater than a specified de minimis discount will be subject to the market discount rules of the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of accrued market discount. The OID Regulations permit a holder of a debt interest to elect to accrue all interest, discount (including de minimis market or OID) and premium in income as interest, based on a constant yield method. However, an election to accrue market discount would apply to all other debt instruments having market discount acquired during the election year or thereafter and an election to amortize bond premium would apply to all other debt instruments having amortizable bond premium owned or thereafter acquired.

*Sale or Other Disposition.* If a Beneficial Owner sells a County Certificate, the Beneficial Owner will recognize gain or loss in an amount equal to the difference between the amount realized on the sale and the Beneficial Owner's adjusted tax basis in the County Certificate. The adjusted tax basis of a County Certificate to a particular Beneficial Owner will equal the Beneficial Owner's cost for the County Certificate, increased by any market discount, OID and gain previously included by such Owner in income with respect to the County Certificate and decreased by the amount of bond premium (if any) previously amortized and by the amount of principal payments previously received by such Beneficial Owner with respect to such County Certificate. Any such gain or loss will be capital gain or loss if the County Certificate was held as a capital asset, except for gain representing accrued interest and accrued market discount not previously included in income. Capital losses generally may be used only to offset capital gains.

*Foreign Certificateholders.* Interest paid (or accrued) to a Beneficial Owner who is a nonresident alien, foreign corporation or other non-United States person (a "Foreign Person") generally will be considered "portfolio interest," and generally will not be subject to United States federal income tax and withholding, provided, that (a) the interest is not effectively connected with the conduct of a trade or business within the United States by the Foreign Person, (b) the Foreign Person provides the Trustee or other person who is otherwise required to withhold U.S. tax with respect to the County Certificates with a withholding certificate certifying that such Beneficial Owner is a Foreign Person and providing the such person's name, address, and such other information as required pursuant to Treasury Regulation Section 1.1441-1(e)(2) (effective January 1, 1999).

Portfolio interest does not include contingent interest. Although the County believes that the interest payable with respect to the County Certificates will not constitute contingent interest within the meaning of Section 871(h), there can be no assurance that the IRS will not challenge such conclusion. If such interest is not portfolio interest, then it will be subject to United States federal income and withholding tax at a rate of 30%, unless reduced or eliminated pursuant to an applicable tax treaty.

Any capital gain realized on the sale, redemption, retirement or other taxable disposition of a County Certificate by a Foreign Person generally will be exempt from United States Federal income and withholding tax, provided that (i) such gain is not effectively connected with the conduct of a trade or business in the United States by the Foreign Person and (ii) in the case of an individual Foreign Person, the Foreign Person is not present in the United States for 183 days or more in the taxable year.

If the interest, gain or income on a County Certificate held by a Foreign Person is effectively connected with the conduct of a trade or business in the United States by the Foreign Person (although exempt from the withholding tax previously discussed if the Foreign Person provides an appropriate statement), the Beneficial Owner generally will be subject to United States federal income tax on the interest, gain or income at regular federal income tax rates. In addition, if the Foreign Person is a foreign corporation, it may be subject to a branch profits tax equal to 30% of its "effectively connected earnings and profits" within the meaning of the Code for the taxable year,

as adjusted for certain items, unless it qualifies for a lower rate under an applicable tax treaty (as modified by the branch profits tax rules).

#### **FINANCIAL ADVISOR**

Dain Rauscher Incorporated has served as financial advisor to the County in connection with the sale, execution and delivery of the County Certificates. The financial advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the County to determine the accuracy or completeness of this Private Placement Memorandum. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein.

#### **PLAN OF DISTRIBUTION**

The County Certificates are being placed through Dublin Securities, Inc. (the "Placement Agent") at a purchase price equal to \$2,165,472.41. The purchase contract pursuant to which the County Certificates are being sold provides that the Placement Agent will place all of the County Certificates if any such County Certificates are placed, the obligation to make such purchase by the purchasers thereof being subject to certain terms and conditions set forth in such placement contract, the approval of certain legal matters by counsel and certain other conditions.

The County Certificates are being offered for sale to purchasers who are "qualified institutional buyers", as such term is used in Rule 144A promulgated under the Securities Act. Each purchaser will be required to deliver to the County, the Corporation and the Placement Agent a letter, in the form of Appendix F to this Private Placement Memorandum, pursuant to which such purchaser will represent to the County, the Corporation and the Placement Agent that such purchaser's intention is to acquire the County Certificates (a) for investment in such purchaser's own account or (b) for resale to "qualified institutional buyers" in transactions under Rule 144A, and not in any event with the view to, or for resale in connection with, any distribution thereof, and that such purchaser understands that no registration statement has been filed under the Securities Act in connection with the sale of the County Certificates, by reason of a specified exemption from the registration provisions of the Securities Act which depends, among other things, upon the bona fide nature of the purchaser's investment intent as expressed in such letter. Such purchaser will also acknowledge that any separate securities of the County or the Corporation deemed included with the County Certificates are being purchased pursuant to an exemption under the Securities Act and may not be transferred unless they are subsequently registered under the Securities Act or any exemption from such registration, including, without limitation, the exemption contained in Rule 144A thereunder, is available. Such purchaser will also represent that it is a "qualified institutional buyer" within the meaning of Rule 144A.

#### **CERTAIN LEGAL MATTERS**

The validity of the Facilities Lease and certain other legal matters are subject to the approval of Kutak Rock, Pasadena, California, Special Counsel. The opinion of Special Counsel will be delivered with the County Certificates in substantially the form set forth in Appendix E. Certain legal matters will be passed upon for the Placement Agent by Hunton & Williams, New York, New York, for the Bank by Orrick, Herrington & Sutcliffe LLP, for the Insurer by its counsel and for the County and the Corporation by the Office of County Counsel.

MISCELLANEOUS

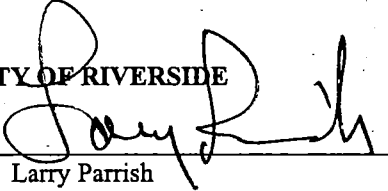
References made herein to certain documents and reports are brief summaries thereof, which do not purport to be complete or definite, and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Facilities Lease, the Assignment Agreement and the Trust Agreement are available upon request from the County of Riverside, County Administrative Office, 4080 Lemon Street, 12<sup>th</sup> Floor, Riverside, California 92501, Attention: County Finance Director.

Any statements in this Private Placement Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Private Placement Memorandum is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the County Certificates.

The execution and delivery of this Private Placement Memorandum has been duly authorized by the County.

COUNTY OF RIVERSIDE

By: \_\_\_\_\_

  
Larry Parrish  
County Executive Officer

**APPENDIX A**  
**INFORMATION REGARDING THE COUNTY OF RIVERSIDE**  
**GENERAL INFORMATION**

Set forth below is certain information with respect to the County. Such information was prepared by the County except as otherwise indicated.

**DEMOGRAPHIC AND ECONOMIC INFORMATION**

**Population**

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 1,441,170 as of January 1, 1998, reflecting a 2.9% increase over January 1, 1997. Population rose 38.7% from 1970 to 1980 and 84.6% from 1980 to 1990.

The largest cities in the County are the cities of Riverside, Moreno Valley, Corona, Hemet, Indio, Palm Springs, Temecula and Murrieta. The areas of most rapid population growth continue to be those more populated and industrialized cities in the western and central regions of the County and the southwestern unincorporated region of the County between Sun City and Temecula.

The following table sets forth annual population figures, as of January 1, for cities located within the County for each of the years listed:

**COUNTY OF RIVERSIDE**

**POPULATION OF CITIES WITHIN THE COUNTY**

(As of January 1)

CITY	1970	1980	1990	1994 <sup>(1)</sup>	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>	1997 <sup>(1)</sup>	1998 <sup>(1)</sup>
Banning .....	12,034	14,020	20,570	23,400	23,600	23,850	24,250	24,900
Beaumont .....	5,484	6,818	9,685	10,450	10,400	10,450	10,500	10,650
Blythe .....	7,047	6,805	8,428	12,850	16,450	18,350	20,750	21,050
Calimesa .....	-	-	-	7,250	7,225	7,300	7,400	7,550
Canyon Lake .....	-	-	-	11,050	11,150	11,300	11,400	11,650
Cathedral City .....	-	-	30,085	34,250	34,900	35,450	35,450	36,050
Coachella .....	8,353	9,129	16,896	19,600	20,200	21,050	21,350	21,850
Corona .....	27,519	37,791	76,095	94,700	95,400	99,500	104,300	111,500
Desert Hot Springs .....	2,738	5,941	11,668	14,100	14,550	14,850	15,050	15,300
Hemet .....	12,252	22,454	36,094	51,800	52,000	52,600	53,100	57,500
Indian Wells .....	760	1,394	2,647	3,040	3,030	3,080	3,190	3,270
Indio .....	14,459	21,611	36,793	41,300	41,400	42,100	42,800	43,800
Lake Elsinore .....	3,530	5,982	18,285	23,650	24,550	25,600	26,650	27,750
La Quinta .....	-	-	11,215	16,300	17,100	18,050	19,950	20,450
Moreno Valley .....	-	-	118,779	132,100	131,900	133,400	134,600	137,200
Murrieta .....	-	-	-	30,250	32,550	34,550	36,600	39,000
Norco .....	14,511	19,732	23,302	24,350	24,250	24,500	24,650	25,500
Palm Desert .....	-	11,081	23,252	26,750	32,750	33,450	34,150	35,150
Palm Springs .....	20,936	32,359	40,181	41,650	41,300	41,700	41,900	42,650
Perris .....	4,228	6,827	21,460	29,600	30,250	30,500	30,300	31,050
Rancho Mirage .....	-	6,281	9,778	10,500	10,450	10,550	10,700	11,050
Riverside .....	140,489	170,591	226,505	239,600	241,100	243,400	245,200	250,800
San Jacinto .....	N/A	7,098	16,210	23,500	23,550	23,900	24,250	24,850
Temecula .....	-	-	27,099	35,750	39,000	41,850	43,750	46,550
<b>TOTALS:</b>								
Incorporated .....	274,340	385,914	785,027	955,900	979,300	1,001,300	1,021,490	1,057,070
Unincorporated .....	182,576	248,009	385,386	376,100	376,300	380,500	378,900	384,100
County-Wide .....	<u>456,916</u>	<u>633,923</u>	<u>1,170,413</u>	<u>1,332,000</u>	<u>1,355,600</u>	<u>1,381,900</u>	<u>1,400,390</u>	<u>1,441,170</u>
California .....	18,136,045	23,668,562	29,473,000	31,960,623	32,344,074	32,231,000	32,670,00	33,252,000

<sup>(1)</sup> Totals may not equal sum due to independent rounding; census counts remain unrounded.

Source: U.S. Census Bureau, except California 1994, 1995, 1996, 1997 and 1998 data is from the State Department of Finance and the State Employment Development Department.

**Income**

The following table reflects aggregate personal, per capita and median household income for the County.

**COUNTY OF RIVERSIDE**

**ESTIMATED ANNUAL INCOME**

	1994	1995	1996	1997	1998
Total Aggregate Personal Income (in millions)....	\$25,087	\$26,571	\$29,208	\$31,570	\$32,438
Per Capita Income .....	19,046	19,812	20,963	22,175	22,186
Median Household Income .....	35,056	36,466	37,824	40,011	40,470

Source: Inland Empire Economic Databank and Forecasting Center

**INDUSTRY AND EMPLOYMENT**

The County is a part of the Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the PMSA has large and growing commercial and service sector employment, as reflected in the following table.

**RIVERSIDE-SAN BERNARDINO PMSA**

**ANNUAL AVERAGE EMPLOYMENT**

**(IN THOUSANDS)**

<u>INDUSTRY</u>	1993	1994	1995	1996	1997	1998
Agriculture.....	21.9	21.5	21.8	21.3	21.2	20.8
Construction.....	37.5	40.3	43.1	46.2	52.1	58.2
Finance, Insurance and Real Estate .....	32.0	31.1	29.4	29.6	29.8	30.3
Government .....	155.6	157.8	162.6	167.3	171.6	174.5
Manufacturing:						
Nondurables.....	28.7	30.4	32.4	33.3	34.3	35.0
Durables.....	57.4	58.1	62.0	65.9	70.5	75.1
Mining.....	1.2	1.2	1.1	1.2	1.2	1.0
Retail Trade .....	162.7	164.5	170.0	172.6	177.8	181.2
Services.....	189.6	195.2	202.6	208.7	221.5	232.6
Transportation and Public Utilities .....	37.2	39.1	40.8	41.1	42.5	45.7
Wholesale Trade.....	31.9	33.7	35.9	37.5	40.2	41.5
<b>TOTAL.....</b>	<b>755.7</b>	<b>772.9</b>	<b>801.7</b>	<b>823.5</b>	<b>865.1</b>	<b>895.9</b>

Source: State Employment Development Department, Labor Market Information Division.

The following table sets forth the major employers located in the County:

**COUNTY OF RIVERSIDE**

**MAJOR EMPLOYERS<sup>(1)</sup>**

COMPANY NAME	LOCATION	PRODUCT/SERVICE	NUMBER OF EMPLOYEES
County of Riverside	Countywide	Government	11,687
Stater Bros.	Countywide	Supermarkets	4,600
Lucky Stores Inc.	Countywide	Supermarkets	4,085
Corona-Norco Unified School District	Corona	Education	3,818
Riverside Unified School District	Riverside	Education	3,490
University of California, Riverside	Riverside	Education	3,386
Moreno Vally Unified School District	Moreno Valley	Education	2,979
Wal-Mart Stores Inc.	Countywide	Retail	2,570
Valley Health System	Hemet	Health Care	2,200
Palm Springs Unified School District	Palm Springs	Education	2,157
City of Riverside	Riverside	Government	2,136
United States Postal Service	Countywide	Mail Delivery	2,133
Riverside Community College District	Riverside	Education	2,118
Ralphs Grocery Co.	Countywide	Supermarkets	2,100
Kaiser Permanente	Riverside	Health Care	2,000
Eisenhower Medical Center	Rancho Mirage	Health Care	1,919
Jurupa Unified School District	Jurupa	Education	1,752
Guidant (Formerly ACS)	Temecula	Medical Devices	1,700
Lake Elsinore Unified School District	Lake Elsinore	Education	1,700
Fleetwood Enterprises, Inc.	Countywide	Manufactured Housing	1,606
Marriott Desert Springs Resort	Palm Desert	Resort Hotel	1,600
Hemet Unified School District	Hemet	Education	1,412
La Quinta Resort & Club	La Quinta	Resort Hotel	1,400
The Vons Co.	Countywide	Supermarkets	1,391
March Air Reserve Base	Riverside	Military Reserve Base	1,300 <sup>(2)</sup>
Desert Regional Medical Center	Palm Springs	Health Care	1,300
The Press Enterprise	Riverside	Newspaper	1,259
California Rehabilitation Center	Norco	Corrections	1,200
National RV	Riverside	Recreation Vehicles	1,200
Parkview Community Hospital	Riverside	Health Care	1,179
Riverside Community Hospital	Riverside	Health Care	1,104

<sup>(1)</sup> The County itself does not directly maintain employment records, but relies upon a variety of independent surveys, as well as upon its own surveys to identify major employers.

<sup>(2)</sup> Civilian employment only. As of March 17, 1999 total base employment was 6,006, including Reserve and national Guard Units, some of which are on active duty.

Source: County Economic Development Agency



Unemployment statistics for the County, the State and the United States are presented in the following table.

**COUNTY OF RIVERSIDE**  
**COUNTY, STATE AND NATIONAL UNEMPLOYMENT DATA**

	1993	1994	1995	1996	1997	1998
County.....	11.88%	10.51%	9.58%	8.50%	7.50%	6.70%
California .....	9.20%	8.59%	7.77%	7.30%	6.30%	5.90%
United States.....	6.91%	6.10%	5.59%	5.30%	4.90%	4.50%

Source: Inland Empire Economic Databank and Forecasting Center

**Commercial Activity**

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are eight regional shopping malls in the County: Riverside Plaza, Galleria at Tyler (Riverside), Palm Springs Mall, Desert Fashion Mall, Indio Fashion Mall, Hemet Valley Mall, Palm Desert Town Center and Moreno Valley Mall at Towngate. There are also two factory outlet malls (Desert Hills Factory Stores and Lake Elsinore Outlet Center) and over 200 area centers in the County.

The following table sets forth taxable transactions in the County for the years 1993 through 1998:

**COUNTY OF RIVERSIDE**  
**TAXABLE SALES TRANSACTIONS**  
**(IN THOUSANDS)**

	1993	1994	1995	1996	1997	1998
Apparel Stores.....	\$ 395,084	\$ 406,973	\$ 421,007	\$ 474,384	\$488,625	\$43,820
General Merchandise Stores.....	1,118,197	1,196,137	1,230,975	1,265,305	1,331,898	190,659
Drug Stores .....	149,052	154,096	161,004	164,333	166,214	297,743
Food Stores .....	653,556	648,486	657,598	696,627	734,532	289,761
Packaged Liquor Stores.....	57,368	53,418	53,928	53,700	52,002	11,245
Eating and Drinking Places .....	849,961	884,970	919,233	979,535	1,030,655	89,529
Home Furnishing and Appliances.....	257,506	289,604	316,508	325,941	328,893	213,322
Building Materials & Farm Implements .....	584,512	633,273	649,490	709,568	831,063	424,516
Auto Dealers and Auto Supplies.....	1,140,007	1,283,950	1,387,403	1,498,842	1,565,935	195,306
Service Stations.....	739,399	741,435	767,675	836,767	855,454	281,155
Other Retail Stores.....	772,061	838,874	870,593	998,359	1,122,639	
Retail Stores Total .....	\$6,716,703	\$7,131,216	\$ 7,345,414	8,003,061	8,508,010	2,158,515
All Other Outlets.....	2,558,573	2,683,317	2,885,204	3,135,800	3,464,361	915,106
Total All Outlets .....	\$9,275,276	\$9,814,533	\$10,320,618	\$11,138,861	\$11,972,371	3,073,621

Source: California State Board of Equalization, Research and Statistics Division.

**Building and Real Estate Activity**

The first two tables that follow provide a five-year summary of building permit valuations and new dwelling units authorized in the County (in both incorporated and unincorporated areas) since 1994. The high for single-family building permits occurred in 1998. The third table below reflects average home sales and average home sale prices for the same five-year period.

**COUNTY OF RIVERSIDE**

**Building Permit Valuations**

(In Thousands)

	1994	1995	1996	1997	1998
Residential .....	\$1,064,177	\$ 941,435	\$1,049,447	\$1,440,470	\$1,925,704
Non-Residential .....	243,471	333,724	316,475	517,242	588,311
<b>TOTAL .....</b>	<b>\$1,307,648</b>	<b>\$1,275,159</b>	<b>\$1,365,922</b>	<b>\$1,957,712</b>	<b>\$2,514,015</b>

Source: Construction Industry Research Board

**COUNTY OF RIVERSIDE**

**Number of New Dwelling Units**

	1994	1995	1996	1997	1998
Single Family .....	7,690	6,803	7,021	8,677	10,727
Multi-Family .....	596	143	478	1,106	1,685
<b>TOTAL .....</b>	<b>8,286</b>	<b>6,946</b>	<b>7,499</b>	<b>9,783</b>	<b>12,412</b>

Source: Construction Industry Research Board

**COUNTY OF RIVERSIDE**

**Average Home Sales and Average Sale Prices**

	1994	1995	1996	1997	1998
Homes Sold <sup>(1)</sup> .....	23,941	21,787	25,035	27,154	34,816
Home Sales Price <sup>(2)</sup> .....	\$145,238	\$139,827	\$142,247	\$149,473	\$161,860

<sup>(1)</sup> New and existing homes.

<sup>(2)</sup> Average price of actual sales.

Source: Experion (Formerly TRW, Redi-Property Services), Inland Empire Economic Databank and Forecasting Center

## Agriculture

Agriculture remains a leading source of income in the County. Principal agricultural products are milk, eggs, table grapes, grapefruit, nursery, alfalfa, dates, lemons and avocados.

Four areas in the County account for the major portion of agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.

The value of agricultural production in the County for 1993 through 1997 is presented in the following table.

<b>COUNTY OF RIVERSIDE</b>					
<b>Value of Agricultural Production</b>					
	1993	1994	1995	1996	1997
Citrus Fruits .....	\$156,642,200	\$107,022,600	\$109,557,400	\$114,470,300	\$ 85,602,500
Trees and Vines .....	206,412,500	214,397,400	229,793,200	195,393,800	201,322,500
Vegetables, Melons, Miscellaneous .....	152,482,300	141,751,000	228,196,000	164,700,700	164,748,200
Field and Seed Crops .....	67,816,600	82,186,100	79,408,100	84,880,100	90,136,200
Nursery .....	47,550,700	79,537,200	71,169,100	81,942,600	82,827,400
Apiculture .....	8,526,400	5,815,100	4,279,500	6,306,300	5,375,700
Aquaculture Products .....	7,703,100	14,995,400	15,604,800	17,681,900	12,535,300
Total Crop Valuation .....	<u>647,133,800</u>	<u>\$645,704,800</u>	<u>\$738,008,100</u>	<u>\$665,375,700</u>	<u>\$642,547,800</u>
Livestock and Poultry Valuation .....	413,123,800	423,781,200	425,422,200	476,444,100	431,374,900
Grand Total .....	<u>\$1,060,257,600</u>	<u>\$1,069,486,000</u>	<u>\$1,163,430,300</u>	<u>\$1,141,819,800</u>	<u>\$1,073,922,700</u>

Source: Riverside County Agricultural Commissioner

## Transportation

Easy access to job opportunities in the County and nearby Los Angeles, Orange and San Diego Counties is important to the County's employment picture. Several major freeways and highways provide access between the County and all parts of Southern California. The Riverside Freeway (State Route 91) extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses the width of the County, the western-most portion of which links up with major cities and freeways in the eastern part of Los Angeles County and the southern part of San Bernardino County. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. The Moreno Valley Freeway (U.S. 60) provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Currently, Metrolink provides commuter rail service to Los Angeles and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with a stop in Indio. Freight service to major west coast and national markets is provided by three transcontinental railroads -- Santa Fe, Union Pacific and Southern Pacific. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western County cities and communities. The SunLine Transit Agency provides local bus service throughout the Coachella Valley, including the cities of Palm Springs and Indio. The City of Banning also operates a local bus system.

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by the Los Angeles Department of Airports. Four major airlines schedule commercial flight service at Palm Springs Regional Airport. County-operated general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports. There is a military base at March Air Force Base, which converted from an active duty base to a reserve-only base on April 1, 1996. Plans for joint military and civilian use of the base thereafter are presently being formulated by the March AFB Joint Powers Authority, comprised of the County and the Cities of Riverside, Moreno Valley and Perris.

## **Education**

There are four elementary school districts, one high school district, eighteen unified (K-12) school districts and four community college districts in the County. Ninety-five percent of all K-12 students attend schools in the unified school districts. The three largest unified districts are Riverside Unified School District, Moreno Valley Unified School District and Corona-Norco Unified School District.

There are seven two-year community college campuses located in the communities of Riverside, Moreno Valley, Norco, San Jacinto, Menifee, Coachella Valley and Palo Verde Valley. There are also two universities and a four-year college located in the City of Riverside -- the University of California, Riverside, La Sierra University and California Baptist University.

## **Environmental Control Services**

**Water Supply.** The County obtains a large part of its water supply from groundwater sources, with certain areas of the County, such as the City of Riverside, relying almost entirely on groundwater. As in most areas of Southern California, this groundwater source is not sufficient to meet countywide demand and the County's water supply is supplemented by imported water. At the present time imported water is provided by the Colorado River Aqueduct and the State Water Property.

At the regional and local level, there are several water districts that were formed for the primary purpose of supplying supplemental water to the cities and agencies within their areas. The Coachella Valley Water District, the Western Municipal Water District and the Eastern Municipal Water District are the largest of these water districts in terms of area served. The County is also served by the San Geronio Pass Water Agency, Desert Water Agency and Palo Verde Irrigation District.

**Flood Control.** Primary responsibility for planning and construction of flood control and drainage systems within the County is provided by the Riverside County Flood Control and Water Conservation District and the Coachella Valley Storm Water Unit.

**Sewage.** There are 18 wastewater treatment agencies in the County's Santa Ana River region and nine in the County's Colorado River Basin region. Most residents in the rural unsewered areas of the County rely upon septic tanks and leach fields as an environmentally acceptable method of sewage disposal.

## **FINANCIAL INFORMATION**

### **Budgetary Process and Budget**

The County operates on an annual budget cycle. Under State law, the County must adopt a proposed budget by June 30 and a final budget by October 2, which must be balanced. Subsequent to the adoption of the final budget, the County will make adjustments during the course of the Fiscal Year to reflect revenues, as realized, and any changes on expenditure requirements. For example, in recent years, many counties have adopted final budgets in advance of the State budget and made adjustments, if required, upon the passage of the State budget. The County conducts a quarterly review, with major adjustments generally addressed in a mid year budget report.

## **Fiscal Year 1998-99 Final Budget**

The County adopted its Fiscal Year 1998-99 Final Budget (the "Final Budget") on July 28, 1998. The Final Budget approved total General Fund expenditures of \$1.22 billion. Such expenditures are for primary County services including public protection, health and sanitation and public assistance. These three areas comprise approximately 86% of the County's total expenditures.

The County relies significantly upon State and Federal payments for reimbursement of various costs including certain mandated programs. Approximately 57% of the Final Budget is to be paid from State and Federal sources. The portion of the County's revenue that is not dependent upon State and Federal sources is considered to be "discretionary." The County uses the discretionary portion of General Fund revenues to match, if necessary, external sources of revenue and fund the cost of general government services, including the costs of public protection not funded by trial court funding from the State or moneys from the Public Safety Sales Tax (Proposition 172).

Proposition 172 was approved by the voters of California, permanently extending a ½ cent sales tax for public safety statewide. Sales tax receipts for the County from this ½ cent levy were \$52.9 million in Fiscal Year 1995-96, \$55.6 million in Fiscal Year 1996-97, \$59.2 million in Fiscal Year 1997-98 and is estimated at \$62.7 million in Fiscal Year 1998-99.

Since Fiscal Year 1993-94, the County has experienced a structural deficit primarily cause by a shift in property taxes by the State from counties to the Education Revenue Augmentation Fund ("ERAF") for school and community college districts. The County's total structural deficit has required \$74 million in reductions over the last 5 years. The Fiscal Year 1997-98 structural deficit of \$18 million, created primarily to avoid cutbacks in the Sheriff's Department, is continued into Fiscal Year 1998-99 and is funded with the use of one-time moneys.

On January 26, 1999, the County Executive Officer released the mid-year budget report. While most discretionary revenues appear to be tracking the final budget estimates, Interest Earnings from the County Treasury are under the anticipated budget estimates, while the Property Transfer Tax Revenue is higher than projected. Included in the mid-year budget report was a budget policy stating that the Contingency Reserve Fund would be recognized as a reserve fund, not a budgeted operating fund. The Contingency Reserve Fund as a reserve removes the contingency from the deficit calculation and reduces the structural deficit to \$6.3 million. The County anticipates funding the balance of the structural deficit in Fiscal Year 1999-00 through various financing strategies.

While most of the recent economic forecasts have been positive, the recovery in growth of County revenue is expected to lag the general recovery due to the processes involved in levying and distributing property taxes, sales taxes and other discretionary revenues. No growth in assessed valuation is expected in Fiscal Year 1997-98, primarily due to assessed valuation decreases offsetting new construction values.

The County has received assessment appeals applicable to Fiscal Year 1996-97 totaling approximately \$5.3 billion. Successful appeals result in either a refund of taxes paid or a reduction to an unpaid tax bill. See "Ad Valorem Property Taxes." A total of \$2.25 billion of assessments, representing \$22.5 million in general purpose taxes, was reduced from the County tax roll for Fiscal Year 1995-96 and Fiscal Year 1996-97, representing 25% of the total assessed valuation which was appealed. Virtually all of the appeals applicable to Fiscal Year 1995-96 have been completed. The remainder of the Fiscal year 1996-97 and the Fiscal Year 1997-98 assessment appeals are expected to be completed by June 1, 1999.

The County cannot predict with certainty the outcome of the assessment appeals that have been filed but not resolved. It is expected that the impact of the assessment appeals on the Fiscal Year 1998-99 budget will be determined primarily by three components: (i) the remainder of the Fiscal Year 1995-96 and Fiscal Year 1996-97 assessment appeals still to be completed; (ii) approximately 23% of the Fiscal Year 1997-98 appeals being completed during Fiscal Year 1997-98; and (iii) additional assessment revenue of approximately \$3 million, which the County Assessor projects will be billed during Fiscal Year 1997-98 and reduce the impact of Fiscal Year 1997-98 appeals.

The Final General Fund Budgets adopted by the County for Fiscal Year 1996-97 and Fiscal Year 1997-98 and the Proposed General Fund Budget for Fiscal Year 1998-99 are set forth below. The County prepares its budget on a cash basis except for Aid from Other Governmental Agencies, Charges for Current Services, and Other Revenues, which are budgeted on a modified accrual basis.

**COUNTY OF RIVERSIDE  
FINAL GENERAL FUND BUDGETS  
FISCAL YEARS 1996-97, 1997-98 AND  
1998-99  
(IN MILLIONS)**

	Final 1996-97 Budget	Final 1997-98 Budget	Final 1998-99 Budget
<b><u>REQUIREMENTS</u></b>			
General Government	\$ 50.5	\$ 54.0	\$ 55.3
Public Protection	382.8	400.6	432.5
Health and Sanitation	212.9	218.1	244.5
Public Assistance	434.5	400.1	386.6
Education	0.3	0.3	0.3
Recreation and Cultural	0.5	0.5	0.5
Debt Retirement-Capital Leases	26.6	30.9	99.3
Contingencies	14.0	10.0	17.2
Increase Reserves	-	-	-
<b>Total Requirements .....</b>	<b>\$ 1,122.1</b>	<b>\$ 1,114.5</b>	<b>\$ 1,236.2</b>
<b><u>AVAILABLE FUNDS</u></b>			
Beginning Unrestricted Fund Balance	\$ 9.0	\$ 12.4	\$ 22.9
Estimated Revenues Property Taxes	110.6	114.9	119.5
Other Taxes	22.0	24.4	22.1
Licenses, Permits and Franchises	13.2	13.2	14.6
Fines, Forfeitures and Penalties	11.4	11.5	27.8
Use of Money and Property	16.1	21.6	22.1
Aid from Other Governmental Agencies			
State	482.8	482.5	432.9
Federal	210.0	188.5	261.4
Other	0.4	0.2	0.2
Charges for Current Services	165.3	163.8	173.2
Other Revenues <sup>(1)</sup>	81.3	81.5	139.5
<b>Total Available Funds .....</b>	<b>\$ 1,122.1</b>	<b>\$ 1,114.5</b>	<b>\$ 1,236.2</b>

<sup>(1)</sup> Includes payments and reimbursements for programs which fund disproportionate share hospitals (SB and SB 1255).

Source: County Auditor-Controller

**Funding by State and Federal Government**

For Fiscal Year 1998-99, approximately 35.3% of the County's General Fund budget consisted of payments from the State and 21.6% consisted of payments from the Federal Government

## **Fiscal Year 1998-99 State Final Budget**

The State Budget includes \$1.4 billion in tax relief. Included in the tax relief is a reduction of \$533 million in vehicle license fees ("VLF") revenues constitutionally dedicated to cities and counties. The State Budget will replace the VLF revenue loss to cities and counties with a continuous state general fund appropriation. There is no impact to the County's Fiscal Year 1998-99 Final Budget.

Currently, the County has budgeted, and receives, approximately \$63 million in VLF revenue as discretionary revenue. This amount represents approximately 25% of all General Fund discretionary revenues. In addition, approximately \$25.5 million of VLF revenue is received annually, and, by State statute, is used primarily for health, mental health and social services programs.

### **Ad Valorem Property Taxes**

Approximately 9.85% of the County's Final Budget for Fiscal Year 1997-98 consists of ad valorem property tax collections (see table entitled "Final General Fund Budgets" above). Taxes are levied for each Fiscal Year (July 1 to June 30, inclusive) on taxable real and personal properties that are situated in the County as of the preceding January 1.

The County levies and collects the 1% levy allowed under Article XIII A of the California Constitution (Proposition 13) and any additional taxes levied for voter-approved debt and duly approved assessments. The County collects on behalf of all agencies within its boundaries and forwards payments to other governmental agencies throughout the year. See "Teeter Plan" above. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll.

The "secured roll" is that part of the assessment roll containing State assessed property and property secured by a lien on real property, which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments on November 1 and February 1 of each Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be tax-defaulted on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax defaulted property is declared to be subject to the County Tax Collector's power of sale and may be subsequently sold by the Tax Collector within two years.

The "unsecured roll" is that part of the assessment roll containing property, such as business property on leased or rented premises, which is not secured by the underlying property. Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% of the delinquent taxes per month begins to accrue beginning November 1 of the Fiscal Year. The County has four ways of collecting delinquent unsecured personal property taxes: (1) instituting a civil action against the taxpayer, (2) filing a certificate in the Office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (3) filing a certificate of delinquency for record in the County Recorder's Office in order to obtain a lien on certain property of the taxpayer, and (4) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee.

In addition, State legislation enacted in 1984 established the "supplemental roll," which directs the County Assessor to re-assess real property, at market value, on the date the property changes ownership or upon completion of new construction. Property on the supplemental roll is eligible for billing 30 days after the reassessment and notification to the new assessee. The resultant charge (or refund) is a one-time levy on the increase (or decrease) in



value for the period between the date of the change in ownership or completion of new construction and the date of the next regular tax roll upon which the assessment is entered.

Supplemental roll billings are made on a monthly basis and are due on the date mailed. If mailed within the months of July through October, the first installment becomes delinquent on December 10 and the second on April 10. If mailed within the months of November through June, the first installment becomes delinquent on the last day of the month following the month of billing. The second installment becomes delinquent on the last day of the fourth month following the date the first installment is delinquent. These assessments are subject to the same penalties and default procedures as the secured and unsecured rolls.

Taxpayers have the right to appeal the amount of the assessed value used to calculate the property tax assessment. Such appeals must be made by March 1 of the Fiscal Year pertaining to the taxes payable. The County Assessor reviews the applications for reduction in assessed value to determine if the property's value is not reflective of current market conditions. The taxpayer has the right to appeal the Assessor's decision from July 1 through September 15 of the following Fiscal Year.

**COUNTY OF RIVERSIDE  
AD VALOREM PROPERTY TAXES - LEVIES AND COLLECTIONS(1)  
FISCAL YEARS 1990-91 THROUGH 1998-99**

**SECURED PROPERTY TAX ROLL**

Fiscal Year	Secured Property Tax Levy	Current Levy Delinquent June 30	Percentage of Current Taxes Delinquent June 30	Total Collections <sup>(2)</sup>	Percentage of Total Collections to Current Levy
1990-91	\$759,601,032	\$57,775,923	7.61%	\$734,111,019	96.64%
1991-92	862,080,813	78,426,843	9.10%	834,017,357	96.74%
1992-93	930,930,604	84,479,336	9.07%	912,871,160	98.06%
1993-94	941,680,298	76,547,902 <sup>(3)</sup>	8.13%	954,696,240	101.38%
1994-95	948,727,678	68,916,650	7.26%	973,953,378	102.66%
1995-96	958,384,214	55,095,925	5.75%	983,383,857	102.61%
1996-97	948,771,329	50,879,482	5.36%	979,546,891	103.24%
1997-98	947,845,458	50,804,517	5.36%	989,879,458	104.34%
1998-99	964,844,308	43,413,279 <sup>(4)</sup>	4.50% <sup>(4)</sup>	1,009,844,046 <sup>(4)</sup>	104.70% <sup>(4)</sup>

**UNSECURED PROPERTY TAX ROLL**

<u>Fiscal Year</u>	<u>Unsecured Property Tax Levy</u>	<u>Total Collections<sup>(2)</sup></u>	<u>Percentage of Total Collections to Original Levy</u>
1990-91	\$25,008,546	\$26,308,353	105.20%
1991-92	26,672,999	30,078,277	112.77%
1992-93	27,519,547	29,688,067	107.88%
1993-94	28,148,126	30,177,206	107.21%
1994-95	27,925,546	30,376,694	108.78%
1995-96	28,779,287	31,649,332	109.97%
1996-97	29,750,582	32,192,685	108.21%
1997-98	29,470,141	32,449,742	110.11%
1998-99	34,146,467	35,383,624 <sup>(4)</sup>	103.62% <sup>(4)</sup>

- <sup>(1)</sup> The Levy and Collection data reflects the 1% levy allowed under Article XIII A of the California Constitution and additional taxes levied for voter-approved debt and special assessments. Taxes for the County, cities, schools districts, special districts and redevelopment agencies are included in the totals.
- <sup>(2)</sup> Includes current and prior years' redemptions, penalties and interest in current secured and unsecured taxes.
- <sup>(3)</sup> Under the Teeter Plan, participating agencies receive their full levy of current secured taxes regardless of delinquency rate, subject to roll corrections during the year. Prior year taxes are deposited to the Teeter Plan fund.
- <sup>(4)</sup> Estimate only.

Source: County Auditor-Controller

**COUNTY OF RIVERSIDE  
SUMMARY OF SUPPLEMENTAL ROLL  
AD VALOREM PROPERTY TAXATION  
FISCAL YEARS 1990-91 THROUGH 1997-98**

<u>Fiscal Year</u>	<u>Tax Levy for Increased Assessments<sup>(1)(2)</sup></u>	<u>Refunds for Decreased Assessments<sup>(1)</sup></u>	<u>Net Tax Levy</u>	<u>Collections<sup>(1)(3)</sup></u>
1990-91	\$59,427,159	\$1,819,284	\$57,607,875	\$48,128,084
1991-92	35,777,800	1,988,481	33,789,319	31,876,976
1992-93	24,629,702	2,785,323	21,844,379	20,595,982
1993-94	15,525,496	4,314,271	11,211,225	14,014,151
1994-95	16,194,896	6,638,055	9,556,841	21,860,083
1995-96	14,185,628	6,895,458	7,290,170	15,806,432
1996-97	13,990,281	6,638,692	7,351,589	14,724,507
1997-98	21,720,736	8,089,710	13,624,026	19,755,383

- <sup>(1)</sup> These figures include tax levy, refunds and collections for all districts, including the County, cities, school districts, special districts and redevelopment agencies.
- <sup>(2)</sup> The reduction in the supplemental tax since Fiscal Year 1990-91 is due to the reduction in new construction in the County.
- <sup>(3)</sup> Includes current and prior years' taxes, redemption penalties and interest collected.

Source: County Auditor-Controller/County Treasurer and Tax Collector

**COUNTY OF RIVERSIDE**  
**ASSESSED VALUATION HISTORY BY CATEGORY AND PROPERTY TYPE(1)**  
**FISCAL YEARS 1994-95 THROUGH 1999-99**  
**(IN MILLIONS)**

Category	1994-95	1995-96	1996-97	1997-98	1998-99
<b>SECURED PROPERTY:</b>					
Land .....	\$ 27,174	\$ 27,027	\$ 26,534	\$ 26,442	\$ 26,294
Structures .....	43,241	43,597	43,526	43,551	44,465
Personal Property .....	610	656	610	667	710
Utilities.....	2,462	2,360	2,261	2,375	2,303
<b>Total Secured.....</b>	<b>\$ 73,487</b>	<b>\$ 73,640</b>	<b>\$ 72,931</b>	<b>\$ 73,035</b>	<b>\$ 73,772</b>
<b>UNSECURED PROPERTY:</b>					
Land .....	\$13	\$33	\$29	\$18	\$16
Improvements .....	1,230	1,289	1,316	1,223	1,330
Personal Property.....	1,314	1,339	1,391	1,478	1,712
<b>Total Unsecured.....</b>	<b>\$ 2,557</b>	<b>\$ 2,661</b>	<b>\$ 2,736</b>	<b>\$ 2,719</b>	<b>\$ 3,058</b>
<b>Grand Total.....</b>	<b>\$ 76,044</b>	<b>\$ 76,301</b>	<b>\$ 75,667</b>	<b>\$ 75,754</b>	<b>\$ 76,830</b>

<sup>(1)</sup> Assessed valuation is reported as of July 1 of each year at 100% of full taxable value. Pursuant to Article XIII A of the California Constitution (Property 13), property is valued for tax purposes at the 1975 fair market value, adjusted annually for inflation (not to exceed 2%). Generally, property is reassessed at fair market value upon change of ownership and for new construction.

Source: County Auditor-Controller/County Assessor

**Largest Taxpayers**

The 15 largest taxpayers in the County, as shown on the Fiscal Year 1997-98 tax roll, and the approximate amounts of their property tax payments (for all taxing jurisdictions within the County) for such Fiscal Year are shown below. The total amount of property taxes levied on these taxpayers in Fiscal Year 1997-98 (as indicated in the table below) represented approximately 4.7% of the total levy.

**COUNTY OF RIVERSIDE  
FIFTEEN LARGEST TAXPAYERS IN FISCAL YEAR 1997-98  
SECURED AND UNSECURED ASSESSMENTS**

Taxpayer	Nature of Business	Total Taxes Levied in Fiscal Year 1997-98
General Telephone of California	Public Utility	\$ 9,064,118
Southern California Edison Company	Public Utility	7,166,113
Southern California Gas Co.	Public Utility	3,445,183
McKenzie Vista	Residential/Comm Land Dev.	3,018,810
Pacific Bell	Public Utility	2,835,569
KSL Desert Resorts, Inc.	Real Estate Development Co.	2,269,300
Landmark Land Company of California, Inc.	Residential/Comm Land Dev.	2,160,070
International Rectifier Corp.	Manufacturing Co.	2,081,781
Desert Springs Marriott Ltd. Partnership	Hotel	1,975,454
Pardee Grossman Cottonwood Canyon	Residential/Comm Land Dev.	1,972,046
Wells Fargo Bank	Bank	1,920,230
OTR	Retail Sales	1,894,217
Secretary Housing & Urban Dev.	HUD-Govt. Repossessed Housing	1,867,235
Metal Container Corp.	Manufacturing	1,739,518
Sunrise Desert Partnership	Residential/Comm Land Dev.	1,619,152
<b>TOTAL</b>		<b>\$45,028,796</b>

Source: County Treasurer and Tax Collector

**Other Taxing Entities**

The County does not retain all of the property taxes it collects for its own purposes. In fact, the bulk of the funds collected are disbursed to other agencies. For Fiscal Year 1994-95 and Fiscal Year 1995-96, the County retained approximately 12% of the total amount collected. The remainder is distributed according to State law (AB 8), which established a tax-sharing formula, and State redevelopment law. Taxes levied for the purpose of repaying general obligation debt, special taxes and assessments are passed on in their entirety, less any allowable collection charges.

The County's share of the property tax will vary throughout the County depending upon the presence of other taxing entities, e.g. cities, water districts, sanitation districts, school districts and redevelopment agencies.

**Redevelopment Agencies**

The California Community Redevelopment Law (Health and Safety Code Section 33000 et seq.) authorizes the redevelopment agency of any city or county to issue bonds payable from the allocation of tax revenues resulting from increases in assessed valuation of properties within the designated project areas. In effect, local taxing authorities other than the redevelopment agency realize tax revenues only on the "frozen" tax base, except for those instances where the affected taxing agencies have negotiated agreements with redevelopment agencies to receive a share of tax increment proceeds.

The following table summarizes the community redevelopment agencies' frozen base value, full cash value increments, and total tax allocations.

**COUNTY OF RIVERSIDE  
COMMUNITY REDEVELOPMENT AGENCIES'  
FROZEN BASE VALUE, FULL CASH VALUE INCREMENTS  
AND TOTAL TAX ALLOCATIONS  
FISCAL YEARS 1990-91 THROUGH 1998-99**

Fiscal Year	Frozen Base Value	Full Cash Value Increments <sup>(1)</sup>	Total Tax Allocations <sup>(2)</sup>
1990-91	\$6,450,868,018	\$ 9,925,810,568	\$102,230,480
1991-92	6,512,902,547	11,876,128,279	122,040,076
1992-93	6,691,403,381	13,381,230,705	136,924,493
1993-94	6,718,110,520	14,104,775,709	143,596,496
1994-95	7,624,042,510	14,270,345,110	146,456,151
1995-96	8,153,019,644	14,511,477,774	147,112,474
1996-97	8,168,238,236	14,310,497,618	145,706,128
1997-98	8,999,886,482	14,615,580,607	146,573,738 <sup>(3)</sup>
1998-99	9,198,183,768	15,066,118,043	152,612,557 <sup>(3)</sup>

- (1) Full cash value for all redevelopment projects (including County projects) above the "frozen" base year valuations. This data represents growth in full cash values generating tax revenues for use by the community redevelopment agencies.
- (2) Actual cash revenues collected by the County and subsequently paid to community redevelopment agencies, subject to debt limitation and certain negotiated agreements with taxing entities for a share of the property tax increment.
- (3) Of the total tax allocation in Fiscal Year 1998-99, \$40,177,506 (Est.) is attributable to amounts that would have accrued to the County's General Fund. Of this amount, \$22,400,000 is returned to the General Fund through negotiated agreements.

Source: County Auditor-Controller

The net effect of the formation of a redevelopment area is to redistribute tax revenues away from the AB 8 formula. Redevelopment agencies generally receive the majority of the taxes to be allocated. Other taxing entities may receive a portion of the tax revenue pursuant to agreements negotiated with the redevelopment agency. In the early years of redevelopment the amount "passed through" by redevelopment agencies was relatively low. As the years passed, affected tax-sharing agencies became more sensitive to the potential loss of revenue. AB 1290, effective January 1, 1994, prescribed a formula for pass through of property tax increment to the tax-sharing entities cumulatively over the life of each redevelopment project.

The County has formed a redevelopment agency with project areas in 34 unincorporated communities. As of June 30, 1996, the Agency had a total land area of 42,203 acres and a base year assessed value, including State-owned land, of \$616.6 million. The loss in tax revenue to the County General Fund as a result of the County Redevelopment Agency in Fiscal Year 1996-97 was estimated at \$2,433,051. The Agency has recently merged and amended the Jurupa Valley Redevelopment Property Area, increasing the total land area by 10,755 acres and increasing the base year assessed value by approximately \$860.7 million (excluding State-owned land).

#### **Financial Statements and Related Issues**

The County's accounting policies used in preparation of its audited financial statements conform to generally accepted accounting principles applicable to counties. The County's governmental funds and fiduciary funds use the modified accrual basis of accounting. This system recognizes revenues in the accounting period in which they become available and measurable. Expenditures, with the exception of unmatured interest on general

long-term debt, are recognized in the accounting period in which the fund liability is incurred. Proprietary funds use the accrual basis of accounting, and revenues are recognized in the accounting period in which they are earned and become measurable, while expenses are recognized in the period during which they are incurred.

The California Government Code requires every county to prepare an annual financial report. The County Auditor-Controller prepares the "Annual Financial Report of the County of Riverside." Under the U.S. Single Audit Act of 1984 and State law, independent audits are required on all operating funds under the control of the Board and must be conducted annually. Excerpts from the County's financial statements for the Fiscal Year ended June 30, 1997 were audited by Ernst & Young LLP. See Appendix C -- "EXCERPTS FROM THE RIVERSIDE COUNTY AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998."

**COUNTY OF RIVERSIDE  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES  
IN UNRESERVED FUND BALANCES - GENERAL FUND  
FISCAL YEARS 1993-94 THROUGH 1997-98**

	1993-94	1994-95	1995-96	1996-97	1997-98
<b>BEGINNING UNRESERVED FUND BALANCE.....</b>	\$ 39,336,877	\$77,502,509 <sup>(1)</sup>	\$40,372,450	\$26,109,617	\$34,511,120
<b>REVENUES</b>					
Taxes.....	205,492,039	149,325,363	137,747,812	129,910,641	146,354,395
Licenses, permits and franchises ...	15,561,254	11,651,855	14,669,980	13,275,402	13,272,753
Fines, forfeitures and penalties .....	9,230,485	8,531,586	11,781,100	9,330,192	19,353,225
Use of money and property .....	18,428,908	18,077,231	18,867,385	18,322,249	18,236,264
Rents and concessions .....	2,956,040	569,848	222,047	356,800	175,407
Government Aid - State .....	379,136,791	394,606,021	448,202,740	471,124,085	448,254,658
Government Aid - Federal .....	180,835,686	196,277,082	205,390,052	200,496,660	200,085,515
Charges for current services .....	98,906,208	120,167,666	158,740,779	122,343,902	135,537,821
Other revenues.....	17,010,159	24,071,933	24,096,493	12,177,060	23,804,888
<b>TOTAL REVENUES.....</b>	<b>\$927,557,570</b>	<b>\$923,278,585</b>	<b>\$1,019,718,388</b>	<b>\$997,336,991</b>	<b>\$1,005,074,926</b>
<b>EXPENDITURES</b>					
General government .....	\$73,497,018	\$80,931,596	\$64,568,222	\$54,181,432	\$74,813,540
Public protection .....	295,281,088	326,815,182	324,222,776	348,336,538	416,469,800
Health and sanitation <sup>(2)</sup> .....	218,208,577	207,731,264	202,542,004	225,021,097	242,435,840
Public assistance.....	364,991,776	389,421,142	421,710,647	389,625,079	362,108,718
Education.....	277,322	277,932	288,193	301,570	263,663
Recreation and cultural .....	236,679	237,479	320,492	478,561	474,250
Capital Outlay .....	0	1,161,000	3,580,000	20,873,023	26,953,182
Debt service and capital leases .....	5,824,258	4,049,202	7,515,154	6,232,487	27,179,824
<b>TOTAL EXPENDITURES</b>	<b>\$958,316,718</b>	<b>\$1,010,624,797</b>	<b>\$1,024,747,488</b>	<b>\$1,045,049,787</b>	<b>\$1,150,698,817</b>

Excess (deficit) of revenues over expenditures .....	(30,759,148)	(87,346,212)	(5,029,100)	(67,712,796)	(145,623,891)
Change in reserve for encumbrance	(3,541,534)	(606,067)	2,039,209	104,287	2,676,572
Changes in other reserves .....	(909,559)	(639,339)	(3,155,188)	1,222,687	(73,112,006)(2)
Transfer from other funds .....	90,414,038	70,568,836	40,513,787	107,066,055	107,752,445
Transfer to other funds .....	(17,858,940)	(20,268,277)	(52,211,541)	(53,151,853)	(21,766,993)
Capital Leases	0	1,161,000	3,580,000	20,873,123	26,953,182
Bond Issuance					105,132,600
Ending Unreserved Fund Balance:	\$76,681,734	\$40,372,450	\$26,109,617	\$34,511,120	\$36,523,029
Less: Designated Unreserved Fund Balance .....	12,703,805	3,022,083	3,802,633	3,220,093	20,237,000
UNDESIGNATED UNRESERVED FUND BALANCE.....	\$63,977,929	\$37,350,367	\$22,306,984	\$31,291,027	\$16,286,029

(1) Beginning unreserved fund balance does not equal prior year ending unreserved fund balance due to an equity restatement.

(2) Includes \$73,182,761 for debt service.

**COUNTY OF RIVERSIDE  
GENERAL FUND BALANCE SHEETS  
AT JUNE 30, 1994 THROUGH JUNE 30, 1998**

	1994	1995	1996	1997	1998
<b>ASSETS</b>					
Cash & Marketable Securities ....	\$ 34,984,091	\$ 0 <sup>(4)</sup>	\$ 0 <sup>(4)</sup>	\$ 0 <sup>(4)</sup>	\$ 0 <sup>(4)</sup>
Taxes Receivable .....	6,467,047 <sup>(1)</sup>	4,272,058	4,341,392	3,591,988	52,223,884 <sup>(6)</sup>
Accounts Receivable .....	7,539,254 <sup>(2)</sup>	6,845,917	9,187,427	5,149,225	11,460,818
Interest Receivable .....	1,836,084	1,269,669	1,603,010	1,781,826	2,651,642
Advances to Other Funds .....	2,147,657	2,322,657	2,149,500	2,034,800	1,739,500
Due from Other Funds .....	110,418,859 <sup>(3)</sup>	89,135,608 <sup>(3)</sup>	298,438,737	95,380,994	146,849,698
Due from Other Governments ....	43,194,050	65,559,240	67,669,625	83,398,093	110,825,850
Deposits .....	2,469,995	2,469,996	2,469,996	2,469,996	2,469,996
Inventories .....	2,080,200	2,259,056	2,108,994	2,247,020	2,468,450
Prepaid Expenses .....	582,749	765,439	1,831,441	41,659	41,659
Restricted Assets .....					25,489,263 <sup>(7)</sup>
Total Assets .....	\$ 211,719,986	\$ 164,899,640	\$ 389,800,122	\$ 196,095,601	\$ 356,220,760
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES:</b>					
Accounts Payable .....	\$ 12,323,955	\$ 8,213,469	\$ 6,828,701	\$ 4,403,116	\$ 2,699,052
Salaries & Benefits Payable .....	26,215,759	13,894,157	12,061,327	15,131,707	17,100,971
Due to Other Funds .....	175,375	8,352,508	49,427,092	52,416,151	97,173,232
Due to Other Governments .....	2,903,438	9,362,095	3,089,295	2,453,900	11,108,851
Tax and Revenue Anticipation					
Notes Payable .....			160,000,000 <sup>(5)</sup>		
Deferred Revenue .....	76,945,913	66,985,942	124,963,037	69,671,683	103,671,666
Interest Payable .....			7,515,556		
Total Liabilities .....	\$ 118,564,440	\$ 106,808,171	\$ 363,885,008	\$ 144,076,557	\$ 231,753,772
<b>FUND BALANCE:</b>					
Reserved .....	\$ 16,473,812	\$ 17,719,019	\$ 18,835,497	\$ 17,508,024	\$ 87,943,959(6)
Unreserved .....	76,681,734	40,372,450	26,109,617	34,511,020	36,523,029
Fund Balance .....	\$ 93,155,546	\$ 56,091,469	\$ 44,945,114	\$ 52,019,044	\$ 124,466,988
Total Liabilities & Fund Balance .....	\$ 211,719,986	\$ 164,899,640	\$ 408,830,122	\$ 196,095,601	\$ 356,220,760

- (1) Decrease reflects the impact of the implementation of the Teeter Plan and the elimination of delinquent secured roll taxes receivable.
- (2) Includes amounts that were due from the State, which were restated in prior years to "Due from Other Governments."
- (3) Includes amounts from Riverside General Hospital under SB 855 and SB 1255 and amounts from the Tax Loss Reserve Fund of the Teeter Plan.
- (4) The General Fund experienced a negative cash balance of \$7,548,000 at June 30, 1995, \$49,420,000 at June 30, 1996, \$52,416,000 at June 30, 1997, and \$96,484,000 at June 30, 1998 which is reported as an interfund borrowing. There was a total of \$371,166,000 available to cover the negative cash balance on June 30, 1998.
- (5) The County's annual note borrowing usually matures on June 30. Because June 30, 1996 occurred on a weekend, the note payable was carried forward and paid off on Monday, July 1, 1996.
- (6) Increase reflects the impact of a change in Teeter financing of delinquent secured roll taxes receivable.
- (7) Assets restricted at June 30, 1998 for payment of Teeter Commercial Paper Note.

Source: County Auditor-Controller.

### Long-Term Obligations of County

During its 105 years of existence, to the best knowledge of County officials, the County has never failed to pay the principal of or interest on any of its bonded indebtedness. As of May 1, 1998, the County had no direct general obligation bonded indebtedness, and has no authorized but unissued general obligation debt. Set forth below is an estimated direct and overlapping debt report as of February 1, 1998. Since that date, the \$36,100,000 Certificates of Participation (1998 Larson Justice Center Refunding Project) were executed and delivered which refunded the \$31,700,000 outstanding principal amount of Certificates of Participation (1994 Desert Justice Facility Project). As a result, the Riverside County General Fund obligations have increased by \$4,400,000 from that set forth below.

### COUNTY OF RIVERSIDE ESTIMATED DIRECT AND OVERLAPPING OBLIGATIONS

1996-97 Assessed Valuation: \$60,367,469,684 (after deducting \$14,147,263,792 redevelopment incremental valuation; includes unitary utility valuation)

<u>DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/98</u>
Riverside County	100%	\$ 0
Riverside County Flood Control and Water Conservation District, Zone #1	100	2,350,000
Metropolitan Water District	4.959	28,764,184
Unified School Districts	100	172,846,800
City of Corona	100	8,640,000
City of Palm Springs	100	350,000
Eastern Municipal Water District Improvement Districts	100	20,430,000
Elsinore Valley Municipal Water District Improvement Districts	100	3,141,000
Coachella County Water District Improvement Districts	100	33,526,432
Rancho California Water District	100	32,267,250
Other Water Districts	Various	543,897
Other Special Districts	100	354,000
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT</b>		<b>\$303,213,563</b>
Less: Eastern Municipal Water District and High Valleys Water District self-supporting bonds		<u>1,971,750</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT</b>		<b>\$301,241,813</b>

#### DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT AND ASSESSMENT DEBT:

Riverside County General Fund Obligations	100	\$577,428,352
Riverside County Board of Education Obligations	100	19,827,115
School Districts General Fund Obligations	100	367,918,264
City of Palm Springs Certificates of Participation	100	80,059,000
City of Riverside General Fund Obligations	100	21,305,000
City of Corona Certificates of Participation	100	23,815,000
City of Moreno Valley Certificates of Participation	100	25,940,000
Other City General Fund Obligations	100	66,369,372
Elsinore Valley Municipal Water District Certificates of Participation	100	62,324,040
Rancho California Water District Water Facilities Corporation	100	218,142,857



Other Water District Certificates of Participation	Various	22,626,285
Other Special District Certificates of Participation and Benefit Assessment Districts	Various	23,458,231
Community Facilities Districts	100	815,975,145
Riverside County 1915 Act Bonds	100	128,900,000
City and Special District 1915 Act Bonds (Estimated)	100	<u>214,869,437</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION AND ASSESSMENT DEBT</b>		<b>\$2,668,958,098</b>
Less: Riverside County Administrative Center Authority (100% self-supporting from tax increment revenues)		6,920,000
City of Palm Springs Wastewater Certificates of Participation		7,358,664
Temecula Unified School District Certificates of Participation (self supporting from tax increment revenues)		6,600,000
Elsinore Valley Municipal Water District Certificates of Participation self-supporting bonds		62,324,040
Other Special District self-supporting bonds		1,350,580
Moreno Valley Community Facilities District #87-1 (100% self-supporting from tax increment revenues)		<u>20,520,000</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION AND ASSESSMENT DEBT</b>		<b>\$2,563,884,814</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$2,972,171,661<sup>(1)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$2,865,126,627</b>

<sup>(1)</sup> Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

**Ratios to Assessed Valuation:**

Direct General Obligation Debt .....	0.00%
Direct Gross General Obligation Debt.....	0.40%
Direct Net General Obligation Debt .....	0.40%
Combined Direct Debt (\$568,549,952) .....	0.96%
Combined Gross Debt .....	4.92%
Combined Net Debt .....	4.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/97: \$201,970

Source: California Municipal Statistics, Inc.

**Teeter Obligations**

In 1993, the Board adopted the Teeter Plan as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County (see "Other Taxing Agencies" below) on the basis of the tax levy, rather than on the basis of actual tax collections. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected. In Fiscal Year 1997-98, 71% of all taxing entities are participating in the Teeter Plan.

On November 1, 1997 the County issued \$23,808,000 County of Riverside Teeter Obligation Taxable Commercial Paper Notes, Series A and \$65,305,000 County of Riverside Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B, the proceeds of which were used to redeem the outstanding Teeter Notes held by the County's pooled investment fund. As of May 1, 1998 there was approximately \$73 million principal amount of commercial paper notes outstanding. The Notes are secured by a letter of credit. The County's General Fund is pledged to the repayment of the Notes in addition to the pledge of the delinquent taxes.

**Lease Obligations**

The County has made use of nonprofit corporations and joint powers authorities to finance certain public facilities through the issuance of lease obligations. Under these arrangements, a nonprofit corporation or joint powers authority constructs or acquires facilities with the proceeds of lease revenue obligations. The facilities are then leased to the County. Upon expiration of the lease, title to the facilities vests in the County.

The following tables summarize the County's outstanding lease rental obligations as of March 1, 1999, and their annual lease requirements.

**COUNTY OF RIVERSIDE  
SUMMARY OF LEASE RENTAL OBLIGATIONS  
(PAYABLE FROM THE COUNTY'S GENERAL FUND)**

Issue	Final Maturity Year	Original Issue Amounts	Obligations Outstanding	Annual Base Rental <sup>(1)</sup>
Riverside County Public Facilities Project				
1985 Certificates of Participation - Type I.....	2015	\$148,500,000	\$121,900,000	\$11,091,000 <sup>(2)</sup>
County of Riverside Sublease to				
Cal. Health Facilities Financing Authority, 1986 Series B Bonds .....	2011	10,210,000	8,345,000	1,005,776 <sup>(3)</sup>
County of Riverside, Equipment 1988A.....	2000	51,255,000	2,315,000	2,787,615 <sup>(3)</sup>
Riverside County Hospital Project, Leasehold Revenue Bonds				
1993 Series A and B .....	2014	149,060,000 <sup>(4)</sup>	149,060,000 <sup>(4)</sup>	
1997 Series A.....	2026	41,170,073	41,170,073	
1997 Series B and C .....	2019	71,985,000	71,985,000	20,311,739 <sup>(5)</sup>
County of Riverside 1990 Taxable Variable Rate Certificates of Participation (Monterey Avenue)				
	2020	8,800,000	8,200,000	842,500 <sup>(6)</sup>
1993 Master Refunding Project Certificates of Participation <sup>(7)</sup> .....				
Palm Desert Financing Authority Lease Revenue Bonds, Series 1996				
(Blythe County Administrative Center Project).....	2026	7,010,000	6,825,000	536,109 <sup>(8)</sup>
County of Riverside Certificates of Participation (Family Law Court Property) .....				
	2027	12,165,000	11,980,000	843,380 <sup>(8)</sup>
County of Riverside Certificates of Participation (Historic Courthouse Project).....				
	2027	21,834,879	21,834,879	1,191,040 <sup>(8)</sup>
County of Riverside Certificates of Participation <sup>(9)</sup> (1997 Lease Refunding Project).....				
	2021	58,070,000	46,745,000	7,571,123 <sup>(9)</sup>
County of Riverside Court Financing Corporation (Bankruptcy Courthouse Acquisition Property) .....				
	2027	18,000,000	17,830,000	1,513,625 <sup>(9)</sup>
County of Riverside Certificates of Participation <sup>(10)</sup> (1998 Larson Justice Center Refunding)				
	2021	36,100,000	34,595,000	3,330,897 <sup>(9)</sup>
<b>TOTAL:</b>		<u>\$667,799,952</u>	<u>\$564,209,952</u>	<u>\$54,851,589</u>

<sup>(1)</sup> See the following table for a complete schedule of the County's lease obligations.

<sup>(2)</sup> Annual base rental estimated at assumed interest rate of 6.5% per annum. The average interest rate for the twelve-month period ending March 1, 1999 was approximately 2.87%.

<sup>(3)</sup> Annual base rental for Fiscal Year 1998-99.

<sup>(4)</sup> Includes \$14,525,000 of Adjustable Rate Bonds that have been set in a fixed rate mode until June 1, 2000.

<sup>(5)</sup> Annual base rental for Fiscal Year 1998-99 for all Series. Includes \$3,265,000 of Adjustable Rate Bonds which have been set in a fixed rate mode until June 1, 2000.

<sup>(6)</sup> Annual base rental estimated at assumed interest rate of 9%. The average interest rate for the twelve-month period ending February 28, 1999 was approximately 5.55%.

<sup>(7)</sup> The 1993 Master Refunding Project refunded the Riverside County Parks Facilities Corporation 1975 Leasehold Mortgage Revenue Bonds, the Palm Springs Civic Center Authority 1977 Lease Revenue Bonds, the 1986 Cross-Over Refunding Certificates of Participation (Type II), and the Juvenile Facilities Corporation 1988 Certificates of Participation.

<sup>(8)</sup> The 1997 Lease Refunding Project refunded the 1991 Series A Capital Projects and the 1991 Series B Equipment Projects.

<sup>(9)</sup> Annual base rental estimated at assumed interest rate of 7.5% per annum. Annual base rental for FY 1998-99. The average interest rate for the twelve-month period ending March 1, 1999 as approximately 5.47%.

<sup>(10)</sup> The 1998 Larson Justice Refunding Project refunded the 1994 Desert Justice Center Project.

Source: County Executive Office

**COUNTY OF RIVERSIDE  
Annual Lease Requirements<sup>(1), (6)</sup>**

Fiscal Year	1985 Public Facilities <sup>(2)</sup>	1986 CA Health Facility	1988A Equipment	1993/97 Hospital Property <sup>(3)</sup>	1990 Monterey Ave. <sup>(4)</sup>	1993 Master Refunding	1996 Blythe Admin. Ctr.	1997 Family Law Court Project <sup>(5)</sup>	1997 Historic Courthouse Project <sup>(5)</sup>	1997 Lease Refunding	Bankruptcy Courthouse <sup>(7)</sup>	Justice Center Refunding	1998 Larson Justice Center Refunding	Fiscal Year Totals
1998-99	11,091,000	1,005,776	2,787,615	20,311,739	842,500	3,826,785	536,109	843,380	1,191,040	7,571,123	1,513,625	3,330,897	3,330,897	54,851,589
1999-00	11,121,000	1,005,244	2,011,045	20,538,639	833,500	3,585,898	536,475	841,111	1,308,400	6,643,523	1,515,313	2,503,363	2,503,363	52,443,511
2000-01	11,234,000	1,004,674	420,188	20,751,364	824,500	3,586,251	536,347	843,111	1,327,498	5,739,048	1,515,875	2,503,809	2,503,809	50,286,665
2001-02	11,422,000	1,004,060		20,749,639	911,000	3,349,529	535,769	844,396	1,355,095	5,427,585	1,515,313	2,502,225	2,502,225	49,616,611
2002-03	11,581,000	1,003,404		20,757,255	893,000	3,347,579	534,791	840,151	1,376,020	3,595,805	1,513,625	2,498,060	2,498,060	47,940,690
2003-04	11,712,000	1,002,700		20,759,330	875,000	3,326,455	533,400	840,359	1,400,205	4,006,215	1,515,625	2,506,460	2,506,460	48,477,749
2004-05	11,815,000	1,001,944		20,756,586	857,000	1,085,288	531,584	839,891	1,417,588	4,008,660	1,516,125	2,497,610	2,497,610	46,327,276
2005-06	11,815,000	1,001,140		20,756,555	838,000	1,080,747	534,188	838,729	1,442,975	4,014,100	1,515,125	2,496,015	2,496,015	46,332,574
2006-07	11,815,000	1,000,269		20,753,305	821,000	1,078,625	531,194	841,731	1,466,048	2,666,875	1,512,625	2,496,278	2,496,278	44,982,950
2007-08	11,815,000	999,338		20,755,305	898,500	1,073,244	532,300	838,876	1,496,465	2,665,000	1,513,438	2,488,925	2,488,925	45,076,391
2008-09	11,815,000	938,340		20,759,836	871,500	1,074,688	532,419	840,136	1,514,143	2,666,075	1,512,375	2,488,775	2,488,775	45,013,287
2009-10	11,815,000	997,270		20,759,170	844,500	1,083,256	531,900	840,511	1,543,850	2,669,870	1,509,438	2,484,910	2,484,910	45,079,675
2010-11	11,815,000	996,126		20,755,260	817,500	1,078,950	530,744	839,939	1,570,088	2,673,550	1,509,438	2,482,105	2,482,105	45,068,700
2011-12	11,815,000	248,842		20,758,545	866,000	469,881	533,791	837,958	1,614,825	2,662,138	1,507,188	2,484,525	2,484,525	43,798,693
2012-13	11,815,000			20,610,245	850,000	471,769	530,784	834,215	1,639,825	2,665,138	1,507,500	2,482,563	2,482,563	43,407,039
2013-14	11,815,000			20,161,040	814,000	472,506	531,706	833,980	1,669,825	2,053,638	1,505,188	2,480,125	2,480,125	42,337,008
2014-15	11,815,000			19,691,965	873,500	472,094	531,634	837,463	1,704,825	2,056,500	1,505,063	2,476,875	2,476,875	41,964,919
2015-16	11,815,000			19,690,530	828,500	470,531	530,569	834,663	1,713,694	2,050,775	1,501,938	2,474,500	2,474,500	41,910,700
2016-17				19,695,050	879,000	472,675	528,509	835,580	1,739,419	2,051,719	1,500,625	2,477,625	2,477,625	30,180,202
2017-18				19,692,050	825,000	468,525	530,291	835,073	1,775,688	2,048,819	1,500,750	2,471,125	2,471,125	30,147,321
2018-19				19,695,550	866,500	468,081	525,913	833,019	1,801,606	2,052,075	1,497,125	2,469,875	2,469,875	30,209,744
2019-20				19,505,000	803,500		525,375	829,413	1,836,828	2,050,975	1,494,563	2,463,625	2,463,625	29,509,279
2020-21				19,505,000	836,000		528,347	829,225	1,866,469	2,055,519	1,492,688	2,462,125	2,462,125	29,575,373
2021-22				19,505,000			524,828	827,313	1,900,234	2,055,194	1,491,125	2,460,000	2,460,000	28,763,694
2022-23				19,505,000			524,819	828,531	1,932,684		1,489,500			24,280,534
2023-24				19,505,000			523,153	827,738	1,973,231		1,482,625			24,311,747
2024-25				19,505,000			524,666	824,931	2,006,434		1,480,125			24,341,156
2025-26				19,505,000			524,191	824,969	2,046,853		1,476,438			24,377,451
2026-27				19,505,000			521,728	822,706	2,074,194		1,476,000			4,894,628
2027-28								823,000	2,074,191		11,473,250			14,370,441
<b>TOTAL</b>	<b>\$209,941,000</b>	<b>\$13,209,127</b>	<b>\$5,218,848</b>	<b>\$565,693,958</b>	<b>\$19,569,500</b>	<b>\$32,377,357</b>	<b>\$15,377,524</b>	<b>\$25,052,098</b>	<b>\$49,780,240</b>	<b>\$78,149,919</b>	<b>\$55,059,631</b>	<b>\$60,482,395</b>	<b>\$60,482,395</b>	<b>\$1,129,877,597</b>

(1) Includes payments on leases securing revenue bonds and certificates of participation. Does not include operating leases or private capital leases. Some portion of payments is provided for by capitalized interest. General Fund payments for several issues are partially offset by contributions from special districts, enterprise funds and state and federal reimbursements.  
(2) Annual base rental estimated at assumed interest rate of 6.5% per annum. The average rate through the twelve-month period ending March 1, 1999, was approximately 2.87%.  
(3) Series 1993B Bonds assumes current rate of 6.75% through June 1, 2000 and 12.0% thereafter. Series 1997C Bonds assume current rate of 6.25% through June 1, 2000 and 12.0% thereafter.  
(4) Annual base rental estimated at assumed interest rate of 9% per annum. The average interest through the period ending March 1, 1999, has been 5.47%.  
(5) Annual base rental estimated at assumed interest rate of 7.5% per annum. The average interest through the period ending March 1, 1999 has been 5.47%.  
(6) Totals may not add due to rounding.

Source: County Executive Office

## Employees

A summary of County employment levels follows. Some employees are hired under various federally funded programs.

### COUNTY OF RIVERSIDE PERMANENT EMPLOYEES 1988 THROUGH 1997 (AS OF DECEMBER)

<u>Year</u>	<u>Permanent Employees<sup>(1)</sup></u>
1988	8,574
1989	9,393
1990	10,173
1991	10,440
1992	10,337
1993	10,334
1994	10,648
1995	11,018
1996	11,076
1997	11,304

<sup>(1)</sup> Excludes temporary, seasonal and Job Training Partnership Act employees, which in December 1997 totaled approximately 953 employees.

Source: County Auditor-Controller

County employees comprise twenty-three bargaining units. Sixteen of these units are represented by five labor organizations. The two largest of these labor organizations, the Public Employees Association of Riverside County ("PERC") and the United Public Employees of California ("UPEC"), represent approximately 80% of all County employees in a variety of job classifications. Salary, benefits and other personnel issues for management, confidential and other units which are exempt from collective bargaining are governed by a County ordinance for personnel matters.

The County's law enforcement employees (non-management) are represented by the Riverside Sheriffs' Association ("RSA"). Management employees of the law enforcement group are represented by the Riverside County Law Enforcement Management Unit. The prosecuting attorneys of the District Attorney's Office are represented by the Deputy District Attorney's Association.

The agreement with the Deputy District Attorney's Association units expired on July 1, 1997, and the agreement with RSA will expire on December 31, 1998. Labor negotiations with the Deputy District Attorney's Association are currently in process. The County reached agreement with UPEC on March 17, 1998 on a new agreement which will expire on June 30, 2000. The County reached a agreement with PERC on May 7, 1998 on a new agreement which will expire on June 30, 1998. During the last ten years, there has been no major County employee work stoppage.

## Retirement Program

The County participates in the State's Public Employees' Retirement System ("PERS"). The retirement plan, as amended, provides simultaneous coverage of eligible employees with PERS and social security. The plan provides basic retirement benefits for service, disability or death. The retirement benefits are based on years of service, age and the average monthly qualifying wages during the highest single year of employment for employees hired prior to December 25, 1992 and during the three highest years of employment for employees hired after that

date. The plan also provides for cost-of-living adjustments of 2% per year after retirement. On June 30, 1995, the plan covered approximately 10,400 active members.

PERS is funded by contributions from the County, which include contributions of both the County's share and its employees' share. As of July 1, 1998, the County's employer contributions to PERS for miscellaneous members is 6.644% of total salaries paid. The County as the employer will contribute 12.929% of total salaries paid for safety members (which include police and fire personnel). These contribution rates are based on actuarial data calculated as of June 30, 1996.

The County's contribution rates vary annually as a result of actuarial calculations, experience of the County's employees, benefits provided under the contract and quadrennial changes in actuarial assumptions. The members' contribution rates are fixed at 9% of salaries for safety and 7% of salaries for miscellaneous. The County pays the employee share of safety retirement for all safety members hired prior to June 25, 1992 and the employee share of miscellaneous retirement for all members who were hired prior to January 10, 1992. For safety members hired after June 25, 1992, the employee will pay the employee share for the first three years, and the County will pay the employee share in subsequent years. (New safety members transferring from another public agency may be exempt from paying all of the employee share.) For miscellaneous members hired after January 10, 1992, the employee will pay the employee share for the first five years, and the County will pay the employee share for subsequent years.

As of June 30, 1996, PERS reported the actuarial status of County accounts, as follows:

<u>Present Value of:</u>	<u>Miscellaneous Members</u>	<u>Safety</u>
<u>Members</u>		
Benefits	\$1,223,272,144	\$614,974,248
Future Employer Costs	204,434,861	146,870,347
Future Employee Costs	188,007,443	87,448,774
Assets	874,224,338	408,847,424
Total Available	\$1,266,666,642	\$643,166,545
Unfunded (Overfunded)		
Liability	\$ (43,394,498)	\$ (28,192,297)

The use of the Surplus Account has been phased out due to previously enacted legislation. All amounts in the Surplus Accounts were expended by June 30, 1997.

### **Insurance**

The County is self-insured for general liability, medical malpractice, short term disability income, unemployment and workers' compensation claims. General liability claims are self-insured to \$1 million for each occurrence and the balance (to \$10 million for each occurrence) is insured through CSAC Excess Insurance Authority. Medical malpractice is self-insured for the first \$1.1 million for each occurrence and insured for the balance to \$10 million for each occurrence on an occurrence basis, through CSAC Excess Insurance Authority. Workers compensation claims are self-insured to \$500,000 and insured by an independent carrier for the balance to statutory limits. Long-term disability income claims are fully insured by an independent carrier.

The activities related to such programs are accounted for in internal service funds. Accordingly, estimated liabilities for claims filed or to be filed for incidents which have occurred through June 30, 1998 are reported in these funds. Where these funds have an unfunded liability, or insufficient reserves to cover all incurred but not reported claims, the County has developed a policy to manage the accumulated deficits at a reasonable level.

Revenues of the internal service funds are primarily provided by other County funds and are intended to cover self-insured claim liabilities, insurance premiums and operating expenses. The combined cash balance in these funds as of June 30, 1998 was \$96.9 million.

## APPENDIX B

### STATEMENT OF INVESTMENT POLICY FOR THE RIVERSIDE COUNTY TREASURY

OFFICE OF THE TREASURER TAX-COLLECTOR  
COUNTY OF RIVERSIDE  
STATEMENT OF INVESTMENT POLICY  
December 15, 1998

#### **Introduction**

The Treasurer's Statement of Investment Policy is being filed annually with the County Board of Supervisors and the County's Investment Oversight Committee for review and approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code so as to become effective prior to January 1, 1999.

#### **Scope**

The "Treasurer's Statement of Investment Policy" is limited in scope to only those County, school and special district fund assets actually deposited and residing in the County Treasury. It does not apply to bond funds or other assets belonging to the County of Riverside, or any affiliated public agency whose assets reside outside of the County Treasury.

#### **Fiduciary Responsibility**

Section 27000.3 of the Government Code declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies to be a trustee and therefore a fiduciary subject to the prudent investor standard. This standard, as stated in Section 27000.3 requires that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law." This standard shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

#### **Portfolio Objectives**

The first and primary objective of the Treasurer's investment of public funds is to safeguard investment principal; second to maintain sufficient liquidity within the portfolio to meet daily cashflow requirements, and third, to achieve a reasonable rate of return or yield on the portfolio consistent with these objectives. The portfolio shall be actively managed in a manner that is responsive to the public trust and consistent with State law.

#### **Authority**

The Treasurer's authority to make investments was renewed by the Board of Supervisors on February 17, 1998 by County Ordinance No. 767.1. California Government Code Section 53607 allows the legislative body the authority to delegate the investment or reinvestment function of the County to the Treasurer on an annual basis.

Statutory authority for the Treasurer's investment and safekeeping functions are found in Sections 53601 and 53635 et. seq.



## **Conformity to Legislation**

This policy statement conforms to recent legislative enactments made since the Orange County bankruptcy filing on December 6, 1994 and in particular, SB 564 (Chapter 783, Statutes 1995), SB 866 (Chapter 784, Statutes 1995), AB 2845 (Chapter 81, Statutes 1996), SB864 (Chapter 156, Statutes 1996), and SB 109 (Chapter 749, Statutes 1996).

## **Authorized Investments**

Investments shall be restricted to those authorized in Government Code Sections 53601 and 53635 as amended and as further restricted by this policy statement. All investments shall be governed by the restrictions shown in Schedule I which defines the type of investments authorized, maturity limitations, portfolio diversification, credit quality standards, and purchase restrictions that apply.

## **Prohibited Investments**

California Government Code Section 53601.6 prohibits investments in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any derivative or other investment that could result in zero interest if held to maturity. No securities are to be purchased in a mutual bond fund where the principal dollars invested would be subject to daily market value adjustments in the fund's portfolio assets.

## **Staff Authorized to Make Investments and Wire Transfers**

Only the Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, Investment Officer and Assistant Investment Officer are authorized to make investments, make wire or electronic fund transfers, and to order the receipt and delivery of investment securities among custodial security clearance accounts. All Bank of America electronic fund transfers shall require the joint signature of the Auditor-Controller and Treasurer-Tax Collector prior to execution with the bank and following entry with the bank, shall require dual verification of its authenticity by the Treasury originating the wire transfer and the Treasurer's Internal Audit staff providing confirmation.

## **Authorized Broker/Dealers**

Security transactions are limited solely to those banks and primary dealers of the Federal Reserve noted on Schedule II. No security transactions are authorized until the bank and/or primary dealer has been delivered a current copy of the County Treasurer's Statement of Investment Policy and has agreed to be bound thereby.

## **Daily Accountability and Control**

Except for declared emergencies, all investment transactions are to be conducted at the County Treasurer-Tax Collector's office, documented, and reviewed for approval by the Treasurer-Tax Collector, Assistant Treasurer Tax-Collector, or the Chief Deputies. All transactions will be entered daily into the Treasurer's internal, financial accounting system. A copy of each day's investment transactions shall be reviewed by the Treasurer or his designee and filed on a timely basis with the County Auditor-Controller.

## **Security Custody & Deliveries**

All securities except for money market funds registered in the County's name and securities issued by the County shall be deposited for safekeeping with banks contracted to provide the County Treasurer with custodial security clearance services. The security holdings shall be reconciled monthly and audited quarterly by the Treasurer's Internal Audit staff. These third party trust department arrangements provide the County with a perfected interest in, and ownership and control over the securities held by the custodian on the County's behalf, and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are NOT to be held in investment firm/broker dealer accounts. All security transactions are

to be conducted on a "delivery versus payment basis". Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation.

### **Competitive Pricing**

Investment transactions are to be made at current market value and competitively priced whenever possible.

### **Maturity Limitations**

Unless further restricted by law or these guidelines (Schedule I), all investments shall be limited to a maximum maturity date of three years from the date of purchase.

### **Liquidity**

The portfolio shall maintain a (WAM) weighted average days to maturity of less than 541 days or 1.5 years. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio shall maintain at least 40% of its total value in securities having maturities 1 year or less; with the remaining 60% in maturities ranging from 1 to 3 years.

### **Performance Evaluation**

Portfolio performance is monitored daily and evaluated monthly in comparison to the movement of the average monthly 90 day Treasury bill yield. Over several years with 1.5 years being the weighted average time to maturity, the portfolio rate of return should approximate the 9 month U.S. Treasury bill yield.

### **Leverage**

The Treasury shall not engage in any form of leverage for the purpose of enhancing portfolio yield. There shall be no entry into reverse repurchase agreements except for temporary and unanticipated cashflow requirements that would cause the Treasurer to sell securities at a principal loss. Any reverse repurchase agreements authorized shall be in full compliance with the specific guidelines stated in Schedule III. Likewise the Treasury shall not enter into any security lending agreement.

### **Mitigating Market & Credit Risks**

Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the: (1) credit quality standards issued by Moody's and Standard and Poor's on the credit worthiness of each issuer of the security, (2) limiting the concentration of investment in any single firm to the dollar limits authorized, (3) by limiting the duration of investment to the time frames noted in Schedule I, (4) and by maintaining the diversification and liquidity standards expressed within this policy.

### **Trading & Early Sale of Securities**

All securities are to be purchased with the intent of holding them until maturity. However, in an effort to minimize market and credit risks, securities may be sold prior to maturity either at a profit or loss when economic circumstances, trend in short-term interest rates, or a deterioration in creditworthiness of the issuer warrants a sale of the securities to either enhance overall portfolio yield or to minimize further erosion and loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original book value of the security plus cumulative interest earned on the security from the date of purchase to the date of sale. However, the sale of a security at a loss can only be made after first securing the approval of the County Treasurer-Tax Collector.

### **Purchase of U.S. Treasury Notes**

WI (i.e., when issued) purchases of U.S. Treasury securities and their subsequent sale prior to cash settlement are authorized as long as sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date, and at purchase, there is the ability to hold them in the portfolio to maturity.

### **Portfolio Reports/Auditing**

Portfolio reports required by Sections 53607 and Section 27133(e) shall be filed monthly with the Board of Supervisors. The Treasurer shall also prepare and file with the Board of Supervisors, the County Executive Officer, County Audit Controller, Superintendent of Schools and the County's Investment Oversight Committee, the "Treasurer's Monthly Disclosure Report on Investment Portfolio", stating the book vs. current market value of all securities within the portfolio together with all other portfolio information required by law. Monthly compliance audits will be conducted by Fund Services Associates and the reports filed with the County's Investment Oversight Committee as required by Section 27134 of the California Government Code. All investment transactions are to be reviewed daily by the County Treasurer-Tax Collector, by the Assistant Treasurer Tax-Collector, or Chief Deputies during the Treasurer's absence. Weekly meetings are to be conducted with the Investment Officer to review the portfolio's performance in keeping with this policy as well as current investment strategy, and financial market trends.

### **Treasury Investment Oversight Committee**

In accordance with Section 27130 et seq. of the California Government Code, the Board of Supervisors has established an Investment Oversight Committee.

Specifically, the law requires that the Investment Oversight Committee meet to: (1) Review the Treasurer's annual Statement of Investment Policy and any subsequent changes thereto, (2) Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy, (3) Cause an annual audit to be conducted on the Treasurer's Pooled Investment portfolio. All meetings of the Oversight Committee are to be open to the public and subject to the Ralph M. Brown Act.

Members of the Oversight Committee may not be employed by an entity that has contributed to the election campaign of the County Treasurer or any member of the Board of Supervisors during the previous three years. Nor can any member, directly or indirectly, raise money for the Treasurer or any member of the Board of Supervisors while a member of the Committee. Finally, a member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms for three years after leaving the committee.

By law, the Investment Oversight Committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

### **Quarterly Distribution of Investment Earnings**

Portfolio income shall be reconciled daily against cash receipts and quarterly, prior to the distribution of earnings among those entities sharing in pooled fund investment income. It is the intent of this policy to safeguard and maintain the principal value of funds invested and to minimize "paper losses" caused by changes in market value.

Nonetheless, actual portfolio income and/or losses will be distributed quarterly in compliance with Sections 53684 and 53844 of the California Government Code among those participants sharing in pooled investment income, and except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed prorata based upon each participant's average daily cash balance for the calendar quarter.

## **Quarterly Apportionment of Administrative Costs**

Prior to the quarterly apportionment of pooled fund investment income, the County Treasurer is permitted, pursuant to Section 27013 of the California Government Code, to deduct from investment income before the distribution thereof, the actual cost of the investment, audit, deposit, handling and distribution of such income.

Accordingly, in keeping with Sections 27013, 27133(f), and 27135, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: retail banking services, wire transfers, custodial safekeeping charges, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the treasurer-tax collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions.

Costs are apportioned based upon average daily ending balances. Prior to gaining reimbursement for these costs, the Treasurer-Tax Collector shall annually prepare a proposed budget revenue estimate for "Section 27013 administrative costs", providing a detailed itemization of all costs required to be reimbursed.

## **Policy Criteria for Agencies Seeking Voluntary Entry into LGIP**

The County Treasurer does not solicit any agency's voluntary entry into the County's investment pool. However, should any agency solicit entry, the agency shall comply with the requirements of Section 53684 of the California Government Code and provide to the County Treasurer a resolution adopted by their governing board stating that they have excess funds available for the purpose of investment. The resolution shall specify the amount of monies to be invested, the person authorized at the agency to coordinate the transaction, the anticipated time-frame for deposits, and the agency's willingness to be bound to the statutory 30 day written notice requirement for withdrawals, as well as the Treasurer's ability to deduct pro-rata administrative charges permitted by Section 27013. Any solicitation for entry into the LGIP must have the County Treasurer's prior written approval before receipt of funds are authorized.

## **Policy Criteria for LGIP Participant Withdrawals**

With the Treasury being required to maintain a 40% liquidity position at all times during the calendar year, it is anticipated that sufficient funds will be on hand to immediately meet on demand all LGIP participant withdrawals for the full dollar amounts requested without having to make any allowance or pro-rata adjustment based on the current market value of the portfolio. In addition, any withdrawal by a local agency for the purpose of investing or depositing those funds outside the County Treasury pool shall have the prior written approval of the County Treasurer, and any failure to do so shall subject the local entity to a violation of Section 27136 of the California Government Code and will be performed solely at the entities own risk. The Treasurer's approval of the withdrawal request shall be based on (1) the availability of funds; (2) the circumstances prompting the request; (3) the dollar volume of similar requests; (4) the prevailing condition of the financial markets; (5) the present magnitude of the portfolio's "paper loss" when compared to the total book value of the portfolio; (6) whether the withdrawal would adversely affect other depositors in the County Treasury pool and (7) the presentation of a Minute Order or Board Resolution authorizing, the withdrawal of funds from the County Treasury. Any and all funds withdrawn from the County Treasury Investment pool for purposes of investing or depositing such funds outside the pool shall become the responsibility of the legislative body requesting the action. The County Treasurer or the County of Riverside shall in no manner be held financially responsible for the withdrawal of funds or investments purchased with said funds. The request of any legislative body, by resolution or minute order, authorizing the withdrawal of funds for deposit or investment outside the County Treasury investment pool must provide a disclaimer of liability. The Treasurer shall not honor any such withdrawal request if a disclaimer clause is not provided.

## **Policy on Receipt of Honoraria, Gifts and Gratuities**



**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**COUNTY OF RIVERSIDE**  
**STATEMENT OF INVESTMENT POLICY**  
 Schedule 1-December 15, 1998

AUTHORIZED INVESTMENTS	DIVERSIFICATION (1)	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury notes, bills, bonds or other certificates of indebtedness	100%	NA	Max 3 years	NA
Notes, participations, or obligations issued by the agencies of the Federal Government	100%	NA	Max 3 years	NA
Bonds, notes, warrants or certificates of indebtedness issued by the State or local agencies or County of Riverside	15% max or \$150mm	NA	Max 3 years	L/TA A2 or better
Bankers Acceptances among 100 largest banks by size of deposits	30% max	Max \$30mm in any one issuer	180 days	S/T Ratings A-1 P-1 F-1
Commercial paper of U.S. Corp with total assets exceeding \$500 mm	30% max	Max \$30mm in any one issuer	Max 90 days if weighted ave. less than 32 days	S/T ratings A-1 P-1 F-1
State of California Local Agency Investment Fund	0% max	Not authorized	Max 3 years	Non-rated
Negotiable CD's issued by National or State chartered banks or a licensed branch of a foreign bank	0% max	Not authorized	Max 1 year	L/T ratings A+ A1 A+ or better
Fully collateralized time deposits	2% max	See schedule 4	Max 1 year	
Repurchase agreements with 102% collateral restricted to U.S. Treas., Agencies, Agency Mortgages, BA's.	20% max	Repurchase agreements to be on file.	Max 14 days	NA
Reverse Repurchase Agreements on U.S. Treasury & Fed. Agency Securities in portfolio	10% max	For temporary cash flow needs only. (See Schedule 3)	Max 60 days with prior approval of Bd of Supervisors	NA
Medium Term Notes or Corporate notes on U.S. Corp	10% max	Max \$10mm in any one issuer	Max 2 years	L/T AA Aa2 AA or better
Asset Backed securities on U.S. Corp.	0% max	Not authorized	NA	NA
Money Market mutual funds that invest in eligible securities meeting requirements of Calif. Government Code	15% or \$150mm max	Registered with SEC No NAV adjustments No front/end loads	Immediate liquidity	L/T ratings AAA by at least 2 of the 3 rating agencies.

**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**COUNTY OF RIVERSIDE**  
**STATEMENT OF INVESTMENT POLICY**  
**Schedule II**  
December 15, 1998

The Treasury is authorized to conduct investment security transactions with the following investment firms and broker/dealers, many of which are designated by the Federal Reserve Bank as primary government dealers. Security transactions with firms, other than those appearing on this list, are prohibited.

A. Firms designated by the Federal Reserve Bank as primary government dealers:

Bear Stearns & Co. Inc.  
Chase Securities, Inc.  
Citicorp Securities, Inc.  
CS First Boston Corporation  
First Chicago Capital Markets, Inc.  
Fuji Securities, Inc.  
Goldman Sachs & Company  
Lehman Brothers, Inc.  
Merrill Lynch Government Securities, Inc.  
J. P. Morgan Securities Inc.  
NationsBanc Montgomery Securities LLC.  
Morgan Stanley & Co. Incorporated  
Paine Webber Incorporated  
Prudential Securities Incorporated  
Salomon Smith Barney, Inc.  
Zions First National Bank

B. Other authorized firms:

Cantor Fitzgerald Securities Corp.  
Union Bank of California  
The Bank of New York (Repurchase Agreements only)  
Wells Fargo Bank, N.A. (Repurchase Agreements only)

C. Direct purchases direct from major commercial paper issuers, money market mutual funds, bankers acceptance issuers or savings and loan are authorized.

To ensure compliance with the County Treasurer's Investment Guidelines, each primary government dealer and other authorized firms (as listed above in section A and B) are being supplied by certified mail a complete copy of this document approved by the Board of Supervisors. Each firm will acknowledge receipt and agrees to be bound by the policy.

**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**COUNTY OF RIVERSIDE**  
**STATEMENT OF INVESTMENT POLICY**  
**Policy Criteria for Selection of Broker/Dealer**  
**Schedule IIA**

December 15, 1998

1. The County Treasury has elected to limit security transactions to only primary dealers of the Federal Reserve. Accordingly, the primary dealer must confirm that they are supervised by the New York Federal Reserve, that they are a member of the National Association of Security Dealers (NASD) and are registered with the SEC.
2. The net capital position of the firm shall be in excess of \$100 million.
3. The County Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
4. The firm must state in writing its willingness to be bound by the County Treasurer's written Investment Policy Guidelines.
5. The firm must provide an active secondary market for the securities it sells.
6. The firm must specify the types of securities it specializes in and will be made available for our account.
7. It is important that the firm provide related services that will enhance the account relationship which could include:
  - (a) An active secondary market for its securities.
  - (b) Internal credit research analysis on commercial paper, bankers acceptances and other securities it offers for sale.
  - (c) Be willing to trade securities on our portfolio.
  - (d) Be capable of providing market analysis, economic projections, newsletters.
  - (e) Provide market education on new investment products, security spread relationships, graphs, etc.
8. The firm must be willing to provide us annual financial statements.
9. If requested, the firm must be willing to provide us a list of local government clients or other references, particularly those client relationships established within the State of California.
10. The County Treasury is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank, The Bank of New York.
11. Without exception, all transactions are to be conducted on a "delivery vs. payment" basis.
12. The broker/dealer shall be headquartered or have a branch office either in California, Chicago, or New York City. Except for the above, the County Treasury will not conduct security transactions with any firm located out-of-state.
13. The broker/dealer must have been in operation for more than 5 years, and must have net capital in excess of \$100 million.



14. No business relationship shall be established with firms engaging in the sale of "exotic" products. Exotic meaning "unusually high yields", no ready secondary market, "high price volatility" on the security.
15. The firm must be registered with the State of California's regulatory agency.
16. No Broker/Dealer or security firm shall be selected who has within any consecutive 48 month period, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer or any member of the Board of Supervisors or to any candidate for these offices.

**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**COUNTY OF RIVERSIDE**  
**STATEMENT OF INVESTMENT POLICY**  
**Policy Criteria on Reverse Repurchase Agreements**  
**Schedule III**  
December 15, 1998

With recent changes in State law affecting Sections 53601(i) and 53635(i) of the Government Code, the Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements.

Reverse Purchase Agreement transactions are to be used solely to finance temporary and unanticipated cash flow requirements for a period not to exceed 92 calendar days and shall not, in total dollar amount, exceed 10% of the portfolio value.

- (1) All loaned securities subject to Reverse Repurchase Agreements shall be properly flagged and immediately accounted for in the Treasurer's ADS financial system.
- (2) Investment purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
- (3) Only U.S. Treasury notes and Federal Agency securities actually owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days shall be subject to Reverse Repurchase Agreement transactions.
- (4) Reverse-Repurchase Agreements shall only be placed on portfolio securities:
  - (a) intended to be held to maturity,
  - (b) not needed for cash flow requirements within the next 9 months,
  - (c) fully owned, paid for, and held in the portfolio for a minimum of 30 days.
- (5) Reverse Repurchase Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.
- (6) A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement with any authorized broker-dealer listed in Schedule II.
- (7) Each Reverse Repurchase Agreement transaction shall have the prior approval of the County Treasurer and the Board of Supervisors.

**OFFICE OF THE TREASURER TAX-COLLECTOR**  
**COUNTY OF RIVERSIDE**  
**STATEMENT OF INVESTMENT POLICY**  
**Policy Criteria for Collateralized Time Deposits**  
**Schedule IV**  
December 15, 1998

Before the Treasury can place a time deposit with a local bank or savings and loan, the following criteria must be met:

1. The bank must provide us with an executed copy of the "Contract for Deposit of Moneys".
2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans residing in Riverside County and must exceed the interest rate for treasury bills for a similar maturity period.
3. For investments less than \$100,000, FDIC insurance will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.
4. For investments exceeding \$100,000, there will be a waiver of collateral for the first \$100,000 deposited and protected by FDIC insurance. The remainder of the deposit shall be fully collateralized by U.S. Treasury and Federal Agency securities having maturities less than five years. The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged as collateral must have a current market value greater than the dollar amount of the deposit in keeping with the ratio requirements specified in Section 53652 of the Government Code.
5. The County Treasurer must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a "statement of financial condition" as well as an "income statement" depicting current and prior year operations.
6. The County Treasurer will not place a public fund deposit for more than 10% of the present paid-up capital and surplus of the bank.
7. The County Treasurer must receive a certificate of deposit which specifically expresses the terms governing the transaction, deposit amount, issue date, maturity date, name of depositor, interest rate, interest payable quarterly, etc.
8. All time certificates must have a maturity date not exceeding one year from the date of the deposit, with quarterly interest payments based upon the stated interest rate.
9. The County Treasury must receive a letter from the comptroller and/or treasurer of the bank at the time the initial deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists between any County official and an officer or employee of the bank.
10. Time deposits will only be made with banks and savings and loans having branch office locations within Riverside County.

**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**COUNTY OF RIVERSIDE**  
**STATEMENT OF INVESTMENT POLICY**  
**Policy Criteria for Entering into a Money Market Fund**  
**Schedule V**

December 15, 1998

1. The firm must provide in writing a statement on the fund's letterhead that the fund meets the statutory requirements of California law (i.e., Sections 53601 and 53635 of the California Government Code).
2. The fund must provide evidence that it has been registered with SEC and has "AAA" ratings from two of the nationally recognized rating agencies: Moody's, Fitch, Standard & Poor's.
3. The fund's investments shall be limited to direct obligations in U.S. Treasury bills, federal agency securities, and repurchase agreements, and shall maintain a weighted average maturity within their portfolio of less than 90 days.
4. The fund must provide us copies of their portfolio reports, and shall provide at least at month-end , a complete listing of securities within the fund's portfolio.
5. The fund shall provide us a current prospectus before our participation in the fund.
6. The fund's prospectus cannot allow hedging strategies, options, futures, or security lending transactions.
7. The fund must maintain daily, a principal per share value of \$1.00 per share.
8. The fund shall provide information as to who serves as their custodial bank.
9. The fund shall provide, at least annually, financial statements on the fund's financial condition and investment performance.
10. The fund shall provide us wire instructions for the purchase and redemption of shares, and must be able to distribute interest earnings to the County Treasury on a monthly basis.
11. Unless the fund is more than five years old, the County Treasury is to be given its performance history since the inception of the fund.
12. The County Treasury is also to be given the date the fund was established, the total assets currently under management, the recent 12 months history as to either the growth or decline in assets under management, and whether or not the fund is assessing 12B-1 management fees. It would prove beneficial if the fund could provide us performance histories on competitor funds, should they be available.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following are definitions of certain terms and summaries of certain provisions contained in the Trust Agreement, the Facilities Lease, the Site Lease, the GSA Lease and the Assignment Agreement that are not summarized elsewhere in this Private Placement Memorandum. For a summary description of the County Certificates, see "THE COUNTY CERTIFICATES." These summaries do not purport to be comprehensive, and reference should be made to said documents, copies of which may be obtained from the Trustee, for the complete text thereof.

#### DEFINITIONS

The following are definitions of certain terms used in the Private Placement Memorandum including the summaries of the Trust Agreement, the Facilities Lease, the Site Lease, the GSA Lease and the Assignment Agreement.

**"Accreted Value"** means, with respect to each of the County Certificates the original principal amount of such Certificate, plus the interest accrued and compounded with respect thereto as of the date of calculation. The Accreted Values for the County Certificates as of the various Payment Dates are set forth in the Trust Agreement.

**"Accreted Value Date"** means June 15, 2015.

**"Additional County Certificates"** has the meaning set forth under the caption "THE TRUST AGREEMENT — Execution and Delivery of Additional County Certificates".

**"Additional GSA Certificates"** has the meaning set forth under the caption "THE TRUST AGREEMENT — Execution and Delivery of Additional GSA Certificates".

**"Additional Maintenance Rent"** has the meaning set forth under the caption "THE GSA LEASE – GSA Payments".

**"Additional Rental"** has the meaning set forth under the caption "THE FACILITIES LEASE — Rent".

**"Administrative Building Property"** means The Robert T. Andersen Administrative Building.

**"Administrative Expense Fund"** means the Administrative Expense Fund established pursuant to the Trust Agreement.

**"Assignment Agreement"** means the Assignment Agreement, dated as of March 15, 1999, from the Corporation to the Trustee, relating to the Site Lease and the Facilities Lease.

**"Assignment of Claims"** means the Assignment of Claims dated as of the Closing Date from the County to the Trustee.

**"Authorized Denominations"** means, with respect to GSA Certificates, \$100,000 principal amount and integral multiples of \$1,000 in excess thereof, and, with respect to the County Certificates, \$100,000 Accreted Value as of the Accreted Value Date date and integral multiples of \$5,000 in excess thereof.

**"Bank Certificates"** means any Certificates purchased by the Trustee with amounts received pursuant to a draw on the Letter of Credit and registered in the name of the LOC Bank or its designee and held by the Trustee, as custodian for the LOC Bank.

**"Bank Rate"** means the Bank Rate, as defined in the Reimbursement Agreement.

**"Base Rental"** means the base rentals required to be paid by the County under the Facilities Lease.

**"Base Rental Account"** means the Base Rental Account established in the Certificate Fund under the Trust Agreement.

**"Business Day"** means a day which is not a Saturday, Sunday or any other day on which banking institutions in the State or the State of New York are closed, or a day on which members of the New York Stock Exchange are closed or obligated by law or administrative order to close.

**"Capitalized Interest Account"** means the Capitalized Interest Account established in the Certificate Fund pursuant to the Trust Agreement.

**"Certificate Fund"** means the Certificate Fund established pursuant to the Trust Agreement, within which there are established the Base Rental Account, the GSA Payments Account, the GSA Certificates Debt Service Account, the County Certificates Debt Service Account, the Prepayment Account, the Capitalized Interest Account, the Letter of Credit Account, the Excess GSA Payment Account and the Rental Interruption Insurance Proceeds Account.

**"Certificate of Acceptance"** means a certificate executed by the Government accepting delivery of the District Court from the County in accordance with the GSA Lease.

**"Certificate of Completion"** means a notice filed with the Trustee by the County Representative stating that the Facilities are ready for beneficial use and occupancy by the County.

**"Certificate Register"** means the books referred to in the Trust Agreement.

**"Certificates"** means the County Certificates and the GSA Certificates.

**"Closing Date"** means April 29, 1999 or such other date as the Corporation, the County, the Placement Agent and the Trustee may mutually agree upon.

**"Completion Date"** means the date on which the County delivers or causes to be delivered to the Trustee a Certificate of Acceptance from the Government with respect to the District Court.

**"Construction Costs"** means the contract price paid or to be paid for the acquisition, construction, installation or delivery of the Facilities, and related equipment and land, and includes reimbursement to the County for any payments made by the County subsequent to the execution of the Facilities Lease. Construction Costs include the costs of site preparation necessary for the construction and installation of the Facilities, as well as administrative, engineering, legal, financial and other costs incurred in connection with the acquisition, construction, installation, delivery and financing of the Facilities. Construction Costs shall also specifically include the fees payable to the LOC Bank for the Letter of Credit.

**"Construction Fund"** means the Construction Fund established under the Trust Agreement, within which there are established the Costs of Issuance Account and the District Court Construction Account.

**"Costs of Issuance"** means the all costs of issuing the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Facilities Lease, the Site Lease, the Agency Agreement, the Assignment Agreement, the Certificates, the GSA Lease, private placement memoranda pertaining to the Certificates; the premium for the Insurance Policy; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the financing of the Leased Premises;

any computer and other expenses incurred in connection with the Certificates; the initial fees and expenses of the Trustee and any paying agent (including without limitation origination fees and first annual fees payable in advance); and any other fees and expenses incurred in connection with the execution and delivery of the Certificates or the implementation of the financing for the Facilities, to the extent such fees and expenses are approved by the County.

**"Costs of Issuance Account"** means the Costs of Issuance Account established in the Construction Fund under the Trust Agreement.

**"Corporation"** means the Riverside District Court Financing Corporation, a California non-profit public benefit corporation.

**"County"** means the County of Riverside, California.

**"County Certificates"** means the \$2,165,472.41 initial principal amount, \$7,200,000 accreted value, Taxable Certificates of Participation (United States District Court Project), Series 1999, bearing interest at the rate of 7.59% per year, with a stated maturity of June 15, 2020.

**"County Certificates Debt Service Account"** means the County Certificates Debt Service Account established within the Certificates Fund pursuant to the Trust Agreement.

**"County General Fund"** means the County General Fund from which Base Rental is payable.

**"County Representative"** means the County Executive Officer of the County, the Treasurer or the Director of Finance of the County or another official or employee of the County designated by such officer or officers and authorized to act on behalf of the County under or with respect to the District Court Financing Documents.

**"Date of Delivery"** means April 29, 1999.

**"Default"** means an event, condition or circumstance which, with the giving of notice, the lapse of time or both, would become an Event of Default.

**"District Court"** means the Facilities and the Land.

**"District Court Construction Account"** means the Construction Account established in the Construction Fund under the Trust Agreement.

**"District Court Financing"** means the transactions contemplated by the District Court Financing Documents.

**"District Court Financing Documents"** means collectively, the Trust Agreement, the Certificates, the GSA Lease, the Assignment of Claims, the Assignment Agreement, the Facilities Lease, the Site Lease, and each other document or agreement executed and delivered by the County, the Corporation and/or the Trustee in connection therewith.

**"District Court Site"** means certain real property located in Riverside, California, as more particularly described in the Site Lease.

**"DTC"** means The Depository Trust Company.

**"Event of Default"** has the meaning set forth under the caption "THE TRUST AGREEMENT — Events of Default".

**"Excess GSA Payment Account"** means the Excess GSA Payment Account established in the Certificates Fund pursuant to the Trust Agreement.

**"Facilities"** means the additional improvements to be constructed and installed on the District Court Site, as more particularly described in the Facilities Lease.

**"Facilities Lease"** means the Facilities Lease, dated as of March 15, 1999, between the Corporation and the County, pursuant to which the County leases the Leased Premises from the Corporation.

**"Financial Advisor"** means Dain Rauscher Incorporated.

**"Fiscal Year"** mean the fiscal year of the County, which at the date of the Facilities Lease is the period from July 1 to and including the following June 30.

**"Government"** or **"GSA"** means the United States of America, acting by and through the General Services Administration.

**"GSA Certificates"** means the \$17,635,000 United States Government General Services Administration Certificates of Participation (United States District Court Project), Series 1999, bearing interest at the rate of 6.64% per year, with a stated maturity of June 15, 2015.

**"GSA Certificates Debt Service Account"** means the GSA Certificates Debt Service Account established within the Certificates Fund pursuant to the Trust Agreement.

**"GSA Lease"** or **"GSA Lease Agreement"** means that certain U.S Government Lease for Real Property No. GS-09B-96372, dated May 1, 1998, by and between the County and the Government for the Rental of the District Court, as amended and supplemented by a Supplemental Lease Agreement No. 1, dated April 26, 1999.

**"GSA Payments"** means any and all payments made by the Government pursuant to the GSA Lease as rental for the District Court.

**"GSA Payments Account"** means the GSA Payments Account established within the Certificates Fund pursuant to the Trust Agreement.

**"Indemnities"** has the meaning set forth under the caption "THE TRUST AGREEMENT — Indemnification".

**"Independent Counsel"** means an attorney or firm of attorneys of recognized national standing in the field of municipal finance selected by the County.

**"Insurance Policy"** means the municipal bond insurance policy issued on the Date of Delivery by the Insurer guaranteeing the payment of the principal (or Accreted Value) and interest evidence and represented by the County Certificates.

**"Insurer"** means MBIA Insurance Corporation, a New York stock insurance company, and its successors, as issuer of the Insurance Policy.

**"Land"** means certain parcels of land and the easements for the benefit thereof located in Riverside, California and more particularly described in Schedule I attached to the Trust Agreement.

**"Leased Premises"** has the meaning set forth under the caption "THE FACILITIES LEASE", and consists of the District Court and the Other Leased Premises, all of which is leased to the County under the Facilities Lease.



**"Letter of Credit"** means that certain \$20,730,230 irrevocable letter of credit issued by the LOC Bank in favor of the Trustee, for the benefit of the Owners of the Certificates.

**"Letter of Credit Account"** means the Letter of Credit Account established in the Certificates Fund under the Trust Agreement.

**"LOC Bank"** or **"Bank"** means Commerzbank Aktiengesellschaft, acting by and through its Los Angeles Branch.

**"LOC Expiration Date"** has the meaning set forth under the caption "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT – The Letter of Credit".

**"Maintenance Rent"** has the meaning set forth under the caption "THE GSA LEASE – GSA Payments".

**"Make-Whole Premium"** means an amount, if positive, equal to the present value of the scheduled interest and principal payments from the date of prepayment to the Maturity Date of the Certificates being prepaid discounted at the Reinvestment Yield (as hereinafter defined), compounded semi-annually, less the principal balance of the Certificates being prepaid. If such amount is negative, the Make-Whole Premium shall be zero. The Make-Whole Premium and Reinvestment Yield will be calculated by an independent certified public accountant of national reputation. **"Reinvestment Yield"** shall mean a rate of interest per annum equal to the yield to maturity as implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the third business day preceding the date set for prepayment (the **"Quote Date"**) on the display designated as "USD" of the Bloomberg Financial Markets Screen (or such other display as may replace page USD of Bloomberg) for actively traded United States Treasury Notes having a maturity closest to the Weighted Average Life of the Certificates as of the date of prepayment (plus 50 basis points, in the case of the County Certificates, and 25 basis points, in the case of the GSA Certificates), or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported for the latest day for which such yields have been reported as of the third business day preceding the date of redemption in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded United States Treasury Notes having a constant maturity equal to the Weighted Average Life of the Certificates as of the date of prepayment. Such implied yield will be determined, if necessary, by (a) converting United States Treasury Note quotations to bond-equivalent yields in accordance with accepted financial practice, and (b) interpolating linearly between (1) the actively traded United States Treasury Notes with the constant maturity closest to and less than such Weighted Average Life. **"Weighted Average Life"** shall mean the sum of all Year Amounts (as hereinafter defined) divided by the principal balance Outstanding of the Certificates. A **"Year Amount"** shall equal the amount derived by multiplying the principal amount (or Accreted Value) to be paid with respect to the Certificates on a Payment Date by the Period Percentage (as hereinafter defined). The **"Period Percentage"**, as calculated separately for each Payment Date shall be the number of days (based upon a 30-day month and a 360-day year) from the prepayment date to the applicable Payment Date divided by 360.

**"Mandatory Tender Date"** shall mean June 1, 2001 if the County has failed to deliver to the Trustee the Certificate of Acceptance by the Required Completion Date.

**"Maturity Date"** means, with respect to the Series 1999 GSA Certificates, June 15, 2015 and, with respect to the Series 1999 County Certificates, June 15, 2020.

**"Moody's"** means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns.

**"Monthly GSA Certificates Payment Amount"** means one-sixth of the total amount of principal and interest due on the GSA Certificates on the next Payment Date.

**"Net Proceeds"** means any insurance proceeds in excess of \$50,000, paid with respect to the Leased Premises or any portion thereof, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**"New GSA Payments"** has the meaning set forth under "THE TRUST AGREEMENT — Execution and Delivery of Additional GSA Certificates".

**"Notice of Assignment"** means the Notice of Assignment dated the Closing Date from the Trustee to the Government.

**"Outstanding"** when used as of any particular time with respect to Certificates, means all Certificates therefore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or prepayment of which funds or eligible securities in the necessary amount shall have theretofore been deposited with the Trustee in accordance with the Trust Agreement (whether on or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

**"Owner"** means, singularly, the registered owner of any Certificate and, plurally, the registered owners of all the Certificates, as reflected in the Certificate Register.

**"Payment Date"** means, with respect to the GSA Certificates, June 15 and December 15 of each year the dates upon which principal and interest with respect to the GSA Certificates becomes due and payable, commencing June 15, 1999 to the Maturity Date thereof, and, with respect to the County Certificates, June 15 and December 15 of each year after the Accreted Value Date, the dates upon which the Accreted Value and the interest with respect to the County Certificates becomes due and payable, commencing December 15, 2015 to the Maturity Date thereof; provided, however, that with respect to Bank Certificates, Payment Date shall mean the days on which principal and interest with respect to Bank Certificates are required to be paid pursuant to the Reimbursement Agreement.

**"Permitted Encumbrances"** means with respect to the Leased Premises, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the County may, pursuant to provisions of the Facilities Lease permit to remain unpaid; (b) the Site Lease; (c) the Facilities Lease; (d) the Assignment Agreement; (e) the GSA Lease Agreement; (f) the Assignment of Claims; (g) any right or claim of any mechanic, laborer, materialism, supplier or vendor not filed or perfected in the manner prescribed by law; (h) 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 recording the Facilities Lease or the date of recording an amendment to the Facilities Lease which the County certifies in writing will not affect the intended use of the Leased Premises or impair the security granted to the Trustee for the benefit of the Owners of the Certificates and the Bank by the Trust Agreement and the Assignment Agreement and to which the Corporation, the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, and the County consent in writing; and (i) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recording of the Facilities Lease which the County certifies in writing will not affect the intended use of the Leased Premises or impair the security granted to the Trustee for the benefit of the Owners of the Certificates and the Bank by the Trust Agreement and the

Assignment Agreement and to which the Corporation, the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, and the County consent in writing.

**"Person"** means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

**"Placement Agent"** means Dublin Securities, Inc.

**"Prepayment Account"** means the Prepayment Account established within the Certificates Fund pursuant to the Trust Agreement.

**"Prepayment Percentage"** means the percentage obtained by dividing (i) the difference between (A) the amount of the GSA Payments payable by the Government pursuant to the GSA Lease for the first full month period immediately preceding the month in which the event giving rise to the need for the determination of the Prepayment Percentage occurred and (B) the amount of the GSA Payments payable by the Government pursuant to the GSA Lease for the first full month period following such event by (ii) the amount described in the preceding clause (i) (A).

**"Property"** means the real property and improvements located thereon consisting of the District Court Site and the Administrative Center Property as described in the Site Lease.

**"Qualified Investments"** means , if and to the extent permitted by law: (a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; (b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America: (i) Farmers Home Administration; (ii) Federal Housing Administration Debentures; (iii) General Services Administration; (iv) Government National Mortgages Association; (v) U.S. Maritime Administration; (vi) U.S. Department of Housing and Urban Development; (c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies: (i) Federal Home Loan Bank System; (ii) Federal Home Loan Mortgage Corporation; (iii) Federal National Mortgage Association; (iv) Student Loan Marketing Association; (v) Resolution Funding Corp.; and (vi) Farm Credit System; (d) money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act, and having a rating if rated by Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc. ("**S&P**") of "AAAm-G, "AAAm" or "AA-m" and if rated by Moody's Investors Service, Inc. ("**Moody's**") rated "Aaa," "Aa1" or "Aa2"; (e) certificates of deposit secured at all times by collateral described in (i) and/or (ii) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's; (f) certificates of deposit, savings accounts, deposit accounts or money markets deposits which are fully insured by the Federal Deposit Insurance Corporation; (g) investment agreements, including guaranteed investment contracts, with the written consent of the Bank so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit; (h) commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P; (i) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies; (j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1+" by S&P; (k) pre-refunded municipal obligations rated "Aaa" by Moody's and "AAA" by S&P; and (l) pool investment funds administered by any state of the United States acceptable to the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the Insurer, so long as the Insurance Policy is in effect and the Insurer is not in default in its payment obligations under the Insurance Policy.

**"Record Date"** means the first day of the month in which there is a scheduled Payment Date.

**"Reimbursement Agreement"** means the Reimbursement Agreement, dated as of March 15, 1999, by and among the County, the Corporation and the LOC Bank.

**"Rental Interruption Insurance Proceeds Account"** means the Rental Interruption Insurance Proceeds Account established in the Certificates Fund under the Trust Agreement.

**"Required Completion Date"** means June 1, 2000, unless the GSA and the County shall have agreed that the date of delivery of the District Court by the County to the GSA is extended to a date after June 1, 2000 in which case the Required Completion Date shall be such later date; provided, however, that the Required Completion Date shall in no event be later than May 1, 2001. In the event the Required Completion Date is extended beyond June 1, 2000, the County shall three Business Days prior to Required Completion Date provide to the Trustee, the Bank, the Insurer and the Owners notice and evidence of the new Required Completion Date.

**"Required Settlement Amount"** means the amount determined by multiplying (A) the aggregate principal amount of the Outstanding GSA Certificates (including accrued but unpaid interest and other charges) at the time of a proposed settlement or compromise by (B) the Prepayment Percentage.

**"Reserve Fund"** means the Reserve Fund established under the Trust Agreement.

**"Reserve Requirement"** means, (i) with respect to the Series 1999 Certificates, \$50,000 on the date of delivery and \$720,000 on and after June 15, 2015, and (ii) with respect to any Additional Certificates, the amount established for such Additional Certificates, if any, pursuant to the Supplemental Trust Agreement authorizing such Additional Certificates.

**"Restoration Period"** has the meaning set forth under the caption "THE GSA LEASE – Damage to or Destruction of the District Court".

**"Securities Act"** means the Securities Act of 1933, as amended.

**"Securities Depository"** means one of the Securities Depositories designated by the County pursuant to Trust Agreement as the Owner of the Certificates.

**"Securities Depositories"** means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax (215) 496-5058; or to such other addresses and/or such other securities depositories as the County may designate.

**"Site Lease"** means the Site Lease, dated as of March 15, 1999, between the County and the Corporation.

**"S&P"** means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors and assigns.

**"State"** means the State of California.

**"Supplemental Trust Agreement"** means a Supplement to the Trust Agreement.

**"Trust"** means the trust established by the Trust Agreement.

**"Trust Agreement"** means the Trust Agreement dated as of March 15, 1999 by and among the Corporation, the County and the Trustee, as amended and supplemented from time to time.

"Trustee" means U.S. Trust Company National Association, a national banking association, not in its individual capacity, but solely as trustee under the Trust Agreement, or any substitute or successor pursuant to the terms thereof.

## THE TRUST AGREEMENT

The following summary of certain provisions of the Trust Agreement does not purport to be complete, and is qualified in its entirety by reference to the full text of the Trust Agreement. Copies of the Trust Agreement are available to prospective investors upon request to the County. See "MISCELLANEOUS".

### General

The Trust Agreement is to be entered into by the Corporation, the County and the Trustee on or prior to the Closing Date and provides for (i) the execution and delivery by the Trustee of the County Certificates and the GSA Certificates, (ii) the pledge and assignment to the Trustee of amounts held in the funds and accounts established under the Trust Agreement and (iii) the payment of principal and interest with respect to the Certificates. As discussed under the caption "THE COUNTY CERTIFICATES— Sources of Funds for Payment", amounts due on the County Certificates are payable from payment of Base Rental under the Facilities Lease, and not from any amounts payable under the GSA Lease by the Government.

The Trustee is appointed and accepts appointment pursuant to the Trust Agreement to receive, hold and disburse in accordance with the terms thereof the money to be paid to it, to execute and deliver the County Certificates representing proportionate interests in the Facilities Lease, including the Base Rental payable thereunder, to apply and disburse payments received pursuant to the Facilities Lease, and to perform certain other functions provided in the Trust Agreement.

A summary of the terms of the County Certificates is provided in the Private Placement Memorandum under the caption "THE COUNTY CERTIFICATES".

### Funds and Accounts

*Establishment and Application of Construction Fund.* The Trust Agreement establishes in trust a special fund designated the "Construction Fund", which, together with the other trust accounts established in connection therewith, shall at all times be in the exclusive possession of and under the exclusive dominion and control of, the Trustee and which shall be kept separate and apart from all other funds, accounts and money held by the Trustee. Moneys in the Construction Fund shall be expended for the purposes specified in the Trust Agreement. Within the Construction Fund, the Trustee shall establish a Costs of Issuance Account and a District Court Construction Account.

Costs of Issuance Account. The Trustee shall disburse moneys from the Costs of Issuance Account on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case, in accordance with a payment request in the form attached to the Trust Agreement. Any amounts remaining in the Costs of Issuance Account on the earlier of (i) the date on which the County has notified the Trustee in writing that all Costs of Issuance have been paid, and (ii) December 15, 1999, shall be transferred to the District Court Construction Account.

District Court Construction Account. The Trustee shall from time to time disburse moneys from the District Court Construction Account to pay Construction Costs with respect to the Facilities promptly after receipt of a payment request in the form attached to the Trust Agreement. Amounts on hand in the District Court Construction Account may also be disbursed to pay Costs of Issuance, upon receipt by the Trustee of a written request of the County Representative substantially in the form attached to the Trust

Agreement. In making all such payments, the Trustee may rely upon the representations made in such written payment request. If for any reason the County should decide prior to the payment of any item in such written payment request not to pay such item, then it may give written notice of such decision to the Trustee and thereupon the Trustee shall not make such payment. In no event shall the Trustee be responsible for the improper use of money properly disbursed pursuant to requests made under this Section.

The County shall deliver to the Trustee, the Bank and the Insurer a Certificate of Completion immediately upon the completion of the Facilities and the availability of the District Court for beneficial use and occupancy. The County shall deliver or cause to be delivered to the Trustee a Certificate of Acceptance immediately upon the acceptance of the District Court by the GSA for beneficial use and occupancy in accordance with the GSA Lease.

If, after payment by the Trustee of all written requests theretofore tendered to the Trustee with respect to the District Court Construction Account, and delivery to the Trustee of a Certificate of Acceptance, any balance remains in the District Court Construction Account, all money so remaining will be transferred, first, to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and, second, as may be directed by the County in writing; provided, however, that to the extent any Bank Certificates are Outstanding under the Trust Agreement, all remaining moneys shall be deposited into the Prepayment Account and applied to the prepayment of Bank Certificates.

*Establishment and Application of Administrative Expense Fund.* The Trust Agreement establishes in trust a special fund designated the "Administrative Expense Fund", which shall at all times be in the exclusive possession of, and under the exclusive dominion and control of, the Trustee and which shall be kept separate and apart from all other funds, accounts and money held by the Trustee. The Trustee shall, to the extent of moneys available therein, disburse money from the Administrative Expense Fund on such dates and in such amounts as are necessary to pay all expenses of the Corporation or the County (not otherwise paid or provided for out of the proceeds of the sale of Certificates) incidental to the execution and delivery of the Certificates, including but without limiting the generality of the foregoing; salaries, wages, expenses, fees and charges of auditors, accountants, architects, attorneys and engineers, and all other necessary administrative charges of the Corporation or the County or charges required to be paid by either of them in order to comply with the terms of the Certificates or of the Trust Agreement, in each case, in accordance with a payment request in the form attached to the Trust Agreement.

*Establishment and Application of Certificate Fund.* The Trust Agreement establishes in trust a special fund designated the "Certificate Fund", which, together with all other trust accounts established in connection therewith, shall at all times be in the exclusive possession of, and under the exclusive dominion and control of, the Trustee and which shall be kept separate and apart from all other funds, accounts and money held by the Trustee. The Trustee shall administer such fund and the accounts therein as provided in the Trust Agreement. The Certificate Fund shall be maintained by the Trustee until the Certificates are paid in full pursuant to the terms of the Trust Agreement. Within the Certificate Fund, the Trustee shall establish the following accounts: (a) Base Rental Account; (b) GSA Payments Account; (c) GSA Certificates Debt Service Account; (d) County Certificates Debt Service Account; (e) Prepayment Account; (f) Capitalized Interest Account; (g) Letter of Credit Account; (h) Excess GSA Payments Account; and (i) Rental Interruption Insurance Proceeds Account.

Base Rental Account. Except as otherwise provided in this paragraph, Base Rental received by the Trustee shall be deposited in the Base Rental Account. The Trustee shall transfer from the Base Rental Account to the County Certificates Debt Service Account on each Payment Date an amount which, together with moneys on deposit in the County Certificates Debt Service Account, equals the principal and interest then due on such Payment Date with respect to the County Certificates in accordance with the terms of the Trust Agreement. Any amounts remaining in the Base Rental Account on a Payment Date after the transfer referred to in the preceding sentence has been made shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement and thereafter any such remaining amounts shall be retained in the Base Rental Account to be used to make future principal and interest payments with respect to the County Certificates; provided, however, that to the extent there are

any Bank Certificates Outstanding, any remaining balance in the Base Rental Account shall be transferred to the Prepayment Account and applied to the prepayments of Bank Certificates. Any delinquent Base Rental payments shall be applied first to the payment of interest payments past due, second to the payment of principal payments past due according to the tenor of any County Certificate, and third to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement. Any remaining money representing delinquent Base Rental payments will remain on deposit in the Base Rental Account to be applied in the manner provided in the Trust Agreement.

GSA Payments Account. GSA Payments received by the Trustee shall be deposited in the GSA Payments Account. Upon receipt of each monthly GSA Payment the Trustee shall transfer from the GSA Payments Account and deposit into the GSA Certificates Debt Service Account an amount equal to one-sixth (1/6th) of the interest and principal due with respect to the GSA Certificates on the next succeeding Payment Date in accordance with the terms of the Trust Agreement. Immediately following the transfer to the GSA Certificates Debt Service Account, the Trustee shall transfer, to the extent amounts are then available in the GSA Payments Account, a monthly amount equal to \$4,166.67 to the Reserve Fund until the amount on deposit in the Reserve Fund is equal to the Reserve Requirement. Thereafter, any remaining balance in the GSA Payments Account shall be transferred to the Excess GSA Payment Account; provided, however, that to the extent there are any Bank Certificates Outstanding, any remaining balance in the GSA Payments Account shall be transferred to the Prepayment Account and applied to the prepayment of Bank Certificates. Any delinquent GSA Payments deposited in the GSA Payments Account shall be applied first to the payment of interest payments past due, second to the payment of principal payments past due according to the tenor of any GSA Certificate, and third to make the monthly deposit into the Reserve Fund as provided above. Any remaining money in the GSA Certificates Debt Service Account representing delinquent GSA Payments will remain on deposit in the GSA Payments Account to be applied in the manner provided in the Trust Agreement.

County Certificates Debt Service Account. On each Payment Date, the Trustee shall apply the amounts on deposit in the County Certificates Debt Service Account to pay the principal and interest with respect to the County Certificates due on such Payment Date.

GSA Certificates Debt Service Account. On each Payment Date, the Trustee shall apply the amounts on deposit in the GSA Certificates Debt Service Account to pay the principal and interest with respect to the GSA Certificates due on such Payment Date.

Prepayment Account. Any proceeds of insurance (other than rental interruption insurance) or awards in respect of a taking under the power of eminent domain not required to be used for repair, reconstruction or replacement of the Leased Premises, and any other amounts provided for the prepayment of Certificates in accordance with the Trust Agreement or required to be deposited in the Prepayment Account pursuant to the Trust Agreement, shall be deposited by the Trustee in the Prepayment Account. On the scheduled prepayment date, the Trustee shall withdraw from the Prepayment Account and pay to the Owners entitled thereto the prepayment price of the Certificates prepaid on such date.

Capitalized Interest Account. Prior to the Completion Date, the Trustee shall, on or before each Payment Date, transfer from the Capitalized Interest Account to the GSA Certificates Debt Service Account the amount indicated on the Capitalized Interest Draw Schedule attached to the Trust Agreement. Following the Completion Date, the Trustee shall transfer the amounts remaining in the Capitalized Interest Account, if any, first to the Reserve Fund to the extent necessary to make the amount on deposit in the Reserve Fund equal to the Reserve Requirement and second as the County may direct in writing; provided, however, that if there are any Bank Certificates Outstanding such amount shall be deposited in the Prepayment Account and applied to the prepayment of Bank Certificates.

Letter of Credit Account. The Trustee shall apply amounts on deposit in the Letter of Credit Account to purchase all Outstanding Certificates subject to mandatory tender for purchase pursuant to the terms of the Trust Agreement.

Excess GSA Payments Account. On any Business Day, the Trustee shall transfer all amounts on deposit in the Excess GSA Payments Account as the County may direct in writing free and clear of any lien thereon created by the Trust Agreement; provided, however, that to the extent there are Bank Certificates Outstanding, amounts deposited into the Excess GSA Payments Account shall be transferred to the Prepayment Account and applied to the prepayment of Bank Certificates.

Rental Interruption Insurance Proceeds Account. The Trustee shall deposit all amounts representing proceeds of rental interruption insurance in the Rental Interruption Insurance Proceeds Account. Prior to the Completion Date, the Trustee shall, on each Payment Date, transfer to the GSA Certificates Debt Service Account an amount, which together with moneys on deposit in the GSA Certificates Debt Service Account, equals the principal and interest due on such Payment Date with respect to the GSA Certificates. Following the Completion Date and prior to the Maturity Date of the GSA Certificates, the Trustee shall, on each Payment Date, transfer from the Rental Interruption Insurance Proceeds Account and deposit into the GSA Certificates Debt Service Account an amount, which together with moneys on deposit in the GSA Certificates Debt Service Account, equals the principal and interest due on such Payment Date with respect to the GSA Certificate. Following the Completion Date and after the Maturity Date of the GSA Certificates, the Trustee shall, on each Payment Date, transfer from the Rental Interruption Insurance Proceeds Account and deposit into the County Certificates Debt Service Account an amount, which together with moneys on deposit in the County Certificates Debt Service Account, equals the principal and interest due on such Payment Date with respect to the County Certificates.

*Establishment and Application of Reserve Fund.* The Trust Agreement establishes in trust a special fund designated the "Reserve Fund", which shall at all times be in the exclusive possession of, and under the exclusive dominion and control of, the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall maintain and administer the Reserve Fund as provided in the Trust Agreement until there are no longer any Certificates Outstanding. If on any Payment Date the amounts in the County Certificates Debt Service account or the GSA Certificates Debt Service Account are less than the principal (or Accreted Value) and interest payments due with respect to the Outstanding Certificates on such Payment Date, then the Trustee shall transfer from the Reserve Fund for credit to the County Certificates Debt Service Account or the GSA Certificates Debt Service Account of the Certificate Fund, as applicable, amounts sufficient to make up such deficiencies. In the event of any such transfer, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer.

Following the Completion Date, amounts on deposit in the Reserve Fund in excess of the Reserve Requirement will be transferred by the Trustee on each Payment Date to the GSA Certificates Debt Service Account and, following the Maturity Date of the GSA Certificates, such excess will be transferred by the Trustee on each Payment Date to the County Certificates Debt Service Account.

On the final Maturity Date of the Certificates, the Trustee will apply the remaining balance on deposit in the Reserve Fund to the final payment or principal and interest to the Certificate then Outstanding.

#### **Execution and Delivery of Additional County Certificates**

The County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement, without the consent of the Owners, but with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, provide for the execution and delivery of Additional County Certificates representing additional Base Rental, and the Trustee may execute and deliver upon the written request of the County and the Corporation, such Additional County Certificates, in such



principal amount as shall reflect the additional principal components of the Base Rental and the proceeds of such Additional County Certificates may be applied to acquire, construct or install improvements to the Leased Premises or any portion thereof, or to acquire, construct or improve other real property owned by the County; provided, however, that such Additional County Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement, and subject to the following specific conditions, which are hereby made conditions precedent to the execution and delivery of any such Additional County Certificates:

(a) The County shall not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Facilities Lease;

(b) The Additional County Certificates shall be payable as to principal on June 15 of each year in which principal components are due and shall be payable as to interest on June 15 and December 15 of each year commencing after their date of execution and delivery and extending no longer than the remaining useful life of the improvements financed by such Additional County Certificates or the remaining useful life of the Leased Premises if the proceeds of such Additional County Certificates are used to acquire, construct or improve other real property owned by the County;

(c) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(d) The Facilities Lease shall have been amended so as to identify the improvements being made to the Leased Premises, if applicable, and to increase the Base Rental payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional County Certificates (the "New County Base Rental"), payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Additional County Certificates; provided, however, that no such amendment shall be made such that the sum of the Base Rental and the New County Base Rental, plus the Additional Rental due under the Facilities Lease shall be in excess of the fair rental value of the Leased Premises after taking into account the use of the proceeds of any Additional County Certificates executed and delivered in connection therewith in the event that the proceeds of any such Additional County Certificates are used with respect to the Leased Premises (evidence of the satisfaction of this condition shall be by a written certification of the County);

(e) Said Supplemental Trust Agreement pursuant to which such Additional County Certificates shall be executed and delivered shall provide 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 Requirement for the Additional County Certificates, if any; and

(f) Said Supplemental Trust Agreement shall provide principal and interest payment dates and/or mandatory prepayment dates for the mandatory redemption of Additional County Certificates in amounts sufficient to provide for payment of the Additional County Certificates when principal and interest components of said Additional County Certificates are due.

Any Additional County Certificates shall be on a parity with, and each Owner thereof shall have the same rights upon an Event of Default as, the Owner of any other County Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional County Certificates are executed and delivered.

#### **Proceedings for Authorization of Additional County Certificates**

Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional County Certificates pursuant to the terms of the Trust Agreement, the County, the Corporation and the

Trustee shall enter into a Supplemental Trust Agreement, without the consent of the Owners of any Certificates, but with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, providing for the execution and delivery of such Additional County Certificates, specifying the maximum principal amount of such Additional County Certificates and prescribing the terms and conditions of such Additional County Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional County Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, principal payment dates, interest rates, Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional County Certificates shall be executed and delivered, the County shall file or cause to be filed the following documents with the Trustee:

(a) An opinion of Independent Counsel setting forth (i) that such Independent Counsel has examined the Supplemental Trust Agreement and the amendment to the Facilities Lease required by the terms of the Trust Agreement; (ii) that the execution and delivery of the Additional County Certificates have been sufficiently and duly authorized by the County and the Corporation; (iii) that said amendment to the Facilities Lease, when duly executed by the County and the Corporation, will be a valid and binding obligation of the County and the Corporation; (iv) that said Supplemental Trust Agreement, when duly executed by the County, the Corporation and the Trustee, will be a valid and binding obligation of the County and the Corporation; and (v) that the amendment to the Facilities Lease has been duly authorized, executed and delivered and has been duly recorded in the official records of the County of Riverside or that a memorandum thereof has been duly recorded in the official records of the County of Riverside.

(b) An appraisal from an MAI licensed appraiser establishing that the fair market value of the Leased Premises (after giving effect to the execution and delivery of the Additional County Certificates and to the use of proceeds received therefrom to the extent that such proceeds are used with respect to the Leased Premises) is at least equal to the principal evidenced by the Outstanding Certificates.

(c) A written certification of the County that the requirements of the Trust Agreement have been met, which shall include a written certification by the County that the fair rental value of the Leased Premises is at least equal to the maximum Base Rental due under the Facilities Lease during the Lease Term, after giving effect to the execution and delivery of the Additional County Certificates and to the use of proceeds received therefrom, to the extent that the proceeds of the Additional County Certificates are used with respect to the Leased Premises.

(d) A certified copy of the resolution or resolutions of the Board of Supervisors of the County authorizing the execution of the Supplemental Trust Agreement and the amendment to the Facilities Lease required by the provisions of the Trust Agreement.

(e) A certified copy of the resolution or resolutions of the governing board of the Corporation authorizing the execution of the Supplemental Trust Agreement and the amendment to the Facilities Lease required by the provisions of the Trust Agreement.

(f) An executed counterpart of the Supplemental Trust Agreement and an executed counterpart or duly authenticated copy of the amendment to the Facilities Lease required by the provisions of the Trust Agreement.

(g) A written certification of the County that the policies of insurance required by the provisions of the Facilities Lease or certificates thereof have been acquired.

(h) In the event that the proceeds of the Additional County Certificates are used for the acquisition, construction, installation or improvement of real property, a California Land Title Insurance policy in the amount of the Additional County Certificates of the type and with the endorsements described in the Facilities Lease or an endorsement to the existing California Land Title Insurance policy increasing the coverage amount thereof in the amount of the Additional County Certificates.

Upon the delivery to the Trustee of the foregoing instruments, the Trustee shall, in the absence of bad faith on its part, be entitled to rely on, shall be fully protected in relying thereon and shall, in reliance thereon, execute and deliver said Additional County Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, upon the written request of the County.

#### **Execution and Delivery of Additional GSA Certificates**

The County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement, without the consent of the Owners, but with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, provide for the execution and delivery of Additional GSA Certificates representing additional Base Rental and additional GSA Payments, and the Trustee may execute and deliver upon the written request of the County and the Corporation, such Additional GSA Certificates, in such principal amount as shall reflect the additional principal components of the Base Rental, additional GSA Payments and the proceeds of such Additional GSA Certificates may be applied to acquire, construct or install improvements to the District Court or any portion thereof; provided, however, that such Additional GSA Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement, and subject to the following specific conditions, which are hereby made conditions precedent to the execution and delivery of any such Additional GSA Certificates:

(a) The County shall not be in default under the Trust Agreement, any Supplemental Trust Agreement, the Facilities Lease or the GSA Lease;

(b) The Additional GSA Certificates shall be payable as to principal and interest on June 15 and December 15 of each year commencing after their date of execution and delivery and extending no longer than the remaining term of the GSA Lease;

(c) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(d) The Facilities Lease shall have been amended so as to identify the improvements being made to the Leased Premises and to increase the Base Rental payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional GSA Certificates (the "New GSA Base Rental"), payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Additional GSA Certificates; provided, however, that no such amendment shall be made such that the sum of the Base Rental and the New GSA Base Rental, plus the Additional Rental due under the Facilities Lease shall be in excess of the fair rental value of the Leased Premises after taking into account the use of the proceeds of any Additional GSA Certificates executed and delivered in connection therewith (evidence of the satisfaction of this condition shall be by a written certification of the County);

(e) The GSA Lease shall have been amended so as to identify the improvements being made to the District Court and to increase the GSA Payments payable by the GSA thereunder by an aggregate amount equal to the principal and interest represented by such Additional GSA Certificates (the "New GSA Payments"), payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Additional GSA Certificates; provided, however, that no such amendment shall be made such that the sum of the GSA Payments and the New GSA Payments due under

the GSA Lease shall be in excess of the fair rental value of the District Court after taking into account the use of the proceeds of any Additional GSA Certificates executed and delivered in connection therewith (evidence of the satisfaction of this condition shall be by a written certification of the County);

(f) Said Supplemental Trust Agreement shall provide 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 Requirement for the Additional GSA Certificates; and

(g) Said Supplemental Trust Agreement shall provide principal and interest payment dates and/or mandatory prepayment dates for the Additional GSA Certificates when principal and interest components of said Additional GSA Certificates are due.

Any Additional GSA Certificates shall be on a parity with, and each Owner thereof shall have the same rights upon an Event of Default as, the Owner of any other GSA Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional GSA Certificates are executed and delivered.

#### **Proceedings for Authorization of Additional GSA Certificates**

Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional GSA Certificates pursuant to the provisions of the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement, without the consent of the Owners of any Certificates, but with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, providing for the execution and delivery of such Additional GSA Certificates, specifying the maximum principal amount of such Additional GSA Certificates and prescribing the terms and conditions of such Additional GSA Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional GSA Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, principal payment dates, interest rates, Payment Dates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional GSA Certificates shall be executed and delivered, the County shall file or cause to be filed the following documents with the Trustee:

(a) An opinion of Independent Counsel setting forth (i) that such Independent Counsel has examined the Supplemental Trust Agreement and the amendment to the Facilities Lease and the amendment to the GSA Lease required by the provisions of the Trust Agreement; (ii) that the execution and delivery of the Additional GSA Certificates have been sufficiently and duly authorized by the County and the Corporation; (iii) that said amendment to the Facilities Lease, when duly executed by the County and the Corporation, will be a valid and binding obligation of the County and the Corporation; (iv) that said Supplemental Trust Agreement, when duly executed by the County, the Corporation and the Trustee, will be a valid and binding obligation of the County and the Corporation; (v) that the amendment to the GSA Lease, when duly executed by the County and the GSA will be a valid and binding obligation of the County; and (vi) that the amendment to the Facilities Lease has been duly authorized, executed and delivered and has been duly recorded in the official records of the County of Riverside or that a memorandum thereof has been duly recorded in the official records of the County of Riverside;

(b) An opinion of counsel to the effect that the obligation of the GSA to make the New GSA Payments under the GSA Lease is not subject to annual appropriation by the United States Congress and the obligation to make such New GSA Payments is a general obligation of the United States of America backed by the full faith and credit of the United States of America;

(c) An appraisal from an MAI licensed appraiser establishing that the fair market value of the Leased Premises (after giving effect to the execution and delivery of the Additional GSA Certificates and to the use of proceeds received therefrom) is at least equal to the principal evidenced by the Outstanding Certificates;

(d) A written certification of the County that the requirements of the Trust Agreement have been met, which shall include a written certification by the County that the fair rental value of the Leased Premises is at least equal to the maximum Base Rental due under the Facilities Lease during the Lease Term, after giving effect to the execution and delivery of the Additional GSA Certificates and to the use of proceeds received therefrom;

(e) A certified copy of the resolution or resolutions of the Board of Supervisors of the County authorizing the execution of the Supplemental Trust Agreement and the amendment to the Facilities Lease and the GSA Lease required by the provisions of the Trust Agreement;

(f) A certified copy of the resolution or resolutions of the governing board of the Corporation authorizing the execution of the Supplemental Trust Agreement and the amendment to the Facilities Lease required by the provisions of the Trust Agreement;

(g) An executed counterpart of the Supplemental Trust Agreement, an executed counterpart or duly authenticated copy of the amendment to the Facilities Lease and an executed counterpart or duly authenticated copy of the amendment of the GSA Lease required by the provisions of the Trust Agreement;

(h) A written certification of the County that the policies of insurance required by the Facilities Lease or certificates thereof have been acquired; and

(i) In the event that the proceeds of the Additional GSA Certificates are used for the acquisition, construction, installation or improvement of real property, a California Land Title Insurance policy in the amount of the Additional GSA Certificates of the type and with the endorsements described in the Facilities Lease or an endorsement to the existing California Land Title Insurance policy increasing the coverage amount thereof in the amount of the Additional GSA Certificates.

Upon the delivery to the Trustee of the foregoing instruments, the Trustee shall, in the absence of bad faith on its part, be entitled to rely on, shall be fully protected in relying thereon and shall, in reliance thereon, execute and deliver said Additional GSA Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, upon the written request of the County.

#### **Provisions Regarding Insurer**

In the event that, on the second Business Day, and again on the Business Day, prior to a Payment Date, the Trustee has not received sufficient moneys to pay all principal (or Accreted Value) and interest with respect to the County Certificates due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

If the deficiency is made up in whole or in part prior to or on the Payment Date, the Trustee shall so notify the Insurer or its designee.

In addition, if the Trustee has notice that any Owner has been required to disgorge payments of principal (or Accreted Value) or interest with respect to the County Certificates to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the

Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for the Owners as follows:

(a) if and to the extent there is a deficiency in amounts required to pay interest with respect to the County Certificates, the Trustee shall (i) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective Owners; and

(b) if and to the extent of a deficiency in amounts required to pay principal (or Accreted Value) with respect to the County Certificates, the Trustee shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal (or Accreted Value) and an assignment to the Insurer of any of the County Certificates surrendered to the Insurance Paying Agent of so much of the principal (or Accreted Value) amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such Owners.

Payments with respect to claims for interest and principal (or Accreted Value) with respect to the County Certificates disbursed by the Trustee from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the County with respect to such County Certificates, and the Insurer shall become the owner of such unpaid County Certificates and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the Trust Agreement or otherwise.

Irrespective of whether any such assignment is executed and delivered, the County, the Corporation and the Trustee agree for the benefit of the Insurer that:

(i) they recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal (or Accreted Value) or interest with respect to the County Certificates, the Insurer will be subrogated to the rights of such Owners to receive the amount of such principal (or Accreted Value) and interest from the County, with interest with respect thereto as provided and solely from the sources stated in the Trust Agreement and the County Certificates; and

(ii) they will accordingly pay to the Insurer the amount of such principal (or Accreted Value) and interest (including principal (or Accreted Value) and interest recovered under subparagraph (ii) of the first paragraph of the Insurance Policy, which principal (or Accreted Value) and interest shall be deemed past due and not to have been paid), with interest with respect thereto as provided in the Trust Agreement and the County Certificates, but only from the sources and in the manner provided therein for the payment of principal (or Accreted Value) and interest with respect to the County Certificates to Owners, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal (or Accreted Value) and interest.

#### **Substitution and Release of Leased Premises**

Notwithstanding anything in the Trust Agreement to the contrary, all or any portion of the Leased Premises may be substituted with other properties at the option of the County, with the written consent of the Bank so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, or at the written direction of the Bank at any time Bank Certificates are Outstanding under the Trust Agreement but only in the event that the fair rental value of the Leased Premises during any Fiscal Year is less than the sum of the Base Rental and Additional Rental payable under the Facilities Lease during such Fiscal Year; provided, however, that prior to or concurrently with any such substitution: (i) the County certifies to the Trustee that the annual fair rental value of the substituted property is at least equal to the Base Rental and Additional Rental due in each year for the remaining term of the Facilities Lease; (ii) the County has been advised by all rating agencies that have provided ratings on Outstanding Certificates that such substitution will not, in and of itself, result in a reduction of such ratings on the Certificates; (iii) in the event that the substituted property consists in whole or in part of real property, a California Land Title Association insurance policy on the substituted property has been obtained and evidence that any existing title insurance with respect to the portion of the Leased Premises remaining after such substitution is not affected; (iv) a certificate from a County Representative that the useful life of the substituted property meets or exceeds the remaining term of the Certificates; (v) a certificate from a County Representative that the essentiality of the substituted property is comparable to that of the portion of the Leased Premises released; (vi) evidence that, other than Permitted Encumbrances, no prior liens exist as to the substituted property; (vii) at the written request of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, or at the written request of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, an MAI fair market appraisal demonstrating that the value of the substituted property is at least equal to the portion of the Leased Premises released and is not less than the outstanding principal amount of the Certificates; (viii) the GSA Lease shall have expired in accordance with its terms; and (ix) the County shall cause to be delivered to the Trustee an opinion of Independent Counsel substantially to the effect that such substitution shall not adversely affect the rights of the Owners of the Certificates under the Trust Agreement.

All or any portion of the Leased Premises may be released under the Facilities Lease, with the written consent of the Bank so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, but without the consent of the Owners of the Certificates, upon the written request of the County but only upon the delivery by the County to the Trustee of (a) a certificate to the effect that (i) the portion of the Leased Premises remaining after such release is located on an identifiable parcel or parcels of land, (ii) the portion of the Leased Premises remaining subject to the Facilities Lease after such release has a fair market value at least equal to the then remaining aggregate principal components of the Certificates then remaining Outstanding under the Trust Agreement, (iii) the annual fair rental value of the portion of the Leased Premises remaining after such release is equal to or greater than the annual Base Rental and Additional Rental payments to be made under the Facilities Lease in any subsequent year, and (iv) that the useful life of the Leased Premises remaining subject to the Facilities Lease after such release meets or exceeds the remaining term of the Certificates and; (b) an opinion of Independent Counsel substantially to the effect that such release shall not adversely affect the rights of the Owners of the Certificates under the Trust Agreement; provided, however, that the District Court shall not be released from the Facilities Lease while any GSA Certificates are Outstanding. The County, the Corporation, the Bank, the Insurer and the Trustee shall execute any and all appropriate legal documents, instruments and certificates to effect such release. After any such release, the term "Leased Premises" shall be deemed to include only the remaining portion of the Leased Premises.

#### **Repair or Replacement; Application of Insurance Proceeds and Condemnation Awards**

If the Leased Premises or any portion thereof shall be damaged, destroyed, or shall be taken by eminent domain proceedings, the County shall continuously and diligently prosecute or cause to be prosecuted, as expeditiously as possible, the repair or replacement thereof, unless the County elects not to repair or replace the Leased Premises in accordance with the provisions of this section. The County shall take such action as is

reasonably necessary to obtain compensation for a taking by eminent domain at least equal to the proportionate amount of Outstanding Certificates related to the Leased Premises or portion thereof taken.

In the event the Trustee receives proceeds of any insurance (other than any rental interruption insurance), including the proceeds of any self-insurance fund, and of any condemnation award, received on account of any damage, destruction or taking of the Leased Premises or portion thereof, the Trustee shall establish in trust a special account designated the "Special Account." Any such proceeds shall be held by the Trustee in the Special Account and made available for, and to the extent necessary be applied to, the cost of repair or replacement of such Leased Premises or portion thereof. Pending such application, such proceeds may be invested by the Trustee, as directed in writing by the County, in Qualified Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the County shall notify in writing the Trustee within 90 days of the receipt by the Trustee of insurance or condemnation proceeds, whether the County intends to replace or repair the Leased Premises or portion thereof in respect of which such proceeds were received, in which event the County shall promptly deposit with the Trustee the full amount of any insurance deductible to be credited to the Special Account. The County shall replace or repair the Leased Premises or portion thereof as required in the Facilities Lease, unless it deposits the full amount of any insurance deductible necessary to prepay the Certificates relating to the Leased Premises or portion thereof and the Base Rental with respect to the remaining portion of the Leased Premises is sufficient to pay the principal and interest due with respect to the Certificates after the date on which Certificates relating to the Leased Premises or portion thereof are prepaid. The proceeds of any insurance (other than rental interruption insurance), including the proceeds of any self-insurance fund or of any condemnation award, not applied to repairing or replacing damaged, destroyed or taken property, or in respect of which notice in writing by the County of its intention to apply the same to the work of repairing or replacing the property damaged, destroyed or taken shall not have been given to the Trustee within six months after receipt of such proceeds by the Trustee, or which the County shall at any time during such period have notified the Trustee are not to be so applied, shall forthwith be deposited into the Prepayment Account and applied to the prepayment of Certificates in accordance with the provisions of the Trust Agreement.

#### **Title Insurance**

Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Premises or any portion thereof shall be applied and disbursed by the Trustee as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Premises and will not result in an abatement of Base Rental payable by the County under the Facilities Lease, such proceeds shall (i) first, be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement and (ii) second, be remitted to the County and used for any lawful purpose thereof; provided, however, that to the extent there are any Bank Certificates Outstanding, such proceeds shall be deposited into the Prepayment Account and applied to the prepayment of Bank Certificates; or

(b) If any portion of the Leased Premises has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Base Rental payable by the County under the Facilities Lease, then the Trustee shall immediately deposit such proceeds in the Prepayment Account of the Certificate Fund and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

#### **Investments Authorized**

Subject to the restrictions contained in the Trust Agreement, money held by the Trustee in any fund or account under the Trust Agreement shall be invested by the Trustee in Qualified Investments pending application as provided in the Trust Agreement subject to the direction of the County, shall be registered in the name of the



Trustee where applicable, as Trustee, and shall be held by the Trustee, where applicable. Notwithstanding the foregoing, the County shall not invest any money on deposit in the Reserve Fund in Qualified Investments with a maturity extending beyond five years unless such Qualified Investment is described in clause (g) of the definition of Qualified Investments and such Qualified Investment is approved by the Bank. The County shall, where applicable, direct the Trustee in writing prior to 12:00 noon Pacific Time on the day before any Qualified Investment matures or is redeemed as to the reinvestment of such proceeds. If the County shall fail to provide the Trustee direction with respect to any moneys subject to investment, the Trustee shall, nevertheless, invest such moneys in those investments described in clause (a) or clause (d) of the definition of Qualified Investments for a period no longer than 180 days. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this section. Any investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available under the Trust Agreement and to the highest yield practicably obtainable giving due regard to the safety of such funds and the date upon which such funds will be required for the uses and purposes required by the Trust Agreement. The Trustee may act as agent in the making or disposing of any investment. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this section.

### **Trustee and Paying Agent**

*Compensation of Trustee.* Subject to the terms of any compensation agreement, the County shall from time to time, on demand, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties under the Trust Agreement. To the extent permitted by law, compensation and reimbursement to the Trustee shall not be limited by any statutory provisions which limit compensation to trustees of express trusts.

*Removal of Trustee.* The County may at any time and for any reason, when not in default, for good cause shown, or the Owners of a majority in aggregate principal amount of all Certificates then Outstanding may by written request at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, appoint a successor or successors thereto, but any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and shall be subject to supervision or examination by federal or state banking authority. If such bank 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 purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published. Any removal of the Trustee shall become effective upon acceptance of appointment by the successor Trustee.

*Resignation of Trustee.* The Trustee or any successor may at any time resign by giving written notice to the County, the Insurer and the Bank and by giving mailed notice to the Owners of its intention to resign and of the proposed date of resignation, which shall be a date not less than 60 days after mailing of such notice, unless an earlier resignation date and the appointment of a successor Trustee shall have been or are approved by the Owners of a majority in aggregate principal amount of all Certificates then Outstanding.

Upon receiving such notice of resignation, the County shall, with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County fails to appoint a successor Trustee who shall have accepted its appointment within 60 days following receipt of such written notice of resignation, the resigning Trustee may petition the appropriate Court having jurisdiction to appoint a successor trustee. Any resignation of the Trustee shall become effective upon acceptance of appointment by the successor Trustee.

Any successor Trustee approved by the County or any court shall satisfy the qualifications set forth in the Trust Agreement.

*Merger or Consolidation.* 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, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Trust Agreement to the contrary notwithstanding.

*Protection and Rights of the Trustee.* The Trustee shall be protected and shall incur no liability in acting upon or processing in good faith any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may or may not be counsel to the County, 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 in good faith reliance thereon.

The Trustee shall not be liable for any error in judgment made in good faith by a responsible officer of the Trustee, 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 written direction of the Owners of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or relating to the exercise of any trust or power conferred upon the Trustee under the Trust Agreement.

Whenever in the administration of its duties under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established 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) shall be deemed to be conclusively proved and established by a certificate of the County Representative and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement in good faith reliance thereon, 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.

The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee; may acquire and dispose of bonds or other evidences of indebtedness of the County and enforce its rights as Owner thereof to the same extent as if it were not Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Certificates, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Certificates then Outstanding.

The recitals, statements and representations by the County contained in the Trust Agreement or in the Certificates shall be taken and construed as made by and on the part of the County and the Corporation and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any such recital, statement or representation.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Trust Agreement by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent, or receiver selected by it with reasonable care.

*Paying Agents.* The Trustee has been appointed as paying agent for the Certificates. The County, upon written consent of the Trustee, may appoint such other paying agents with respect to the Certificates as it may deem advisable. Any paying agent appointed shall be a bank or trust company, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and shall be subject to supervision by a federal or state banking authority.

## Amendments

*Amendments to Trust Agreement.* The Trust Agreement may be amended in writing by agreement between the parties with the written consent of the Bank, if the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, but no such amendment shall become effective as to the Owners of Certificates then Outstanding unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners of the Certificates, but with the written consent of the Bank so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, upon the written agreement of the Corporation, the County and the Trustee, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Agreement, (b) in regard to questions arising under the Trust Agreement which the Corporation, the County and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement and which shall not adversely affect the interests of the Owners of the Certificates, (c) for the purposes of providing for the execution and delivery of Additional Certificates pursuant to the Trust Agreement or (d) for any other reason, provided such modification or amendment does not adversely affect the interests of the Owners of the Certificates; provided that the County and the Trustee may rely in entering into any such amendment or modification thereof upon the opinion of Independent Counsel stating that the requirements of this sentence have been met with respect to such amendment or modification. No amendment shall impair the right of any Owner to receive such Owner's proportionate share of principal and interest in accordance with the terms of his Certificate or in any way diminish the obligations of the Corporation or the County with respect to the performance or enforcement of the GSA Lease or the Facilities Lease.

*Amendments to Facilities Lease and Site Lease.* The Facilities Lease and the Site Lease may be amended in writing by agreement between the parties thereto, with the consent of the Trustee, the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, but no such amendment shall become effective as to the Owners of Certificates then Outstanding unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Facilities Lease and the Site Lease and the rights and obligations provided thereby may also be modified or amended at any time with the written consent of the Trustee, the Bank if the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, but without the consent of any Owners of the Certificates, upon the written agreement of the County and the Corporation, but only (a) for the purpose of substituting or releasing all or any portion of the Leased Premises under the Site Lease and the Facilities Lease, (b) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Facilities Lease or the Site Lease, (c) in regard to questions arising under the Facilities Lease or the Site Lease which the County and the Corporation may deem necessary or desirable and not inconsistent with the Facilities Lease or the Site Lease and which shall not adversely affect the interests of the Owners of the Certificates, (d) for the purpose of providing for the payment of Additional Base Rental in connection with the execution and delivery of Additional Certificates or (e) for any other reason, provided such modification or amendment does not adversely affect the interests of the owners of the Certificates; provided that the County, the Corporation and the Trustee may rely in entering into any such amendment or modification thereof upon the opinion of Independent Counsel stating that the requirements of this sentence have been met with respect to such amendment or modification.

*Amendments to GSA Lease.* The GSA Lease may be amended in writing between the parties thereto, with the consent of the Trustee and the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, but no such amendment shall become effective as to the Owners of the Certificates then Outstanding unless and until approved in writing by the Owners of a majority in aggregate

principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the GSA Lease and the rights and obligations provided thereby may also be modified or amended at any time with the consent of the Trustee and the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, but without the consent of any Owners of the Certificates, upon written agreement of the County and the GSA, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the GSA Lease, (b) for the purpose of providing for the payment of New GSA Payments in connection with the execution and delivery of Additional GSA Certificates or (c) for any other reason, provided such modification or amendment does not result in a reduction of the GSA Payments or result in a delay in the completion of the Facilities beyond the Required Completion Date.

### **Events of Default**

*Events of Default Defined.* The following shall be "events of default" under the Trust Agreement and the terms "events of default" and "default" shall mean, whenever they are used in the Trust Agreement, any one or more of the following events:

- (a) An event of default shall have occurred under the Facilities Lease;
- (b) failure by the County to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement or the Facilities Lease, other than such failure as may constitute an event of default under clause (a) of this section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the County by the Trustee or to the County and the Trustee by the Owners of not less than a majority in aggregate principal amount of Certificates then Outstanding; provided, however, that if the failure stated in the notice cannot be corrected within such period, then such period will be extended so long as corrective action is instituted by the County within such period and diligently pursued until the default is corrected, but only if such extension would not materially adversely affect the interest of any Owner;
- (c) one Business Day prior to any regular or special Payment Date, there are insufficient funds contained in the GSA Certificates Debt Service Account to pay the principal and interest due on such Payment Date with respect to the GSA Certificates and such failure shall not have been cured within one Business Day or any payment of principal or interest with respect to the GSA Certificates shall not be made on the date when due (whether at the stated maturity of any installment thereof, by acceleration (in part or in whole), by demand or otherwise); and
- (d) (i) the GSA Lease terminates for any reason whatsoever, (ii) the GSA fails to pay any GSA Payment to the Trustee within 15 days of the date upon which such amounts become due in accordance with the terms of the GSA Lease or (iii) the Trustee receives written notice from the GSA or the County that any GSA Payment becoming due in accordance with the GSA Lease will not be made, or (iv) the GSA fails to make any other payment, whether required to be made to the County, required to be made by it pursuant to the GSA Lease within 15 days of the date upon which such amounts become due in accordance with the terms of the GSA Lease.

*Notice of Events of Default.* In the event the County is in default, the Trustee shall give notice of such default to the Owners of the Certificates, the Bank and the Insurer. Such notice shall state that the County is in default and shall provide a brief description of such default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Certificate Owners. The notice provided for in this section shall be given by mail to the Owners within 30 days of the Trustee's knowledge of such occurrence of default.

*Remedies on Default.* Upon the occurrence and continuance of any event of default specified in (a), (c) or (d) under the section entitled "Events of Default Defined" above, the Trustee shall proceed, or upon the occurrence and continuance of any other event of default under the Trust Agreement, the Trustee may proceed (and upon written request of the Owners of not less than a majority in aggregate principal amount of Certificates then

Outstanding shall proceed), to exercise the remedies set forth in the Facilities Lease or available to the Trustee under the Trust Agreement. Notwithstanding anything to the contrary contained in the Trust Agreement, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, no remedy shall be exercised under the Trust Agreement without the prior written consent of the Bank and the Bank shall have the right to direct the exercise of any remedy under the Trust Agreement. Following the expiration of the Letter of Credit and so long as no Bank Certificates are Outstanding, no remedy shall be exercised under the Trust Agreement without the prior written consent of the Insurer and Insurer shall have the right to direct the exercise of any remedy under the Trust Agreement; provided, however that such rights shall be available to the Insurer so long as the Insurance Policy is in effect and the Insurer is not in default in its payment obligations under the Insurance Policy; provided, further, however, that no consent of the Insurer shall be required for, nor shall the Insurer have the right to direct any remedy in respect of, any Event of Default which relates solely to the GSA Lease and/or the GSA Certificates and no consent to the exercise of any remedy and no direction of any remedy by the Insurer shall discriminate against the Owners of the GSA Certificates or grant or confer any preference or advantage on the Owners of the County Certificates over the Owners of the GSA Certificates.

*Collection of Base Rental Payments and GSA Payments.* The Trustee shall take any appropriate action to cause the County to pay any Base Rental payment not paid when due or to cause the GSA to pay any GSA Payments not paid when due, upon written request and authorization by the Owners of a majority in aggregate principal amount of the Certificates then Outstanding and unpaid, and upon being satisfactorily indemnified against any expense and liability with respect thereto and receiving payment for its fees and expenses.

*No Remedy Exclusive.* No remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement and the Facilities Lease, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it shall not be necessary to give any notice other than such notice as may be required in the Trust Agreement or by law.

*No Additional Waiver Implied by One Waiver.* In the event any provision contained in the Trust Agreement should be breached by a party and thereafter waived by another party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Trust Agreement.

*Action by Owners.* In the event the Trustee fails to take any action to eliminate an event of default under the Facilities Lease or under the Trust Agreement, the Owners of a majority in aggregate principal amount of Certificates then Outstanding may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Facilities Lease or the Trust Agreement, but only if such Certificate Owners shall have first made written request of the Trustee after the right to exercise such powers or right of action shall have arisen, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

*Opinion of Counsel.* Before being required to take any action pursuant to this section, the Trustee may require (a) an opinion of counsel acceptable to the Trustee, which opinion shall be made available to the County upon request, which counsel may or may not be counsel to the County or Independent Counsel, or (b) a certificate of the County, or both, concerning the proposed action. The Trustee shall be absolutely protected in reasonably relying upon such opinion and/or certificate.

*Application of Proceeds in Event of Default.* All payments received by the Trustee with respect to the rental of any portion of the Leased Premises after a default by the County, and all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Facilities Lease,

shall be applied by the Trustee to the payment of the principal and interest with respect to the Certificate as the same shall become due.

### **Limitation of Liability**

*No Liability of County or Corporation for Trustee Performance.* Neither the Corporation nor the County shall not have any obligation or liability to any other party or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement, including the distribution by the Trustee of principal and interest to the Owners of the Certificates.

*No Liability of Trustee for Base Rental Payments by County or GSA Payments by GSA.* Except as provided in the Trust Agreement, the Trustee shall have no obligation or liability to the Owners of the Certificates with respect to the payment of the Base Rental by the County when due or the payment of GSA Payments by the GSA when due, or with respect to the performance by the County of any other covenant made by it in the Facilities Lease.

*No Liability of County Except as Stated.* Except for (a) the payment of Base Rental and Additional Rental when due in accordance with the terms of the Facilities Lease, and (b) the performance by the County of its obligations and duties as set forth in the Facilities Lease, the Site Lease, the GSA Lease and in the Trust Agreement, the County shall have no obligation or liability to the Trustee or the Owners.

*Limited Liability of Trustee.* The Trustee shall have no obligation or responsibility for providing information to the Owners concerning the investment quality of the Certificates, for the sufficiency or collection of any Base Rental or for the actions or representations of any other party to the Trust Agreement. The Trustee shall have no obligation or liability to any other party or to the Owners with respect to the failure or refusal of any other party to perform any covenant or agreement made by it under the Trust Agreement or the Facilities Lease, but shall be responsible solely for the performance of the duties expressly imposed upon it under the Trust Agreement. The recitals of facts, covenants and agreements contained in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the Corporation and the County and the Trustee assumes no responsibility for the correctness of the same and makes no representation as to the validity or sufficiency of the Trust Agreement, the GSA Lease, the Facilities Lease, the Site Lease, the Assignment Agreement or the Certificates, or as to the value of or title to the Leased Premises, and shall not incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement assigned to or imposed upon it. 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.

*Indemnification.* To the extent permitted by law, the County has agreed to indemnify and save the Trustee, its officers, directors, agents and employees (collectively, the "Indemnitees") harmless from and against all claims, suits and actions brought against it, or to which it is made a party, and from all losses and damages suffered by it as a result thereof, where and to the extent such claim, suit or action arises out of the actions of any other party to the Trust Agreement or the Facilities Lease, including but not limited to the ownership, operation or use of the Leased Premises. Such indemnification shall not extend to judgments obtained against the Indemnitees and expenses of litigation in connection therewith based upon the negligence or willful default of the Indemnitees in performing and carrying out the duties specifically imposed upon and to be performed by them pursuant to the Trust Agreement. In the event the County is required to indemnify the Indemnitees as provided in the Trust Agreement, the County shall be subrogated to the rights of the Indemnitees to recover such losses or damages from any other person or entity.

*Limitation of Rights.* Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the County, the Trustee and the Owners of the Certificates any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision thereof; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the County, the Trustee and such Owners.

## Defeasance

If all Outstanding Certificates executed and delivered pursuant to the Trust Agreement shall be paid and discharged in any one or more of the following ways:

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

(b) by the deposit by the County with the Trustee, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Certificate Fund and the Reserve Fund without the need for further investment, is fully sufficient to pay all such Certificates Outstanding, including all principal, premium (if any will be incurred) and interest at or before their respective maturity dates, notwithstanding that any Certificates shall not have been surrendered for payment; or

(c) by depositing with the Trustee, in trust, lawful money or direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed by the United States of America which, in the opinion of Independent Counsel, are permitted under regulations issued pursuant to Section 149(b) of the Code and will not impair the tax exemption of interest with respect to the Certificates, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay and discharge, as verified by an independent financial consultant or a firm of certified public accountants, all such Certificates Outstanding (including all principal, premium (if any will be incurred) and interest) at or before their respective maturity dates, notwithstanding that any Certificates shall not have been surrendered for payment;

then, provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice, all obligations of the Trustee, the Corporation and the County under the Trust Agreement with respect to all such outstanding Certificates shall cease and terminate, except only the obligation of the Trustee under certain provisions of the Trust Agreement and the obligation to pay or cause to be paid from the amounts deposited with it to the Owners of the Certificates all sums due thereon and the obligation of the County to pay to the Trustee the amounts owing to the Trustee under the Trust Agreement.

Any funds held by the Trustee relating solely to such defeased Certificates at the time of one of the events described above or following any payments to Owners described above, which are not required for payment to Owners, or for payment to be made to the Trustee by the County, shall be paid over to the County.

## Covenants of the Corporation and the County

*County to Perform Pursuant to Facilities Lease.* The County covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Facilities Lease.

*Extension of Payment of Certificates.* The County shall not directly or indirectly extend the dates upon which the Base Rental payments are required to be paid or prepaid, or the time of payment of interest with respect thereto. Nothing in the Trust Agreement shall be deemed to limit the right of the County to issue any securities for the purpose of providing funds for the prepayment of the Certificates and such issuance shall not be deemed to constitute an extension of the maturity of the Certificates.

*Access to Books and Records.* The Trustee shall at all times have access to those books and records of the County which may be reasonably required by the Trustee to fulfill its duties and obligations under the Trust Agreement.

*General.* The County shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the County under the provisions of the Trust Agreement.



The County shall certify, recite and declare that, upon the date of execution and delivery of any of the Certificates, all conditions, acts and things required by law and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the execution and delivery of such Certificates do exist, have happened and have been performed and the execution and delivery of such Certificates shall comply in all respects with the applicable laws of the State.

*Certain Matters Relating to the GSA Lease.* The County will comply with all provisions of the GSA Lease and will perform all obligations and duties imposed on it under the terms and provisions of the GSA Lease or will cause such obligations and duties to be performed, all in accordance with the terms and provisions of the GSA Lease. The County will not take, and will not permit the Government to take, any action under the GSA Lease which would cause a default under or give rise to a right of the Government to terminate the GSA Lease or take any offset against, deduction from or reduction of any GSA Payment. The County will immediately, but in no event later than three Business Days of receiving notice thereof from the Government give notice to the Trustee (which notice shall include, without limitation, a copy of the notice given by the Government) of the following: (i) its receipt from the Government of notice that the County has failed to perform or cause to be performed any obligation or duty imposed by it under the terms and provisions of the GSA Lease and that such failure has not been cured within any applicable cure period and; (ii) its receipt from the Government of notice that the Government, as a result of any failure to perform or cause to be performed any obligation or duty imposed on the County under the terms and provisions of the GSA Lease, intends to (A) terminate the GSA Lease, (B) offset against any GSA Payment or payment under the GSA Lease (x) any costs incurred by the Government in performing or obtaining from a third party the performance of such obligations or duties or (y) any other amount the Government may be permitted to offset under the GSA Lease or applicable law, (C) seek recover of all or any portion of any GSA Payment previously made, or (D) reduce any future GSA Payment. The County will enforce the GSA Lease against the Government in accordance with its terms and provisions, and, so long as no default shall have occurred and be continuing, shall have sole reasonable control and discretion over the timing and nature of any action to be taken against the Government. Promptly, but not more than 10 Business Days from becoming aware thereof, the County will give notice to the Trustee of (i) any default or failure of performance by the Government of any of the Government's obligations under the GSA Lease or (ii) if the Government exercises any right to reduce the amount being paid on account of maintenance for any portion of the District Court which it shall have vacated. The County agrees that it shall keep the Trustee reasonably informed about its efforts to enforce the GSA Lease against the Government.

*Performance.* The County shall faithfully observe all covenants and other provisions contained in the Trust Agreement, in each Certificate executed and delivered thereunder, and in the Facilities Lease and the GSA Lease. Except as provided in the Facilities Lease, the County shall not agree to any amendment to the Facilities Lease that would either lengthen the term thereof or reduce the amount of Base Rental or Additional Rental payable thereunder, or change the time or times of payment of such Base Rental or Additional Rental, or agree to any other amendment detrimental to the rights of the Owners.

*Prosecution and Defense of Suits.* The County shall promptly take such action as may be necessary to cure any defect in the title to the Leased Premises or any part thereof, whether now existing or hereafter occurring, and shall prosecute and defend all such suits, actions and all other proceedings as may be appropriate for such purpose.

*Further Assurances.* The County will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming for the Owners of the Certificates the rights and benefits provided in the Trust Agreement.

## THE SITE LEASE

The Site Lease provides the terms under which the County agrees to lease the District Court to the Corporation for the term of the Facilities Lease for the purposes described in the Facilities Lease and such purposes as may be incidental thereto.

*Rent.* The Corporation is to pay to the County as advance rent equal to the proceeds of the County Certificates and the GSA Certificates deposited, in the aggregate, into the funds and accounts established under the Trust Agreement, as full consideration for the Site Lease over its term, such advance rent to be deposited by the Trustee into such funds and accounts on behalf of the Corporation for the benefit of and use by the County pursuant to the terms of the Trust Agreement. The Corporation waives any right to abatement of such advance rent in the event of loss of use of the Land or portion thereof due to damage, destruction or theft.

*Assignment and Sublease.* The Corporation may not assign, mortgage, hypothecate or otherwise encumber the Site Lease and any rights under the Site Lease and the leasehold created thereby by trust agreement, indenture or deed of trust or otherwise or sublet the Land without the written consent of the County, except that the County expressly approves and consents to the assignment and transfer of the Corporation's right, title and interest in the Site Lease to the Trustee pursuant to the Assignment Agreement. In the event of default by the County under the Facilities Lease, the County expressly approves the assignment of the Site Lease.

*Taxes.* The County has covenanted and agreed to pay any and all taxes and assessments levied or assessed upon the Land.

*Eminent Domain.* If the whole or any part of the Land is taken under the power of eminent domain, the interest of the Corporation will be recognized and is determined to be the aggregate amount of unpaid Base Rental under the Facilities Lease and the unpaid Debt Service Component of the GSA Payments under the GSA Lease and will be paid to the Trustee in accordance with the terms of the Facilities Lease and the Trust Agreement.

*Amendment.* The Site Lease may be amended only in accordance with and as permitted by the terms of the Trust Agreement.

## THE FACILITIES LEASE

**The following summary of certain provisions of the Facilities Lease does not purport to be complete, and is qualified in its entirety by reference to the full text of the Facilities Lease. Copies of the Facilities Lease are available to prospective investors upon request to the County. See "MISCELLANEOUS".**

The Facilities Lease sets out the terms under which the Corporation leases the Leased Premises to the County, and the County will pay the Base Rental, the amounts of which will be determined by the Facilities Lease. In addition to the Base Rental, the County agrees to pay as Additional Rental all of the following: (a) all taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes and specific lien special assessments and gross receipts, if any, levied upon the Leased Premises or upon any interest of the Corporation, the Trustee or the Owners therein or in the Facilities Lease; (b) insurance premiums, if any, on all insurance required by the Facilities Lease; (c) all fees and expenses (not otherwise paid or provided for out of the proceeds of the sale of the County Certificates) of the Trustee in connection with the Trust Agreement; and (d) any other fees, costs or expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Facilities Lease or any assignment thereof or the Trust Agreement or any of the transactions contemplated hereby or thereby or related to the Leased Premises, including, without limitation, any amounts (not otherwise paid or provided for out of the proceeds of the sale of the County Certificates) which may become due. The Facilities Lease is a triple net lease; rentals provided for in the lease will be an absolute net return to the Corporation free and clear of any expenses, charges, counterclaim or recoupment or set-offs whatsoever.

### Terms of Lease and Sublease

*Agreement to Lease and Sublease; Term of Facilities Lease.* The Corporation has agreed to lease or sublease, as appropriate, the Leased Premises to the County, and the County has agreed to lease or sublease, as appropriate, the Leased Premises from the Corporation and to pay the Base Rental and the Additional Rental as provided in the Facilities Lease for the use and occupancy of the Leased Premises, all on the terms and conditions set forth in the Facilities Lease. The lease term (the "Lease Term") shall begin on the Closing Date and shall end on

June 15, 2020 (the "Termination Date"), or at such earlier time as the Certificates have been paid or provision for their payment has been indefeasibly made in accordance with the provisions of the Facilities Lease and the Trust Agreement; provided that the Facilities Lease shall terminate in the event the Corporation's interest in the Leased Premises is purchased pursuant to the provisions of the Facilities Lease, or in the event the Leased Premises, or so much thereof as to render the remainder of the Leased Premises unusable, shall be taken by eminent domain in accordance with the provisions of the Facilities Lease. If on the Termination Date, the Certificates shall not be fully paid, or provision therefor indefeasibly made in accordance with the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the rental payable under the Facilities Lease shall have been abated at any time and for any reason, then the Lease Term shall be extended until the date upon which all Certificates shall be fully paid, or provision therefor indefeasibly made, and the Trust Agreement shall be discharged by its terms, except that the Lease Term shall in no event be extended more than 10 years beyond the Termination Date.

The leasing by the County to the Corporation of the Property pursuant to the Site Lease shall not effect or result in a merger of the County's leasehold estate pursuant to the Facilities Lease and its fee estate as lessor under such Site Lease, and the Corporation shall continue to have and hold a leasehold estate in the Property pursuant to such Site Lease throughout the term thereof and the term of the Facilities Lease. As to the Property, the Facilities Lease shall be deemed and constitute a sublease.

*Substitution of Leased Premises.* Notwithstanding anything in the Facilities Lease to the contrary, all or a portion of the Leased Premises may be substituted with other properties at the option of the County, with the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, or at the written direction of the Bank at any time Bank Certificates are Outstanding under the Trust Agreement but only in the event that the fair rental value of the Lease Premises during any Fiscal year is less than the sum of the Base Rental and Additional Rental payable under the Facilities Lease during such Fiscal Year; provided, however, that prior to or concurrently with any such substitution: (i) the County certifies to the Trustee that the annual fair rental value of the substituted property is at least equal to the Base Rental each year for the remaining term of the Facilities Lease; (ii) the County has been advised by all rating agencies that have provided ratings on Outstanding Certificates that such substitution will not, in and of itself, result in a reduction of such ratings on the Certificates; (iii) in the event that the substituted property consists in whole or in part of real property, a California Land Title Association insurance policy on the substituted property has been obtained and evidence that any existing title insurance with respect to the portion of the Leased Premises remaining after such substitution is not affected; (iv) a certificate from a County Representative that the useful life of the substituted property meets or exceeds the remaining term of the Certificates; (v) a certificate from a County Representative that the essentiality of the substituted property is comparable to that of the portion of the Leased Premises released; (vi) evidence that, other than Permitted Encumbrances, no prior liens exist as to the substituted property; (vii) at the written request of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, or at the written request of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, an MAI fair market appraisal demonstrating that the value of the substituted property is at least equal to the portion of the Leased Premises released and is not less than the outstanding principal amount of the Certificates; (viii) the GSA Lease shall have expired in accordance with its terms; and (ix) the County shall cause to be delivered to the Trustee an opinion of Independent Counsel substantially to the effect that such substitution shall not adversely affect the rights of the Owners of Certificates under the Trust Agreement.

*Release of Leased Premises.* All or any portion of the Leased Premises may be released under the Facilities Lease, with the written consent of the Bank so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the written consent of the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, but without the consent of the Owners of the Certificates, upon the written request of the County but only upon the delivery by the County to the Trustee of (a) a certificate to the effect that (i) the portion of the Leased Premises remaining after such release is located on an identifiable parcel or parcels of land, (ii) the portion of the Leased Premises remaining subject to the Facilities Lease after such release has a fair market value at least equal to the then remaining aggregate principal components

of the Certificates then remaining Outstanding under the Trust Agreement, (iii) the annual fair rental value of the portion of the Leased Premises remaining subject to the Facilities Lease after such release is equal to or greater than the Base Rental and Additional Rental payments to be made under the Facilities Lease in any subsequent year; and (iv) that the useful life of the Lease Premises remaining subject to the Facilities Lease after such release meets or exceeds the remaining term of the Certificates and (b) an opinion of Independent Counsel substantially to the effect that such release shall not adversely affect the rights of the Owners of the Certificates under the Trust Agreement; provided, however, that the District Court shall not be released from the Facilities Lease while any GSA Certificates are Outstanding. The County, the Corporation, the Bank, the Insurer and the Trustee shall execute any and all appropriate legal documents, instruments and certificates to effect such release. After any such release, the term "Leased Premises" shall be deemed to include only the remaining portion of the Leased Premises.

*Transfer of Title.* Upon payment of all Base Rental and Additional Rental required by the Facilities Lease, all right, title and interest of the Corporation in the Leased Premises shall terminate and shall be transferred directly to and vested in the County or, at the option of the County, to any assignee or nominee of the County, in accordance with the provisions of the Facilities Lease, and the Facilities Lease and the Site Lease shall terminate as to the Leased Premises; provided that any instrument of conveyance shall be sufficient if it is in the form of a quitclaim deed or other evidence terminating the Corporation's right, title and interest in the Facilities Lease.

## **Rent**

*Rental Payments.* The Corporation and the County have agreed that, subject to certain provisions of the Facilities Lease, the fair rental value of the Leased Premises is not less than the amount set forth in the certificate of the County delivered on the Closing Date. In satisfaction of its obligations under the Facilities Lease, the County shall pay the Base Rental and Additional Rental in the amounts, at the times and in the manner set forth in the Facilities Lease, such amounts constituting in the aggregate the rental payable under the Facilities Lease as follows:

Base Rental. The County has agreed to pay from legally available funds Base Rental in the amounts set forth in the Facilities Lease, a portion of which shall constitute principal and a portion of which shall constitute interest as determined in accordance with the terms of the Facilities Lease. The Base Rental payable by the County shall be due on each June 15 and December 15 during the Lease Term commencing June 15, 1999 or on the next succeeding Business Day in the event that any such day is not a Business Day, unless there are any Bank Certificates outstanding, in which event Base Rental shall be payable on the days set forth in the Reimbursement Agreement. Base Rental payable in any Fiscal Year shall be for the use and occupancy of the Leased Premises for such Fiscal Year. The obligation of the County to pay Base Rental and Additional Rental shall commence on the Closing Date.

To secure the performance of its obligation to pay Base Rental, the County shall deposit the Base Rental with the Trustee on or before the first day of the month preceding the date on which such Base Rental is due, for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the prior Business Day.

Additional Rental. In addition to the Base Rental set forth in the Facilities Lease, the County has agreed to pay as Additional Rental all of the following:

- (i) all taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Leased Premises or upon any interest of the Corporation, the Trustee or the Owners therein or in the Facilities Lease; provided, however, the County may, at the County's expense and in its name, in good faith contest any such taxes and assessments and, in the event of such contest, may permit such taxes and assessments to remain unpaid during the period of such contest and appeal therefrom unless the Corporation or the Trustee shall notify the County that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Leased Premises will be materially endangered or the Leased Premises, or any portion thereof, will be subject to loss or forfeiture, in which

event the County shall promptly pay such taxes and assessments or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee;

(ii) insurance premiums, if any, on all insurance required under the provisions of the Facilities Lease;

(iii) all fees and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) of the Trustee in connection with the Trust Agreement;

(iv) all fees and expenses of the Bank due under the Reimbursement Agreement or with respect to the Letter of Credit; and

(v) any other fees, costs or expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Facilities Lease or any assignment hereof or the Trust Agreement or any of the transactions contemplated hereby or thereby or related to the Leased Premises, including, without limitation, any amounts (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) which may become due.

Amounts constituting Additional Rental payable under the Facilities Lease shall be paid by the County directly to the person or persons to whom such amounts shall be payable. The County shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the County stating the amount of Additional Rental then due and payable and the purpose thereof.

*Budget.* The County has covenanted to take such action as may be necessary to include all Base Rental and Additional Rental due under the Facilities Lease in its annual budget and to make the necessary annual appropriations for all such Base Rental and Additional Rental, subject to certain provisions of the Facilities Lease.

The covenants on the part of the County contained in the Facilities Lease shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the ministerial duty of each and every public official of the County to take such action and do such things as are required by law in the performance of such official duty of such officials to enable the County to carry out and perform the covenants and agreements on the part of the County contained in the Facilities Lease. The obligation of the County to make Base Rental or Additional Rental payments does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the County to make Base Rental or Additional Rental payments constitutes an indebtedness of the County, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

*Payment; Credit.* Amounts necessary to pay Base Rental shall be deposited by the County on the dates set forth in the Facilities Lease in lawful money of the United States of America, at the office of the Trustee in Los Angeles, California, or at such other place or places as may be established in accordance with the Trust Agreement. Except as provided in the Facilities Lease, any amount necessary to pay any Base Rental or portion thereof which is not so deposited shall remain due and payable until received by the Trustee. Notwithstanding any dispute between the County and the Corporation under the Facilities Lease, the County shall make all rental payments when due and shall not withhold any rental payments pending the final resolution of such dispute or for any other reason whatsoever. The County's obligation to make rental payments in the amounts and on the terms and conditions specified under the Facilities Lease shall be absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Facilities Lease. Amounts required to be deposited with the Trustee pursuant to this section on any date shall be reduced to the extent of amounts on deposit on such date in the Certificate Fund (other than in the Prepayment Account and the Capitalized Interest Account) established under the Trust Agreement.

*Rental Abatement.* Except to the extent of (a) amounts held by the Trustee in the Certificate Fund or the Reserve Fund, (b) amounts received in respect of rental interruption insurance or title insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, Base Rental and Additional Rental payments due under the Facilities Lease shall be abated during any period in which, by reason of material damage, destruction, condemnation or defects in title to the Leased Premises, there is substantial interference with the use or right of possession by the County thereof. The amount of abatement shall be such that the resulting Base Rental and Additional Rental represent fair rental value for the use and possession of the remaining portions of the Leased Premises as to which the County has beneficial use and occupancy and as to which such damage, destruction, theft, condemnation or title defects do not substantially interfere with the use and right of possession by the County. The Trustee may require a certificate from an appropriate representative of the County to the effect that the resulting total rental represents such fair rental value as described in the preceding sentence. Such abatement shall continue for the period commencing with the date of such substantial interference due to material damage, destruction, theft, condemnation or title defects to the Leased Premises and ending with the restoration of the Leased Premises to tenable condition. In the event of any such material damage, destruction, theft, condemnation or title defects to the Leased Premises, the Facilities Lease shall continue in full force and effect, except as otherwise set forth in the Facilities Lease.

*Triple Net Lease.* The Facilities Lease is intended to be a triple net lease. The County has agreed that the rentals provided for in the Facilities Lease shall be an absolute net return to the Corporation free and clear of any expenses, charges, counter-claims, recoupment or set-offs whatsoever.

#### **Affirmative Covenants of the Corporation and the County**

The Corporation and the County are entering into the Facilities Lease in consideration of, among other things, the following covenants:

*Replacement, Maintenance and Repairs.* The County shall, at its own expense, during the term of the Facilities Lease maintain the Leased Premises, or cause the same to be maintained, in good order, condition and repair and shall replace any portion of the Leased Premises which is destroyed; provided, that the County shall not be required to repair or replace any such portion of the Leased Premises pursuant to this section if there shall be applied to the prepayment of Certificates insurance proceeds or other legally available funds sufficient to prepay (a) all of the Certificates Outstanding, or (b) any portion thereof relating to the Leased Premises or such portion thereof, and the Base Rental allocable to the remaining portion of the Leased Premises equals the pro rata portion of Base Rental allocable to the Certificates Outstanding after such prepayment. The County shall provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Leased Premises. It is understood and agreed that in consideration of the payment by the County of the rental provided for in the Facilities Lease, the County is entitled to occupy and use the Leased Premises, and no other party shall have any obligation nor incur any expense of any kind or character in connection with the management, operation or maintenance of the Leased Premises during the Lease Term. The Corporation shall not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Leased Premises. The County has expressly waived the right to make repairs or to perform maintenance of the Leased Premises at the expense of the Corporation and (to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the Civil Code of the State relating thereto. The County shall keep the Leased Premises free and clear of all liens, charges and encumbrances, subject to certain provisions of the Facilities Lease.

*Utilities.* The County shall pay for the furnishing of all utilities which may be used in or upon the Leased Premises during the Lease Term. Such payment shall be made by the County directly to the respective utility companies furnishing such utility services or products, under such contract or contracts therefor as the County may make.

*Insurance.* The County shall secure and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility or through a program of self-insurance to the extent specifically permitted in this section , all coverage on the Leased Premises required by this section.

Such insurance shall consist of:

(a) a policy or policies of property insurance against loss or damage to the Leased Premises known as "all risk," including earthquake and flood. Such insurance shall be maintained with respect to the Leased Premises at any time in an amount not less than the full replacement value of the Leased Premises or at least equal to the aggregate principal amount of Outstanding Certificates. Such insurance may at any time include deductible clauses, on a per-loss basis in any one year, not to exceed (i) \$50,000, in the case of Special Form Insurance, (ii) \$200,000 in the case of flood and all other perils insurance, and (iii) 10% of the replacement cost of the Leased Premises in the case of earthquake insurance; provided, however, that in the event earthquake insurance required under this clause (a) is not, in the County's sole discretion, available from reputable insurers at a reasonable cost, the County need not obtain earthquake insurance; provided further, however, that the County's obligations under this clause (a) may be satisfied by self-insurance;

(b) commercial general liability coverage against claims for damages including death, personal injury, bodily injury or property damage arising from operations involving the Leased Premises. Such insurance shall afford protection with a combined single limit of not less than \$1,000,000 per occurrence with respect to bodily injury, death or property damage liability, or such greater amount as may from time to time be recommended by the County's risk management officer or an independent insurance consultant retained by the County for that purpose; provided, however, that the County's obligations under this clause (b) may be satisfied by self-insurance;

(c) boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed in or on the Leased Premises in an amount not less than \$2,000,000 per accident; provided, however, that the County's obligations under this clause (c) may be satisfied by self-insurance

(d) workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Labor Code of the State, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the County in connection with the Leased Premises and to cover full liability for compensation under any such act aforesaid; provided, however, that the County's obligations under this clause (d) may be satisfied by self-insurance;

(e) rental interruption insurance to cover loss, total or partial, of the use of the Leased Premises as a result of any of the hazards covered by the insurance required pursuant to clauses (a) and (c) above in an amount sufficient at all times to pay the total rent payable under the Facilities Lease for a period adequate to cover the period of repair or reconstruction, but in any event not less than the maximum Base Rental due under the Facilities Lease during any 24-month period; provided, however, that the County's obligations under this clause (e) may not be satisfied by self-insurance; and

(f) a California Land Title Association insurance policy, in form acceptable to the Bank, in an amount equal to the aggregate maturity value of the Certificates. Said policy shall insure the Corporation's leasehold interest in the Leased Premises subject only to Permitted Encumbrances; provided, however, that the County's obligations under this clause (f) may not be satisfied by self-insurance. All Net Proceeds received under said policy shall be deposited with the Trustee and applied as provided in the Trust Agreement. So long as any Certificates remain outstanding, each policy of title insurance obtained pursuant to the Facilities Lease or required by the Facilities Lease shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Certificate Owners.

All policies or certificates issued by the respective insurers for insurance, with the exception of workers' compensation insurance, shall provide that such policies or certificates shall not be canceled or materially changed without at least 30 days' prior written notice to the Trustee and the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit. A certificate executed by a County Representative certifying that such policies required or self-insurance permitted by this section have been obtained and that the requirements of this section have been fulfilled shall be deposited with the Trustee, the Insurer and the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, by the County before December 31 of each calendar year. To the extent to which the County self-insures, the County's risk manager, or an independent insurance consultant, shall certify to the Trustee, before December 31 of each calendar year, the sufficiency of such self-insurance. Certificates of commercial general liability and workers' compensation insurance shall be furnished by applicable insurers, unless the County chooses to self-insure against such liability (in which case the County shall provide the Trustee evidence of such self-insurance), and at least ten days prior to the expiration dates of such policies, if any, evidence of renewals or self-insurance shall be deposited with the Trustee.

All policies or certificates of insurance provided for in the Facilities Lease shall name the County as a named insured, and the Corporation, the Trustee and, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, the Bank, as additional insureds. All insurance policy claims payments received under clauses (a), (c), (e) and (f) above, shall be deposited with the Trustee for application pursuant to the Trust Agreement. All proceeds of insurance, other than self-insurance, maintained under clauses (b) and (d) shall be applied in accordance with the requirements of such policies in satisfaction of the County's liability.

Notwithstanding the generality of the foregoing, but subject to the proviso in each clause under this section as to the ability of the County to self-insure for the enumerated risks, the County shall not be required to maintain or cause to be maintained more insurance than is specifically referred to above or any policies of insurance other than standard policies of insurance with standard deductibles offered by reputable insurers at a reasonable cost on the open market.

*Liens.* The County shall promptly pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished or to be furnished to or for, in, upon or about the Leased Premises and which may be secured by any mechanic's, materialman's or other lien against the Leased Premises, or the interest of the Corporation therein, and shall cause each such lien to be fully discharged and released; provided, however, that the County or the Corporation (a) may contest any such claim or lien without payment thereof so long as such non-payment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the County shall forthwith pay and discharge such judgment or lien; or (b) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty. Except as expressly provided in the Facilities Lease, the County shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim for which it is responsible, if the same shall arise at any time. Except as provided in the following sentence, the County shall not, directly or indirectly, create, incur, assume or suffer to exist any pledge, lien, charge, encumbrance or claim on or with respect to the Leased Premises, other than the rights of the Corporation and the County as provided in the Facilities Lease or as provided in the Reimbursement Agreement. The County may, so long as it is not in default under the Facilities Lease, without the consent of the Bank, the Insurer, the Trustee or the Owners of the Certificates, encumber, pledge, lease or sublease the Leased Premises to the extent that (i) the fair market value of the Leased Premises is equal to or in excess of the total of the aggregate principal components of the Certificates then Outstanding and the amount of such additional encumbrance, pledge, lease or sublease, and (ii) the annual fair rental value of the Leased Premises is equal to or greater than the total of the Base Rental and Additional Rental due under the Facilities Lease and the amount of the annual payments to be made by the County in connection with such additional encumbrance, pledge, lease or sublease. To the extent the County elects to exercise its right under this Section to encumber, pledge, lease or sublease the Leased Premises, it shall deliver a certificate to the Trustee, the Insurer and the Bank, so long as the



Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, certifying its compliance with the requirements contained in the Facilities Lease.

#### **Application of Insurance Proceeds**

Proceeds of insurance (other than rental interruption insurance and title insurance) received in respect of theft of, destruction of or damage to the Leased Premises by fire, earthquake or other casualty or event shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If the County elects pursuant to the Trust Agreement to apply such proceeds to the replacement, repair or reconstruction of the Leased Premises, the Base Rental shall again begin to accrue with respect thereto upon restoration of the Leased Premises to tenantable condition.

#### **Eminent Domain**

If the Leased Premises, or so much thereof as to render the remainder of the Leased Premises unusable for the County's purposes under the Facilities Lease, shall be taken under the power of eminent domain, then the Facilities Lease shall terminate with respect to the Leased Premises as of the day possession shall be so taken, or, if the County is the condemnor, then the Facilities Lease shall terminate as of the date of entry of the interlocutory judgment. In the event of a taking by eminent domain, there shall be an abatement of Base Rental in accordance with the provisions of the Facilities Lease. If less than a substantial portion of the Leased Premises shall be taken under the power of eminent domain, and the remainder is usable for County purposes, then there shall be an abatement of Base Rental only to the extent of the portion of the Leased Premises which is unusable and the Facilities Lease shall continue in full force and effect and shall not be terminated with respect to the Leased Premises by virtue of such taking and the parties waive the benefit of any law to the contrary. Any award made in eminent domain proceedings for the taking shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If the County elects pursuant to the Trust Agreement to apply such proceeds to the repair or replacement of the Leased Premises, then the Base Rental shall again begin to accrue with respect thereto upon restoration of the Leased Premises to tenantable condition.

#### **Assignment and Sublease**

Except as otherwise provided in the Facilities Lease, the County shall not mortgage, pledge, assign or transfer any interest of the County in the Facilities Lease by voluntary act or by operation of law, or otherwise; provided, however, that the County may, with the consent of the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations thereunder, and the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, sublease all or any portion of the Leased Premises, may grant concessions to others involving the use of any portion of the Leased Premises, whether such concessions purport to convey a leasehold interest or a license to use a portion of the Leased Premises, and may assign its right to purchase any portion of the Leased Premises pursuant to the Facilities Lease. The County and the Corporation acknowledge and agree that the County will sublease the District Court to the GSA pursuant to the GSA Lease. The County shall at all times remain liable for the performance of the covenants and conditions on its part to be performed under the Facilities Lease, notwithstanding any subletting or granting of concessions which may be made. Nothing contained in the Facilities Lease shall be construed to relieve the County from its obligation to pay Base Rental and Additional Rental as provided in the Facilities Lease or to relieve the County from any other obligations contained in the Facilities Lease.

The Corporation shall, concurrently with the execution of the Facilities Lease, assign all of its right, title and interest (other than its rights to indemnification and payment or reimbursement for any costs or expenses) in and to the Facilities Lease, including without limitation its right to receive Base Rental payable under the Facilities Lease, to the Trustee pursuant to the Assignment Agreement, and the County has approved such assignment pursuant to the Facilities Lease. The Corporation and the County have further agreed to execute any and all documents necessary and proper in connection therewith. The County has further agreed to assign to the Trustee all of its right, title and interest in and to moneys due and to become due to the County under the GSA Lease, including

specifically, the GSA Payments. The County has further agreed, to the extent permitted by applicable law, to grant to the Trustee, for the ratable benefit of the Owners of the Certificates and the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, a first priority security interest in all of the County's rights, title and interest in and to the GSA Lease.

### **Additions and Improvements; Removal**

The County shall have the right during the Lease Term to make any additions or improvements to the Leased Premises, to attach fixtures, structures or signs, and to affix any personal property to the Leased Premises, so long as the fair market value of the Leased Premises is not thereby reduced. Title to all fixtures, equipment or personal property placed by the County on the Leased Premises shall remain in the County. The title to any personal property, improvements or fixtures placed on the Leased Premises by any sublessee or licensee of the County shall be controlled by the sublease or license agreement between such sublessee or licensee and the County, which sublease or license agreement shall not be inconsistent with the Facilities Lease.

### **Right of Entry**

Representatives of the Corporation shall, subject to reasonable security precautions, have the right to enter upon the Leased Premises during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the rights or obligations of the Corporation under the Facilities Lease, or (c) for all other lawful purposes.

### **Quiet Enjoyment**

The Corporation has covenanted and agreed that the County, by keeping and performing the covenants and agreements contained in the Facilities Lease, shall, at all times during the Lease Term, peaceably and quietly have, hold, and enjoy the Leased Premises.

### **Indemnification And Hold Harmless Agreement**

To the extent permitted by law, the County has agreed to indemnify and hold harmless the Corporation and its officers and directors against any and all liabilities which might arise out of or are related to the Leased Premises and the Certificates, and the County further agrees to defend the Corporation and its officers and directors in any action arising out of or related to the Leased Premises and the Certificates.

### **Defaults and Remedies**

(a) (A) If the County shall fail (1) to pay any rental payable under the Facilities Lease when the same becomes due and payable, time being expressly declared to be of the essence in the Facilities Lease, or (2) to keep, observe or perform any other term, covenant or condition contained in the Facilities Lease or in the Trust Agreement to be kept or performed by the County, or (B) upon the happening of any of the events specified in subsection (b) of this section, the County shall be deemed to be in default under the Facilities Lease and, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Facilities Lease. The County shall in no event be in default in the observance or performance of any covenant, condition or agreement in the Facilities Lease on its part to be observed or performed, other than as referred to in clause (A)(1) or (B) of the preceding sentence, unless the County shall have failed, for a period of 30 days or such additional time as is reasonably required, to correct any such default after notice by the Corporation, the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, or the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, to the County properly specifying wherein the County has failed to perform any such covenant, condition or agreement. Upon any such default, the Corporation, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(i) To terminate the Facilities Lease in the manner hereinafter provided on account of default by the County, notwithstanding any re-entry or re-letting of the Leased Premises as hereinafter provided for in subparagraph (ii) hereof, and to re-enter the Leased Premises and remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Premises and place such personal property in storage in any warehouse or other suitable place located within the geographical boundaries of the County, for the account of and at the expense of the County. In the event of such termination, the County agrees to surrender immediately possession of the Leased Premises, without let or hindrance, and to pay the Corporation all damages recoverable at law that the Corporation may incur by reason of default by the County, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Leased Premises and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Facilities Lease. Neither notice to pay rent or to deliver up possession of the Leased Premises given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Leased Premises nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Facilities Lease shall of itself operate to terminate the Facilities Lease, and no termination of the Facilities Lease on account of default by the County shall be or become effective by operation of law or acts of the parties hereto, or otherwise, unless and until the Corporation shall have given written notice to the County of the election on the part of the Corporation to terminate the Facilities Lease. The County covenants and agrees that no surrender of the Leased Premises or of the remainder of the term hereof or any termination of the Facilities Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

(ii) Without terminating the Facilities Lease, (A) to collect each installment of rent as it becomes due and enforce any other terms or provisions hereof to be kept or performed by the County, regardless of whether or not the County has abandoned the Leased Premises or (B) to exercise any and all rights of entry and re-entry upon the Leased Premises. In the event the Corporation does not elect to terminate the Facilities Lease in the manner provided for in subparagraph (i) hereof, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facilities Lease to be kept or performed by the County and, if the Leased Premises is not re-let, to pay the full amount of the rent to the end of the term of the Facilities Lease or, in the event that the Leased Premises is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Facilities Lease, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Facilities Lease, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Leased Premises. Should the Corporation elect to reenter as provided in the Facilities Lease, the County has irrevocably appointed the Corporation as the agent and attorney-in-fact of the County to re-let the Leased Premises, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Premises and to place such personal property in storage in any warehouse or other suitable place located within the geographical boundaries of the County, for the account of and at the expense of the County, and the County has indemnified and agreed to save harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Leased Premises and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Facilities Lease. The County has agreed that the terms of the Facilities Lease constitute full and sufficient notice of the right of the Corporation to re-let the Leased Premises in the event of such re-entry without effecting a surrender of the Facilities Lease, and further agrees that no acts of the Corporation in effecting such re-letting shall constitute a surrender or termination of the Facilities Lease irrespective of the use or the term (subject to the preceding sentence) for

which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the County the right to terminate the Facilities Lease shall vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (i) hereof. The County further waives the right to any rental obtained by the Corporation in excess of the rental specified in the Facilities Lease and thereby conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-letting the Leased Premises. The County further agrees to pay the Corporation the cost of any alterations or additions to the Leased Premises necessary to place the Leased Premises in condition for re-letting immediately upon notice to the County of the completion and installation of such additions or alterations.

The County has waived any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Leased Premises as provided in the Facilities Lease and all claims for damages that may result from the destruction of or injury to the Leased Premises and all claims for damages to or loss of any property belonging to the County, or any other person, that may be in or upon the Leased Premises.

(b) If (i) the County's interest in the Facilities Lease or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Corporation, the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit and the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, as hereinafter provided for, or (ii) the County or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects 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 County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the County's debts or obligations, or offers to the County's creditors to effect a composition or extension of time to pay the County's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the County's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the County, or if a receiver of the business or of the property or assets of the County shall be appointed by any court, except a receiver appointed at the instance or request of the Corporation, or if the County shall make a general assignment for the benefit of the County's creditors, or if (iii) the County shall abandon or vacate the Leased Premises, then the County shall be deemed to be in default under the Facilities Lease.

(c) In addition to the other remedies set forth in this section, upon the occurrence of an event of default as described in this section, the Corporation and its assignee shall be entitled to proceed to protect and enforce the rights vested in the Corporation and its assignee by the Facilities Lease or by law. The provisions of the Facilities Lease and the duties of the County and of its board, officers or employees shall be enforceable by the Corporation or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation and its assignee shall have the right to bring the following actions:

(i) *Accounting.* By action or suit in equity to require the County and its board, officers and employees and its assigns to account as the trustee of an express trust.

(ii) *Injunction.* By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Corporation or its assignee.

(iii) *Mandamus.* By mandamus or other suit, action or proceeding at law or in equity to enforce the Corporation's or its assignee's rights against the County (and its board, officers and employees) and to compel the County to perform and carry out its duties and obligations under the law and its covenants and agreements with the County as provided in the Facilities Lease.

Each and all of the remedies given to the Corporation under the Facilities Lease or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the

Facilities Lease shall not impair the right of the Corporation to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this section shall include, but not be limited to, re-letting by means of the operation by the Corporation of the Leased Premises. If any statute or rule of law validly shall limit the remedies given to the Corporation under the Facilities Lease, the Corporation nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Corporation shall prevail in any action brought to enforce any of the terms and provisions of the Facilities Lease, the County agrees to pay a reasonable amount as and for attorney's fees incurred by the Corporation in attempting to enforce any of the remedies available to the Corporation under the Facilities Lease.

Notwithstanding anything to the contrary contained in the Facilities Lease, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, no remedy shall be exercised under the Facilities Lease without the prior written consent of the Bank and the Bank shall have the right to direct the exercise of any remedy under the Facilities Lease. Following the expiration of the Letter of Credit and so long as no Bank Certificates are outstanding, so long as the Insurance policy is in effect and the Insurer is not in default in its payment obligations under the Insurance Policy, no remedy shall be exercised under the Facilities Lease without the prior written consent of the Insurer and the insurer shall have the right to direct the exercise of any remedy under the Facilities Lease; provided, further, however, that no consent of the Insurer shall be required for, nor shall the Insurer have the right to direct any remedy in respect of, any Event of Default which relates solely to the GSA Lease and/or the GSA Certificates and no consent to the exercise of any remedy and no direction of any remedy by the Insurer shall discriminate against the Owners of the GSA Certificates or grant or confer any preference or advantage on the Owners of the County Certificates over the Owners of the GSA Certificates.

(d) Notwithstanding anything in the Facilities Lease to the contrary, the termination of the Facilities Lease by the Corporation and its assignees on account of a default by the County under this section shall not affect or result in a termination of the lease of the Property by the County to the Corporation pursuant to the Site Lease.

All damages and other payments received by the Corporation or its assignee pursuant to the exercise of its rights and remedies pursuant to this section shall be applied in the manner set forth in the Trust Agreement.

*Limitations.* Notwithstanding any other provision of the Facilities Lease or the Trust Agreement, in no event shall the Corporation have the right to accelerate the payment of any Base Rental under the Facilities Lease.

*Remedies Cumulative.* Each and every remedy of the Corporation or any assignee of the rights of the Corporation under the Facilities Lease is cumulative and the exercise of one remedy shall not impair the right of the Corporation or its assignee to any or all other remedies. If any statute or rule validly shall limit the remedies given to the Corporation or its assignee, the Corporation or its assignee nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

#### **Waiver**

Failure of the Corporation to take advantage of any default on the part of the County 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 Corporation to insist upon performance by the County of any term, covenant or condition hereof, or to exercise any rights given the Corporation 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 Facilities Lease shall not be, or be construed to be, a waiver of any term, covenant or condition of the Facilities Lease.

#### **Option to Purchase**

The County shall have the exclusive right and option, which shall be irrevocable during the term of the Facilities Lease, to purchase the Corporation's interest in the Leased Premises on any Payment Date, upon payment

of the option price described below, but only if the County is not in default under the Facilities Lease or the Trust Agreement and only in the manner provided in this section. The County shall exercise its option to purchase by giving notice thereof to the Trustee not later than 60 days prior to the Payment Date on which it desires to purchase the Corporation's interest in the Leased Premises.

The option price shall be equal to the amount necessary to prepay the Certificates pursuant to the Trust Agreement on the Payment Date selected by the County. The County shall deposit or cause to be deposited with the Trustee the option price for the purchase of the Corporation's interest in the Leased Premises on the Payment Date selected by the County.

On any Payment Date as to which the County shall properly have exercised the option granted it pursuant hereto, and shall have paid the required option price, the Corporation or its assignee shall execute and deliver to the County a quitclaim deed conveying to the County or its nominee the Corporation's interest in the Leased Premises. If the County shall properly exercise the option provided in this Section with respect to the Leased Premises prior to the expiration of the Lease Term, and the Corporation shall execute and deliver the quitclaim deed as aforesaid, then the Facilities Lease shall terminate, but such termination shall not affect the County's obligation to pay the option price on the terms set forth in the Facilities Lease.

### **Third Party Beneficiaries**

The Trustee, for the benefit of the Owners of the Certificates, the Bank, so long as the Letter of Credit is in effect and the Bank is not in default in its payment obligations under the Letter of Credit, and the Insurer, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, are expressly deemed to be third-party beneficiaries of the Facilities Lease.

## **THE ASSIGNMENT AGREEMENT**

The Assignment Agreement sets forth the terms under which the Corporation unconditionally sells, assigns and transfers to the Trustee, for the benefit of the owners of the County Certificates, all of the Corporation's rights, title and interest (excluding the Corporation's rights to indemnification and payment or reimbursement for any costs or expenses) in and to the Site Lease and the Facilities Lease.

## **THE GSA LEASE**

The GSA Lease sets out the terms under which the County subleases a portion of the Leased Premises comprising the United States District Court. The GSA Lease provides for a term of fifteen years, commencing on the Completion Date, which is expected to occur on or about May 1, 2000 and which is required to occur by June 1, 2000 under the GSA Lease, unless extended in accordance therewith.

*Lease Payments.* The Lease Payments consist of (1) base rent ("Base Rent"), which includes payment for the costs of the operation and maintenance of the Project (the "Maintenance Rent") as of the Completion Date, (2) an adjustment, up or down, to the Maintenance Rent, to compensate the County for changes in the costs of the operation and maintenance of the Project and (3) the payment by the Government of its share of increases in real estate taxes on the Project after the first year of the term of the GSA Lease.

*Maintenance.* The GSA Lease requires the County to maintain and repair the Project. The County is required to pay for operating expenses in connection with cleaning services, supplies, materials, maintenance, trash removal, landscaping, heating, electricity and certain administrative expenses.

*Rights of the Government.* The GSA Lease provides that the County shall comply with certain statutes relating, among other things, to gratuities to Government officials and contingent fees and kick-backs; equal opportunity, use of small business concerns, small disadvantaged business concerns and women-owned small businesses and affirmative action for special disabled and Vietnam era veterans and handicapped workers. In the

event that the County were to fail to comply with such statutes and such failure is not cured by the County or the Trustee, the Government may be entitled to terminate the GSA Lease or to seek to offset against the Lease Payments. In addition, in the event that the cost and pricing data submitted to the Government by the County is discovered to be inaccurate, incomplete or non-current, the Government would be entitled to reduce the Lease Payments in the amount by which the rent was increased due to such inaccurate data. The GSA Lease also provides that in the event the County fails to perform any obligation of the County set forth in the GSA Lease, the Government is entitled to offset from the Lease Payments the cost incurred by the Government in performing such obligation or deduct from the Lease Payments the value of the services not being so performed. However, the Government has agreed that the maximum amount which it may deduct for such failures shall not exceed that portion of the total Lease Payments not required to amortize the GSA Certificates (consisting of principal, interest, insurance and taxes), provided that the Government may carry forward any excess amounts not deducted in a particular calendar year as a result of such limitation and may take such deduction in future years.

*Rights of the Trustee.* The GSA Lease provides that in the event of any circumstance which would permit the Government to terminate the GSA Lease, or in the event the Government would have the right to offset rent pursuant to any provisions of the GSA Lease, no termination or offset will be taken by the Government unless both the current first mortgagee and the County are provided with written notice of such event or proposed rental deduction, together with the opportunity to cure or eliminate the same. In the event any repair or other cure cannot reasonably be completed within thirty days, the County shall be entitled to such additional time as is necessary to effectuate such repair or cure, provided that efforts to cure are initiated promptly within such thirty day period and the County proceeds diligently and continuously to complete such repairs or cure, provided that in no event shall the cure period exceed ninety days from the date of notice by the Government without the Government's written approval.

**APPENDIX D**  
**BOOK-ENTRY SYSTEM**

**Introduction**

Unless otherwise noted, the information contained under the subcaptions "General" and "Year 2000 Compliance" has been obtained from DTC and neither the County, the Corporation nor the Placement Agent assumes any responsibility for the accuracy or completeness thereof. The Beneficial Owners of the County Certificates should confirm the following information with DTC or the DTC Participants. NONE OF THE COUNTY, THE TRUSTEE, THE CORPORATION OR THE PLACEMENT AGENT SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE COUNTY CERTIFICATES UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A CERTIFICATE HOLDER, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL, PREPAYMENT PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE COUNTY CERTIFICATES; THE DELIVERY OF ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO CERTIFICATEHOLDERS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL PREPAYMENT OF THE COUNTY CERTIFICATES; ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS CERTIFICATEHOLDER; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

**General**

The County and the Corporation intend to cause the County Certificates to be made eligible for secondary trading through the facilities of The Depository Trust Company ("DTC") as soon as practicable after the Closing Date. The discussion set forth in this Appendix D applies to any County Certificates registered in the name of DTC's nominee.

Upon being made eligible by the County and the Corporation, DTC will act as securities depository for the County Certificates. The County Certificate will be delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered County Certificate will be delivered for the County Certificates and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the County Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the County Certificates on DTC's records. The ownership interest of



each actual purchaser of each County Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the County Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the County Certificates is discontinued.

To facilitate subsequent transfers, all County Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of County Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; 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 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 Arrangement among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal, sinking fund and interest payments on the County Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee, the Corporation or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

**The County, the Corporation and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the County Certificates paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner**

**described in this Private Placement Memorandum. The County, the Corporation and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or any error or delay relating thereto.**

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the County Certificates, payment of principal, interest and other payments on the County Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such County Certificate and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

### **Year 2000 Compliance**

DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems". DTC has informed its participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to securityholders, book-entry deliveries and settlement of trades with DTC ("DTC Services"), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third-party vendors from whom DTC licenses software and hardware, and third-party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third-party vendors from whom DTC acquired services to: (i) impress upon them the importance of such services being Year 2000 compliant and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind. Additional information concerning DTC can be found at DTC's website at [www.dtc.org](http://www.dtc.org).

**SO LONG AS CEDE & CO. IS THE REGISTERED HOLDER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE CERTIFICATEHOLDERS OR REGISTERED HOLDERS OF THE CERTIFICATES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES.**

**APPENDIX E**  
**ACCRETED VALUES**

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal Outstanding</u>	<u>Accreted Value</u>
June 15, 1999	0.00	0.00	0.00	7,200,000.00	2,186,183.60
December 15, 1999	0.00	0.00	0.00	7,200,000.00	2,269,149.27
June 15, 2000	0.00	0.00	0.00	7,200,000.00	2,355,263.49
December 15, 2000	0.00	0.00	0.00	7,200,000.00	2,444,645.74
June 15, 2001	0.00	0.00	0.00	7,200,000.00	2,537,420.04
December 15, 2001	0.00	0.00	0.00	7,200,000.00	2,633,715.13
June 15, 2002	0.00	0.00	0.00	7,200,000.00	2,733,664.62
December 15, 2002	0.00	0.00	0.00	7,200,000.00	2,837,407.19
June 15, 2003	0.00	0.00	0.00	7,200,000.00	2,945,086.80
December 15, 2003	0.00	0.00	0.00	7,200,000.00	3,056,852.84
June 15, 2004	0.00	0.00	0.00	7,200,000.00	3,172,860.41
December 15, 2004	0.00	0.00	0.00	7,200,000.00	3,293,270.46
June 15, 2005	0.00	0.00	0.00	7,200,000.00	3,418,250.07
December 15, 2005	0.00	0.00	0.00	7,200,000.00	3,547,972.66
June 15, 2006	0.00	0.00	0.00	7,200,000.00	3,682,618.23
December 15, 2006	0.00	0.00	0.00	7,200,000.00	3,822,373.59
June 15, 2007	0.00	0.00	0.00	7,200,000.00	3,967,432.66
December 15, 2007	0.00	0.00	0.00	7,200,000.00	4,117,996.73
June 15, 2008	0.00	0.00	0.00	7,200,000.00	4,274,274.71
December 15, 2008	0.00	0.00	0.00	7,200,000.00	4,436,483.44
June 15, 2009	0.00	0.00	0.00	7,200,000.00	4,604,847.98
December 15, 2009	0.00	0.00	0.00	7,200,000.00	4,779,601.96
June 15, 2010	0.00	0.00	0.00	7,200,000.00	4,960,987.86
December 15, 2010	0.00	0.00	0.00	7,200,000.00	5,149,257.35
June 15, 2011	0.00	0.00	0.00	7,200,000.00	5,344,671.66
December 15, 2011	0.00	0.00	0.00	7,200,000.00	5,547,501.95
June 15, 2012	0.00	0.00	0.00	7,200,000.00	5,758,029.65
December 15, 2012	0.00	0.00	0.00	7,200,000.00	5,976,546.88
June 15, 2013	0.00	0.00	0.00	7,200,000.00	6,203,356.83
December 15, 2013	0.00	0.00	0.00	7,200,000.00	6,438,774.22
June 15, 2014	0.00	0.00	0.00	7,200,000.00	6,683,125.70
December 15, 2014	0.00	0.00	0.00	7,200,000.00	6,936,750.33
June 15, 2015	0.00	0.00	0.00	7,200,000.00	7,200,000.00
December 15, 2015	639,684.53	273,240.00	912,924.53	6,560,315.47	
June 15, 2016	623,376.97	248,963.97	872,340.94	5,936,938.50	
December 15, 2016	647,034.12	225,306.82	872,340.94	5,289,904.38	
June 15, 2017	672,663.53	200,751.87	873,415.40	4,617,240.85	
December 15, 2017	698,191.11	175,224.29	873,415.40	3,919,049.73	
June 15, 2018	725,746.01	148,727.94	874,473.95	3,193,303.72	
December 15, 2018	753,288.08	121,185.88	874,473.95	2,440,015.64	
June 15, 2019	782,915.49	92,598.59	875,514.08	1,657,100.15	
December 15, 2019	812,627.13	62,886.95	875,514.08	844,473.02	
June 15, 2020	844,473.02	32,047.75	876,520.77	0.00	

**APPENDIX F**  
**PURCHASER'S LETTER**

April \_\_, 1999

County of Riverside  
4080 Lemon Street, 12<sup>th</sup> Floor  
Riverside, California 92501

Riverside District Court Financing Corporation  
4080 Lemon Street, 12<sup>th</sup> Floor  
Riverside, California 92501

Dublind Securities  
767 Third Avenue  
New York, New York 10017

County of Riverside  
\$17,635,000 United States Government  
General Services Administration  
Certificates of Participation  
(United States District Court Project), Series 1999

\$2,165,472.41 (Initial Principal Amount)  
\$7,200,000 (Accreted Value)  
County of Riverside  
Taxable Certificates of Participation  
(United States District Court Project), Series 1999

Dear Sir or Madam:

This letter is delivered in connection with the purchase by us (the "Purchaser") of the above referenced GSA Certificates of Participation and County Certificates of Participation (together, the "Certificates"), issued pursuant to that certain Trust Agreement, dated as of March 15, 1999, among the County of Riverside, Riverside District Court Financing Corporation and U.S. Trust Company of California, as trustee. Capitalized terms used but not defined herein have the respective meanings set forth in the Trust Agreement.

In connection with the purchase of the Certificates, the Purchaser hereby represents and warrants to you as follows:

1. The Purchaser's intention is to acquire the Certificates (a) for investment in Purchaser's own account or (b) for resale to "qualified institutional buyers" in transactions under Rule 144A promulgated under the Securities Act of 1933, as amended (the "Act"), and not in any event with the view to, or for resale in connection with, any distribution thereof. It understands that no registration statement has been filed under the Act in connection with the sale of the Certificates, by reason of a specified exemption from the registration provisions of the Act which depends, among other things, upon the bona fide nature of the Purchaser's investment intent as expressed herein.

2. The Purchaser acknowledges that any separate securities of the County or the Corporation deemed included with the Certificates are being purchased pursuant to an exemption under the Act and may not be transferred unless they are subsequently registered under the Act or any exemption from such registration, including, without limitation, the exemption contained in Rule 144A thereunder, is available.

3. The Purchaser is a "qualified institutional buyer" within the meaning of Rule 144A.

IN WITNESS WHEREOF, the undersigned has caused this letter to be executed and delivered by its duly authorized officer as of the date first set forth above.

[NAME OF PURCHASER]

By: \_\_\_\_\_  
Name:  
Title:

**APPENDIX G**

**SPECIMEN CERTIFICATE INSURANCE POLICY**

[To be provided by Insurer.]

## APPENDIX H

### COMMERZBANK AKTIENGESELLSCHAFT

Commerzbank is the fourth largest publicly-held banking institution in terms of assets in Germany. Commerzbank and its consolidated subsidiaries are engaged in a broad range of commercial and investment banking services and related activities in Germany and around the world. Commerzbank functions as a full service commercial and investment bank. In certain specialized areas, such as mortgage lending, leasing, asset management, fund management, real estate activities and equity participations, Commerzbank provides services through its subsidiaries. As of December 31, 1997, Commerzbank had total assets of U.S. \$287 billion (U.S.\$ 1=DM 1.7987 closing price as of December 31, 1997, Bloomberg). Commerzbank's capital stock is publicly held by more than 190,000 shareholders and is quoted on all eight German stock exchanges as well as on the stock exchanges of Amsterdam, Antwerp, Barcelona, Basel, Berne, Brussels, Geneva, Lausanne, London, Luxembourg, Madrid, Milan, Paris, Tokyo, Vienna and Zurich. There is also a sponsored-ADR program in the USA.

In Germany, Commerzbank operates 940 branches that provide banking services to three million private customers. Abroad, Commerzbank maintains nearly 80 offices in 35 countries. Commerzbank is directly represented in all major financial and industrial centers with its own subsidiaries, branches or representative offices and employs approximately 1,600 staff abroad. It also has numerous holdings in leading local and regional financial institutions.

Commerzbank conducts extensive banking business in the United States, concentrating primarily in corporate lending, letter of credit and bankers acceptance facilities, participations in syndicated loan transactions and treasury operations including foreign exchange transactions. Commerzbank has branches in New York, Chicago and Los Angeles and has an agency office in Atlanta.

For further information on the Commerzbank Group, a copy of Commerzbank's annual report can be obtained by contacting Karin Rapaglia at 2 World Financial Center, New York, New York 10281.

Under the banking laws of the Federal Republic of Germany, all German banks are subject to supervision by the Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen), the Federal Securities Trading Supervisory Commission (Bundesaufsichtsamt für den Wertpapierhandel), and by the German Central Bank (Deutsche Bundesbank). The Federal Banking Supervisory Office has the power, inter alia, to issue and revoke licenses, to issue regulations on capital and liquidity requirements, to demand the removal of members of the bank's management, to inspect books and records, to designate the contents required in reports on financial matters by banks and to take action where deposits are considered to be at risk. Bank lending activities in the Federal Republic of Germany are regulated closely under the German Banking Law (Kreditwesengesetz) (the "Banking Law"), as amended most recently on October 24, 1994. The Banking Law and directives of the European Union, of which Germany is a member, contain provisions on solvency, long-term lending and investments. The Banking Law also contains limits on large loans to individual borrowers. Compliance with and enforcement of these regulations are supervised through extensive reporting requirements. In addition, Commerzbank is subject to extensive regulation by the countries in which it operates.

The Los Angeles branch of Commerzbank is licensed by the Commissioner of Financial Institutions, is subject to the banking laws of the State of California and is examined by the State of California Department of Financial Institutions. Commerzbank's branches in Chicago and New York are subject to similar regulation by the states in which they operate. In addition to being subject to state laws and regulations, Commerzbank is also subject to federal regulation under the International Banking Act and, through the International Banking Act, the Bank Holding Company Act.

**Year 2000 Discussion from 1998 Annual Report**

In view of the great importance of data processing in a modern bank like Commerzbank with worldwide activities, the elimination of Year 2000 risks in the information technology area has the highest priority. For this reason, the Bank launched its Millennium Change Project in the data processing section as early as 1995 with the objective of cataloging, analyzing, converting and last but not least, testing Commerzbank's hardware and software, operating systems, applications and also its telecommunications equipment and networks.

At the same time, Commerzbank's structural and operational infrastructure has to be readied for the year 2000 and prepared for risks, which may arise either through the Bank's own systems or from outside.

In order to cope with the tasks, Commerzbank has organized projects; seven individual projects are steered from a central office. The overall project covers all Group units in Germany and abroad and has a full-time staff of 300. For the Parent Bank alone, DM250m has been budgeted to cover costs.

### **Test of Year-2000 Compliance**

By year end-1998, the Bank had completed the conversion of virtually all the systems vital to business. Extensive tests are to ensure that everything runs smoothly. For this purpose, separate test environments, quite independent of current business activities, have been set up enabling us to check whether applications will deliver correct results in the year 2000 as well. Commerzbank will also take part in the tests planned by the Bundesbank and the stock exchange to examine the clearing systems for payments and securities, as well as participating in global clearing test for payments systems. The tests will be completed by mid-1999.

In the area of infrastructure, all the critical installations have been covered and measures have been introduced to ensure Year 2000-compliance. Once the conversion work is over, extensive tests will be carried out even for equipment whose compliance has been confirmed by the manufacturer in order to demonstrate that the Bank's operational installations and technical systems will function.

For the purposes of analyzing the risks arising from contact with clients, roughly 60,000 of Commerzbank's business customers were sent a questionnaire at end-1998 that had been developed by the Association of German Banks. The replies that are received will be registered and analyzed during the first quarter in order to react promptly to the risks that emerge.

Despite all the care taken in preparing for the millennium change, a residual risk will still remain. The Bank is therefore expanding its existing emergency plans considerably in the area of information technology and infrastructure. Potential business risks are also being pinpointed and evaluated with Bank's operative units.