

In the opinion of McFarlin & Anderson LLP, Lake Forest, California, Special Counsel, based on an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants and agreements, the portion of each Lease Payment due under the Lease Agreement designated as and constituting interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Although Special Counsel observes that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "CONCLUDING INFORMATION - Tax Exemption" herein.

NEWISSUE—BOOK-ENTRY ONLY

**RATINGS: S&P—"AAA" (Insured)
S&P - "A-" (Underlying)**
(See "CONCLUDING INFORMATION—
Ratings" herein.)

**\$11,145,000
CITY OF PLACENTIA
CERTIFICATES OF PARTICIPATION
(2003 REFUNDING AND IMPROVEMENT PROJECT)
Evidencing Direct, Undivided Fractional Interests in
Lease Payments to be Made by the
CITY OF PLACENTIA, CALIFORNIA
As Rental for Certain Property Pursuant to a Lease Agreement with the
REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**

Dated: Date of Delivery

Due: January 1, As Shown on Inside Cover

The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Certificates. Individual purchases of the Certificates will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest payable represented by the Certificates will be payable on January 1 and July 1 of each year, commencing July 1, 2004 (the "Payment Dates"), and principal represented by the Certificates will be paid on the dates set forth in the Maturity Schedule set forth on the inside cover hereof. Payments of principal and interest represented by the Certificates will be paid by U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

The Certificates are being sold, executed and delivered (i) to refinance certain obligations of the City of Placentia (the "City") in connection with its Taxable Convertible Certificates of Participation (2003 Financing Project) and its 2001 Certificates of Participation (Traffic Circulation Project) (the "Prior Certificates"), (ii) to finance and refinance certain capital improvements in the City (the "Project") (iii) to fund a Reserve Fund for the Certificates, (iv) to fund capitalized interest with respect to the non-refunding portion of the Certificates, and (v) to pay certain costs of issuing the Certificates.

The Certificates are subject to optional and mandatory prepayment prior to maturity as described herein. See "THE CERTIFICATES" herein.

The Certificates evidence and represent direct, undivided fractional interests of the Owners thereof in the Lease Payments (which include principal and interest components) to be made by the City for the right to the use of certain real property and improvements (the "Leased Property") pursuant to that certain Lease Agreement, dated as of November 1, 2003 (the "Lease Agreement"), by and between the City, as lessee, and the Redevelopment Agency of the City of Placentia (the "Agency"), as lessor. The City has covenanted in the Lease Agreement to make the Lease Payments for the Leased Property as provided for therein, to include all such Lease Payments in each of its budgets and to make the necessary annual appropriations for all such Lease Payments.

The Lease Payments are subject to abatement, as described herein. See "SECURITY FOR THE CERTIFICATES" and "RISK FACTORS" herein. However, amounts on deposit in the Lease Payment Fund and the Reserve Fund, certain amounts, if any, made available by the Agency (as described herein) and proceeds from any insurance or eminent domain award constitute a special fund for payment of Lease Payments, and shall be available for such Lease Payments in the event there is substantial interference with the use and possession of the Leased Property.

Payment of the principal of and interest with respect to the Certificates when due will be secured by a Financial Guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" herein.

Ambac

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS", for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Certificates. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

THE CITY'S OBLIGATION TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE FROM THE CITY'S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE CITY TO MAKE LEASE PAYMENTS. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTE A DEBT OF THE CITY OF PLACENTIA OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

MATURITY SCHEDULE

(on inside cover)

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by McFarlin & Anderson LLP, Lake Forest, California, Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney and by Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California, Disclosure Counsel. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about November 25, 2003.

Date: November 13, 2003

RBC DAIN RAUSCHER

MATURITY SCHEDULE
\$7,965,000 Serial Certificates

<u>Maturity Date</u> <u>(January 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity Date</u> <u>(January 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2005	\$365,000	2.000%	1.20%	2013	\$715,000	4.000%	3.80%
2006	585,000	2.000	1.60	2014	740,000	4.000	3.95
2007	590,000	2.500	1.90	2015	260,000	4.000	4.05
2008	605,000	2.500	2.30	2016	275,000	4.000	4.15
2009	625,000	3.000	2.60	2017	285,000	4.125	4.25
2010	645,000	3.000	2.90	2018	295,000	4.250	4.35
2011	660,000	3.500	3.35	2019	310,000	4.375	4.45
2012	690,000	4.000	3.65	2020	320,000	4.400	4.53

\$3,180,000 4.75% Term Certificates Due January 1, 2028- Yield: 4.93%

CITY OF PLACENTIA, CALIFORNIA
Orange County, California

ELECTED OFFICIALS

Scott P. Brady, *Mayor*
Judy A. Dickinson, *Mayor Pro Tem*
Chris Lowe, *Councilperson*
Constance Underhill, *Councilperson*
Norman Z. Eckenrode, *Councilperson*
Patrick J. Melia, *City Clerk*
Carolyn H. Davis, *City Treasurer*

CITY STAFF

Robert D'Amato, *City Administrator*
Steven L. Brisco, *Director of Finance*
Thomas F. Nixon, Esq., *City Attorney*

SPECIAL SERVICES

Financial Advisor

HNTB Management Consulting
Los Angeles, California

Bond Counsel

McFarlin & Anderson LLP
Lake Forest, California

Trustee

U.S. Bank National Association
Los Angeles, California

Disclosure Counsel

Nossaman, Guthner, Knox & Elliott, LLP
Irvine, California

No dealer, salesperson or other person has been authorized by the City of Placentia to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by the City of Placentia. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page, nor shall there be any offer to sell, solicitation of any offer to buy or sale of such securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Certificates.

The information set forth herein has been obtained from the City of Placentia and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The Official Statement is submitted in connection with the sale of the securities described in it and may not be reproduced or used, in whole or in part, for any other purposes. The information and expression of opinions contained in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create any implication that there have not been changes in the affairs of the City since the date of this Official Statement.

This Official Statement is submitted in connection with the execution and delivery of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF. THE PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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INTRODUCTION

General

The purpose of this Official Statement (which includes the cover page and the Appendices attached hereto) is to provide information concerning the sale and delivery by the City of Placentia (the "City") of Certificates of Participation (2003 Refunding and Improvement Project) (the "Certificates"), in the aggregate principal amount of \$11,145,000.

The City

The City is located in Southern California, approximately 24 miles southeast of the City of Los Angeles, and covers approximately 6.7 square miles. The City, founded and incorporated in 1926, operates as a general law city, governed by a nonpartisan, five-member City Council elected to serve staggered four-year terms. The City provides police protection, animal control, emergency medical aid, building safety regulation and inspection, street lighting, beautification, sewer service, land use planning, and zoning, housing and community services, maintenance and improvement of streets and related structures, traffic safety maintenance and improvement and a full range of recreational and cultural programs for citizen participation. Refuse collection is provided by the City through a contract. The City's estimated population in 2003 is approximately 49,100. For other selected information concerning the City, see "APPENDIX B - CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION" hereto.

Authority for the Certificates

The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of November 1, 2003 (the "Trust Agreement"), among the City, the Redevelopment Agency of the City of Placentia (the "Agency") and U.S. Bank National Association, as trustee (the "Trustee").

Purpose

The proceeds of the sale of the Certificates will be used, together with other available moneys, (i) to refinance certain obligations of the City in connection with its 2003 Taxable Convertible Certificates of Participation (2003 Financing Project) (the "2003 Certificates") and its 2001 Certificates of Participation (Traffic Circulation Project) (the "2001 Certificates" and, with the 2003 Certificates, the "Prior Certificates"), (ii) to finance and refinance certain capital improvements in the City (the "Project") (iii) to fund a Reserve Fund for the Certificates, (iv) to fund capitalized interest with respect to the non-refunding portion of the Certificates, and (v) to pay certain costs of issuing the Certificates. See "THE REFUNDING PLAN," "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security for the Certificates

The Certificates evidence and represent direct, undivided fractional interests of the registered owners (the "Owners") thereof in Lease Payments (as defined herein) to be made by the City to the Agency for the right to the use and occupancy of certain real property and improvements thereon (the "Leased Property"). The Leased Property will be subleased by the City from the Agency pursuant to a Lease Agreement, dated as of November 1, 2003 (the "Lease Agreement"), between the City, as sublessee, and the Agency, as sublessor. See "THE LEASED PROPERTY" herein. The City has previously entered into a Lease Agreement (the "2001 Lease") dated as of June 1, 2001, between the Agency, as lessee and sublessor and the City relating to certain Certificates of Participation (the "2001 Certificates"). The Lease Agreement is a sublease under the 2001 Lease and is subject to the prior right to quiet enjoyment under the 2001 Lease to the extent necessary to protect the interests of the 2001 Certificate Owners under the 2001 Lease. Proceeds of the sale of \$4,500,000 aggregate principal amount of 2001 Certificates were used pursuant to a trust agreement, dated of June 1, 2001 (the "2001 Trust Agreement") among the City, the Agency, and U.S. Bank national Association, as trustee thereunder (the "2001 Trustee") to finance certain traffic improvements in the City, to fund a Reserve Fund for the 2001 Certificates and to pay cost of the transaction. \$3,915,000 aggregate principal components of the 2001 Certificates will remain outstanding upon delivery of the Certificates. The owners of such 2001 Certificates, the 2001 Trustee and the bond insurer for such 2001 Certificates have certain rights to control remedies with respect to the Leased Property upon the occurrence of an event of default and the application of proceeds of insurance or condemnation with respect to the Leased Property. See "THE LEASED PROPERTY" and "RISK FACTORS - Rights of Certain Parties" herein.

In accordance with the Lease Agreement, the City is required to pay to the Trustee specified Lease Payments for the Leased Property which are designed to be sufficient, in both time and amount, to pay, when due, the principal and interest with respect to the Certificates due on January 1 and July 1 of each year. The City is also required to pay any taxes, assessment charges, utility charges, maintenance and repair costs of the Leased Property. The City has the right to incur other obligations payable from its general revenues without the consent of the Owners of the Certificates. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

The City has covenanted in the Lease Agreement to pay the principal and interest with respect to the Certificates, and to take such action as may be necessary to include all such total Lease Payments in its annual budgets. The City has further covenanted to make the necessary annual appropriations for all such Lease Payments, and said covenants have been deemed to be ministerial duties imposed by law, and has covenanted to maintain, or cause to be maintained, insurance on the Leased Property. See "SECURITY FOR THE CERTIFICATES -- Insurance" herein. In addition, the City has funded a Reserve Fund with proceeds of the Certificates. See "SECURITY FOR THE CERTIFICATES - Reserve Fund" herein.

The Agency has agreed to reimburse the City for payment of the Lease Payments (the "Agency Payments") if and to the extent the Agency receives proceeds from the sale of certain specific property (the "Agency Property"). **The Agency Payments are not pledged to payment of principal or interest with respect to the Certificates.** The City is obligated to make Lease Payments whether or not it has received the Agency Payments from the Agency. See "SECURITY FOR THE CERTIFICATES - The Agency Payments" herein for a description of the Agency Property.

Payment of the principal of and interest with respect to the Certificates when due will be secured by a Financial Guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" below and APPENDIX G – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" attached hereto.

Abatement

Except to the extent of amounts on deposit in the Lease Payment Fund and the Reserve Fund, or Agency Payments received by the City or from an insurance or eminent domain award, the amount of Lease Payments due under the Lease Agreement and, correspondingly, the amount available to pay the principal and interest components of the Certificates, will be subject to abatement during any period in which, by reason of damage or destruction or eminent domain, there is substantial interference with the use and possession by the City of the Leased Property. See "RISK FACTORS -- Abatement and Eminent Domain" herein. Amounts on deposit in the Lease Payment Fund and the Reserve Fund, Agency Payments actually received by the City and proceeds from any insurance or eminent domain award constitute a special fund for payment of Lease Payments, and shall be available for such Lease Payments in the event there is substantial interference with the use and possession of the Leased Property.

Prepayment

The Certificates are subject to optional and mandatory prepayment as described herein.

Assignment

Pursuant to the Trust Agreement the Agency has assigned to the Trustee for the benefit of the Owners of the Certificates (i) its right to receive Lease Payments from the City under the Lease Agreement, (ii) substantially all of its rights under the Lease Agreement and (iii) without any further action on the part of the Agency, any and all of the other rights of the Agency under the Lease Agreement as may be necessary to enforce payments of Lease Payments when due and otherwise to protect the interests of the Owners.

Limited Obligations

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE EACH YEAR FROM THE CITY'S GENERAL FUND OR ANY SOURCE OF FUNDS LEGALLY AVAILABLE FOR THE PAYMENT OF LEASE PAYMENTS, BUT DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Forward-Looking Statements

This Official Statement (including the Appendices hereto) contains certain forward-looking statements (collectively, the "Forward-Looking Statements"). All statements other than statements of historical facts included in this Official Statement are Forward-Looking Statements. Although the City and the Agency believe that the expectations reflected in such

Forward-Looking Statements are reasonable, no one can be given assurance that such statements will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the City or the Agency (collectively, the "Cautionary Statements") are disclosed in this Official Statement. All Forward-Looking Statements attributable to the City or the Agency are expressly qualified in their entirety by the Cautionary Statements.

Summaries Not Definitive

The summaries and references of documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for summaries of certain of such definitions.

Copies of the documents described herein will be available at the office of the City Finance Director, 401 East Chapman Ave., Placentia, CA 92870-6101.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City by not later than February 15 in each year, commencing with the report for the 2002/03 Fiscal Year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed, or caused to be filed, by the City with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed, or caused to be filed, by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is contained in "APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT." Failure of the City to provide the required ongoing information may have a negative impact on the value of the Certificates in the secondary market. The City has not failed to comply in all material respects with any previous undertakings with respect to said rule to provide annual reports or notices of material events.

THE REFUNDING PLAN

A portion of the proceeds of the Certificates will be used for the purpose of currently refunding the entire outstanding principal amount of the 2003 Certificates, currently outstanding in the principal amount of \$3,800,000, and to refund the \$340,000 principal amount of 2001 Certificates maturing on January 1, 2004. Concurrent with the delivery of the Certificates, the City will execute and deliver Escrow Instructions, dated as of November 1, 2003 (the "Escrow Instructions") to U.S. Bank National Association, acting as trustee for the 2003 Certificates (the "2003 Trustee"). A portion of the proceeds from the sale of the Certificates, along with certain proceeds relating to the 2003 Certificates, will be deposited in the escrow fund (the "Escrow Fund") established pursuant to the Escrow Instructions. Amounts deposited into the Escrow Fund will be held uninvested, and will be an amount sufficient to pay, on January 1, 2004, the scheduled debt service on the 2003 Certificates and the redemption price of the 2003

Certificates maturing on and after January 1, 2004, at a redemption price equal to 102% of the principal amount thereof. A portion of the proceeds from the sale of the Certificates will be deposited with U.S. Bank National Association, acting as trustee for the 2001 Certificates (the "2001 Trustee"). Amounts deposited with the 2001 Trustee will be held uninvested, and will be an amount sufficient to pay, on January 1, 2004, the scheduled debt service on the 2001 Certificates maturing on January 1, 2004. See "ESTIMATED SOURCES AND USES OF FUNDS."

The moneys and securities held by the 2003 Trustee and the 2001 Trustee are pledged to the payment of the Prior Certificates, and will not be available for the payment of the Certificates.

THE PROJECT

The non-refunding proceeds of the Certificates will be used for ongoing construction costs at the Melrose Avenue underpass project and the Placentia Avenue underpass project, as well as renovations of McFadden Park North.

THE LEASED PROPERTY

The Leased Property

The Leased Property consists of (i) the City's corporate yard, including a service garage, storage facilities and miscellaneous appurtenant improvements, (ii) Kraemer Park, an 11 acre facility which includes a community center building, a teen center building, a stand alone restroom with storage, a playground for children ages 5 through 12, two full basketball courts, picnic shelters and a parking lot, (iii) McFadden Park, a 4.09 acre facility which includes a community center and swimming pool, and (iv) a 3.2 acre vacant parcel purchased by the City in 2002 (the "City Parcel"). The corporate yard is used by the City for repair, maintenance and storage of certain municipal vehicles and equipment. The City has estimated the value of the Leased Property, excluding all improvements, to be not less than \$15,280,000, based upon the highest and best use value of such Property (except for the value of the City Parcel, which is based on the recent purchase price paid by the City). A copy of the valuation and supporting documentation is on file with the City's Director of Finance.

The Leased Property is not subject to a mortgage or a deed of trust. The City corporate yard and Kraemer Park components of the Leased Property are subject to the 2001 Lease, and the City's payments under the 2001 Lease have been assigned to the 2001 Trustee for the benefit of the owners of the 2001 Certificates. The City previously has caused to be executed and delivered the 2001 Certificates, which are payable from lease payments to be made by the City pursuant to the 2001 Lease of the Leased Property. Proceeds from insurance on or condemnation of the Leased Property are subject to the rights of the owners of the 2001 Certificates, as more particularly described under "RISK FACTORS - Rights of Certain Parties" herein.

Substitution of Property

The City has the option at any time and from time to time, with the prior written consent of the Insurer to substitute other real property (the "Substitute Property") for the Leased

Property, or any portion thereof (the "Former Property"), provided that the City satisfies all of the following requirements which are conditions precedent to such substitution:

- (a) No Event of Default shall have occurred and be continuing;
- (b) The City shall file with the Agency and the Trustee, and caused to be recorded in the office of the Orange County Recorder, evidence of an amendment of the Lease Agreement which adds to Exhibit A thereto a description of such Substitute Property and deletes therefrom the description of such Former Property;
- (c) The City shall obtain a CLTA policy of title insurance insuring the City's leasehold estate under the Lease Agreement in such Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated fair market value thereof;
- (d) The City shall certify in writing to the Agency and the Trustee that such Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the Laws of the State of California, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City;
- (e) The Substitute Property shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement;
- (f) The City shall file with the Agency and the Trustee an appraisal or other written documentation which establishes that the fair market value and the fair rental value of the Substitute Property are at least equal to the fair market value and the fair rental value, respectively, of the Former Property, and that the useful life of the Substitute Property at least equals the lesser of (i) the useful life of the Former Property; or (ii) the final Lease Payment Date of the Lease Payments allocable thereto; and
- (g) The City shall have mailed written notice of such substitution to each Rating Agency which then maintains a rating on the Certificates.

Upon the satisfaction of all such conditions precedent, the term of the Lease Agreement shall thereupon end as to the Former Property and shall thereupon commence as to the Substitute Property, and all references to the Former Property shall apply with full force and effect to the Substitute Property. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Certificates and amounts relating to the 2003 Certificates are anticipated to be applied as follows:

SOURCES:

Principal Amount of Certificates	\$11,145,000.00
Amounts Relating to 2003 Certificates	190,000.00
Net Original Issue Discount	<u>(24,017.00)</u>
TOTAL SOURCES	\$11,310,983.00

USES:

Escrow Fund	\$3,984,384.60
Transfer to 2001 Trustee	414,670.00
Costs of Issuance (1)	444,510.48
Improvement Fund(2)	5,000,000.00
Interest Account(3)	606,136.15
Reserve Fund	<u>861,281.77</u>
TOTAL USES:	\$11,310,983.00

- (1) Includes Underwriter's discount, premium for the Insurance Policy and other costs of delivering the Certificates.
- (2) See "THE PROJECT" herein.
- (3) Represents capitalized interest relating to the non-refunding portion of the Certificates until January 1, 2006.

THE CERTIFICATES

General

The Certificates shall be delivered in the form of fully registered Certificates, without coupons, in denominations of \$5,000 or any integral multiple thereof, and shall be dated the date of delivery to the initial purchaser. The Certificates will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. The Certificates, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments on the Certificates will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. (See "Book-Entry Only System" below.)

Interest represented by the Certificates (the "Interest Component") shall be payable on January 1 and July 1 of each year, commencing July 1, 2004, and continuing to and including the date of maturity or prior prepayment, whichever is earlier. Principal represented by the Certificates (the "Principal Component") shall become payable on January 1 in each of the years and in the amounts set forth on the cover page of this Official Statement. Principal and premium, if any, represented by the Certificates shall be payable upon presentation and

surrender thereof at the corporate trust office of the Trustee in St. Paul, Minnesota. Interest with respect to the Certificates shall be based on a 360-day year composed of twelve 30-day months and shall be payable by check or draft from the Trustee mailed on each Interest Payment Date by first class mail to the registered Owners as of the close of business on the 15th calendar day of the month (whether or not such day is a Business Day) preceding an interest payment date (the "Record Date") at their addresses shown on the registration books maintained by the Trustee. Upon the request of an Owner of Certificates in any aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee prior to the applicable Record Date, interest with respect to such Certificates shall be payable to the Owner thereof by wire transfer in immediately available funds to an account in the United States of America.

Any Certificate may be transferred upon presentation of such Certificate to the Trustee by the person in whose name it is registered, in person or by his duly authorized attorney. Upon surrender, together with a duly executed instrument of transfer in form acceptable to the Trustee, and payment of a sum sufficient to cover any tax or other governmental charge, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity, for a like aggregate principal amount. The Trustee is not required to transfer any Certificate during the period of fifteen (15) days before selection of Certificates for prepayment, nor is the Trustee required to transfer any Certificate or portion thereof selected for prepayment.

Certificates may be exchanged at the corporate trust office of the Trustee in St. Paul, Minnesota, for a like aggregate principal amount represented by such Certificates or other authorized denominations of the same maturity. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee is not required to exchange any Certificate during the period of fifteen (15) days before selection of Certificates for prepayment, nor is the Trustee required to exchange any Certificate or portion thereof selected for prepayment.

Prepayment of the Certificates

Optional Prepayment. The Certificates maturing on or before January 1, 2013, are not subject to optional prepayment before their respective stated maturities. The Certificates maturing on January 1, 2014, are subject to call for prepayment prior to their stated maturity, at the option of the City, in whole, or in part among the maturity on such basis as designated by the City and by lot within the maturity, on any date on or after January 1, 2013 at a prepayment price equal to the principal amount thereof to be prepaid together with accrued interest to the prepayment date, without premium.

Mandatory Sinking Fund Prepayment. Certificates maturing on January 1, 2028 (the "2028 Term Certificates") shall also be subject to mandatory prepayment in whole, or in part by lot, on January 1 in each year commencing January 1, 2021, from Lease Payments made by the City pursuant to the Lease Agreement, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts and on January 1 in the respective years as set forth in the following table; provided, however, that (i) in lieu of prepayment thereof the 2028 Term Certificates may be purchased by the City and tendered to the Trustee, and (ii) if some but not all of such 2028 Term Certificates have been prepaid pursuant to optional or extraordinary prepayment the total amount of all future sinking fund Lease Payments shall be reduced by the aggregate principal amount of such

2028 Term Certificates so prepaid, to be allocated among such sinking fund Lease Payments on a pro rata basis in integral multiples of \$5,000, as determined by the City.

2028 Term Certificates

Sinking Fund Prepayment Date (January 1)	Principal Amount of Term Certificates <u>To Be Prepaid</u>
2021	\$335,000
2022	350,000
2023	370,000
2024	385,000
2025	405,000
2026	425,000
2027	445,000
2028 (Maturity)	465,000

Extraordinary Prepayment from Net Proceeds of Insurance and Condemnation.

The Certificates are subject to mandatory prepayment on any Interest Payment Date as specified in the Trust Agreement, in whole, or in part among maturities on a pro rata basis and by lot within a maturity, from the Net Proceeds of insurance or eminent domain proceedings credited towards the prepayment of the Lease Payments pursuant to the Lease Agreement and the Trust Agreement at a prepayment price equal to one hundred percent (100%) of the principal amount to be prepaid, together with accrued interest represented thereby to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever less than all of the Certificates of like maturity are called for prepayment, the Trustee shall select the Certificates or portions thereof to be prepaid from the Certificates Outstanding by lot. For the purposes of such selection, Certificates shall be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. In connection with a prepayment in part, the City shall designate to the Trustee the pro rata amount of each maturity to be prepaid at least sixty (60) days before the scheduled prepayment date.

Notice of Prepayment; Rescission. Notice of prepayment of Certificates shall be mailed by the Trustee, for and on behalf of the City, not less than thirty (30) nor more than sixty (60) days prior to the prepayment date to the respective Owners of Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee. Notice of prepayment to the respective Owners of Certificates designated for prepayment shall be given by first class mail, postage prepaid. Each notice of prepayment shall state (a) the date of such notice, (b) the prepayment date, (c) the Prepayment Price, (d) the place or places of prepayment (including the name and appropriate address or addresses of the Trustee), (e) the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Certificates of such maturity, to be prepaid and, (f) in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the Prepayment Price thereof or of said specified portion of the principal amount thereof in the case of a Certificate to be prepaid in part only, together with interest accrued thereon to the prepayment date, and that from and after such prepayment date interest thereon shall cease to accrue, and shall require that such Certificates

be then surrendered at the address or addresses of the Trustee specified in the prepayment notice.

Neither the failure by the Trustee to mail notice of prepayment to any one or more of the respective Owners of Certificates designated for prepayment nor any defect therein shall affect the validity or sufficiency of the proceedings for the prepayment of the Certificates.

The City has the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any such notice of optional prepayment will be canceled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation will not constitute an Event of Default under the Trust Agreement. The City and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee will mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

Effect of Prepayment. If notice of prepayment has been duly given and moneys for the payment of the prepayment price of the Certificates to be prepaid are held by the Trustee, then the Certificates shall become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Office of the Trustee, said Certificates shall be paid at the unpaid principal amount (or applicable portion thereof) with respect thereto, plus interest accrued and unpaid to said date of prepayment. From and after said date of prepayment, interest represented by said Certificates shall cease to accrue and become payable.

Purchase in Lieu of Prepayment. In lieu of prepayment of Certificates as described above, amounts held by the Trustee for such prepayment shall, at the written request of the City, be applied by the Trustee to the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid.

Book-Entry System

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered certificates registered in the name of Cede & Co., (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F - BOOK ENTRY PROVISIONS" herein.

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption notices 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 Official Statement. The City 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 an error or delay relating thereto.

SCHEDULE OF LEASE PAYMENTS

The following are the annual payments of principal and interest represented by the Certificates.

Date (January 1)	Principal	Interest	Annual Total
2004	\$ 0	\$ 28,863.63	\$ 28,863.63
2005	365,000	433,423.76	798,423.76
2006	585,000	412,961.26	997,961.26
2007	590,000	401,261.26	991,261.26
2008	605,000	386,511.26	991,511.26
2009	625,000	371,386.26	996,386.26
2010	645,000	352,636.26	997,636.26
2011	660,000	333,286.26	993,286.26
2012	690,000	310,186.26	1,000,186.26
2013	715,000	282,586.26	997,586.26
2014	740,000	253,986.26	993,986.26
2015	260,000	224,386.26	484,386.26
2016	275,000	213,986.26	488,986.26
2017	285,000	202,986.26	487,986.26
2018	295,000	191,230.00	486,230.00
2019	310,000	178,692.50	488,692.50
2020	320,000	165,130.00	485,130.00
2021	335,000	151,050.00	486,050.00
2022	350,000	135,137.50	485,137.50
2023	370,000	118,512.50	488,512.50
2024	385,000	100,937.50	485,937.50
2025	405,000	82,650.00	487,650.00
2026	425,000	63,412.50	488,412.50
2027	445,000	43,225.00	488,225.00
2028	465,000	22,087.50	487,087.50
TOTALS	\$11,145,000	\$5,460,512.51	\$16,605,512.51

SECURITY FOR THE CERTIFICATES

General

Each Certificate evidences and represents a direct, undivided fractional interest in the principal component of the Lease Payments due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Lease Payments (based on the stated interest rate with respect to such Certificate) to accrue from the Closing Date to its payment date or prepayment date, as the case may be. The Agency, pursuant to the Trust Agreement, has assigned substantially all of its rights and remedies under the Lease Agreement to the Trustee for the benefit of the Owners of the Certificates, including its right to receive Lease Payments thereunder. Principal of and interest represented by the Certificates will be made from the Lease Payments for the use and possession of the Leased Property, insurance or condemnation Net Proceeds pertaining to the Leased Property to the extent that such Net Proceeds are not used for repair or replacement, amounts on deposit in the Lease Payment Fund held by the Trustee, interest or other income derived from the investment of the

funds and accounts held by the Trustee for the City pursuant to the Trust Agreement, Agency Payments, if any, received by the City or in certain instances, from the Reserve Fund established by the Trust Agreement. The Trustee will not have any obligation or liability to the Owners to make payments of principal, premium, if any, or interest represented by the Certificates from any other source.

The City has covenanted under the Lease Agreement to make Lease Payments for the use and possession of the Leased Property. So long as the Leased Property is available for the City's use, the City has covenanted to take such action each year as may be necessary to include all Lease Payments in its annual budget and annually to appropriate an amount necessary to make such Lease Payments, except to the extent such payments are abated (see "Abatement" below). Pursuant to the Lease Agreement, the City is also obligated to pay, in each year (i) all taxes and assessments levied upon the Leased Property, (ii) all insurance the City is required or permitted to maintain under the Lease Agreement, (iii) all expenses incidental to the execution, sale and delivery of the Certificates, (iv) all administrative expenses, compensation and indemnification of the Trustee and the Agency required to be paid by them in order to comply with the terms of the Lease Agreement or the Trust Agreement, and (v) amounts to be rebated to the federal government. The amounts payable to the Trustee are to be used to make the payments of principal and interest due with respect to the Certificates. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund or Reserve Fund, or otherwise available from Agency Payments, if any, received by the City or from an insurance or eminent domain award) may be abated in whole or in part if the City does not have use and possession of the Leased Property.

Reserve Fund

A reserve fund (the "Reserve Fund") is established pursuant to the Trust Agreement and will be held by the Trustee in trust for the benefit of the Owners of the Certificates. Moneys in the Reserve Fund will at all times be in the amount of the Reserve Requirement (as defined in APPENDIX A hereto). The City has initially funded the Reserve Fund from proceeds of the Certificates in the amount set forth in "ESTIMATED SOURCES AND USES OF FUNDS" herein.

If on any Interest Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest and prepayment premiums (if any) represented by the Certificates then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the City by transferring the amount necessary for this purpose to the Lease Payment Fund. Upon receipt of any delinquent Lease Payment or portion thereof with respect to which moneys have been advanced from the Reserve Fund, such Lease Payment or portion thereof shall be applied to reinstate the Reserve Fund.

In addition, moneys, if any, on deposit in the Reserve Fund will be applied for the final payment of the Lease Payments represented by the Certificates.

Appropriation; Use of Leased Property

The City has covenanted to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its proposed annual budgets and its final adopted annual budgets and to make the necessary appropriations for such Lease Payments, except to the extent such payments are abated (see "Abatement" below). The foregoing

covenants on the part of the City are ministerial duties imposed by law and it is the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform its covenants and agreements in the Lease Agreement.

The obligation of the City to pay Lease Payments constitutes a current expense of the City and is not a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall such obligations constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City has appropriated funds to pay Lease Payments or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Abatement

Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments are subject to abatement during any period in which there is substantial interference with the use or possession of all or a portion of the Leased Property by the City by condemnation, damage, destruction or title defect. The extent of such abatement shall be in proportion to the portions of the Leased Property taken, damaged or destroyed, provided, however, that in the event such taking, damage or destruction results in a prepayment of the Certificates, the resulting Lease Payments will be sufficient to pay all of that portion of principal and interest with respect to the remaining Outstanding Certificates. Such abatement shall not result so long as moneys in the Lease Payment Fund and the Reserve Fund, Agency Payments, if any, received by the City and Net Proceeds of an eminent domain award or taking, insurance, are sufficient to make Lease Payments when and as due, it being declared in the Lease Agreement that such moneys and Net Proceeds constitute special funds for the payment of Lease Payments. Such abatement or adjustment, if any, shall continue for the period commencing with such taking, damage or destruction and ending with the substantial completion of the work or repair or reconstruction, if any. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage or destruction. See "Insurance" below for a discussion of rental interruption insurance to be provided by, or on behalf of, the City.

Notwithstanding these efforts, the moneys legally available to the Trustee following the occurrence of an event which gives rise to an abatement of Lease Payments, including moneys in the Reserve Fund, Redevelopment Revenues or proceeds of rental interruption insurance, if any, may not be sufficient to pay principal and interest represented by the Certificates in the amounts and at the rates set forth thereon. In such event, all Owners of Certificates would forfeit a pro rata portion of interest attributable to abated Lease Payments payable during the period of abatement and, to the extent Certificates mature or are required to be prepaid during a period of abatement, the Owners of such Certificates would forfeit a pro rata portion of principal attributable to such abated Lease Payments. **The failure to make such payments of principal and interest would not under such circumstances constitute a default under the Trust Agreement, the Lease Agreement or the Certificates.**

Assignment; Recourse on Default

Pursuant to the Assignment Agreement, the Agency will assign to the Trustee for the benefit of the Owners of the Certificates substantially all of its rights and remedies under the Lease Agreement, including its rights to receive amounts payable by the City under the Lease Agreement.

Should the City default under the Lease Agreement, the Trustee, as assignee of the Agency, may exercise any and all remedies authorized by law or granted pursuant to the Lease Agreement. The Lease Agreement expressly authorizes the Trustee, as assignee of the Agency, to reenter the Leased Property for the purpose of removing persons and personal property and of reletting the Leased Property and, at its option, to terminate the Lease Agreement. In the event the Trustee, as assignee of the Agency, does not elect to terminate the Lease Agreement, it may enforce the Lease Agreement and hold the City liable for all Lease Payments and the performance of all conditions under the Lease Agreement. Any re-entry and re-letting will not effect a surrender of the Lease Agreement. The City, in the event of default, waives all rights to any rentals received by the Trustee through re-letting of the Lease Agreement. The City agrees to pay any and all costs, loss or damage, howsoever occurring, as a result of any re-entry or re-letting. See "RISK FACTORS -- Bankruptcy"; "-- Limitation as Enforcement of Remedies" and "-- No Acceleration" herein.

The City may not mortgage, pledge, assign or transfer its interest in the Lease Agreement except as specifically provided in the Lease Agreement. The City has the right to sublet all or any portion of the Leased Property from time to time but such subletting will not relieve the City of its obligations under the Lease Agreement.

The Agency Payments

The Agency has agreed to reimburse the City for payment of the Lease Payments (the "Agency Payments") if and to the extent the Agency receives proceeds from the sale of certain specific property (the "Agency Property") in the Project Area. **The Agency Payments are not pledged to payment of principal of or interest with respect to the Certificates.** There can be no assurance that the Agency Property will be sold as currently anticipated, and that the corresponding Agency Payments will be made to the City. The City is obligated to make Lease Payments whether or not the Agency makes the Agency Payments.

The Agency Payments are required to be made from proceeds of the sale of the Agency Property. The Agency Property consists of parcels or portions of parcels remaining from acquisitions made by the City and Agency in connection with the City's grade separation project. The parcels range in size from 0.15 to 0.41 acres, and while most are vacant land some have been improved with structures. The Agency has not currently assigned sale prices to any of the Agency Property, although the Agency has had preliminary discussions with developers regarding such property.

There can be no assurance that the Agency Property will be sold as currently anticipated, and that the corresponding Agency Payments will be made to the City.

Insurance

The Leased Property is also insured to the extent set forth herein under the heading "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- Lease Agreement -

Insurance” and insurance proceeds are required to be applied to the repair of the Leased Property; or if the proceeds are insufficient to repair or replace the Leased Property, the City may prepay the Lease Payments and thereby cause the prepayment of outstanding Certificates. The Lease Agreement permits the City to satisfy certain of its insurance requirements through a self-insurance program or a self-insurance joint risk sharing pool.

Pursuant to the Lease Agreement, the City is required to obtain rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any structures constituting any part of the Leased Property as a result of any of the hazards covered in the insurance required by the Lease Agreement, and which causes abatement of the Lease Payments. Such insurance is to be in an amount equal to the Lease Payments and lease payments due under the 2001 Lease payable during the twenty-four month period following the effective date of said policy. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable. Under certain circumstances, the Lease Agreement permits the City to satisfy such insurance requirements through a self-insurance program or a self-insurance joint risk sharing pool.

No assurance can be given that insurance proceeds will be adequate to avoid an interruption of Lease Payments. Under such a situation, an abatement of Lease Payments is likely to occur. See “Abatement” above.

Lease Payments

Lease Payments are required to be made by the City under the Lease Agreement no later than the fifteenth (15th) day of the month preceding each Interest Payment Date, commencing in June 2004 (individually, a “Lease Payment Date”), for use and possession of the Leased Property to the next occurring Lease Payment Date. The amount of such Lease Payment shall be credited with amounts on deposit in the Lease Payment Fund on such Lease Payment Date.

Lease Payments are required to be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on each Payment Date the Trustee will withdraw from the Lease Payment Fund the amount of the Lease Payment then due and will apply such amounts to make principal and interest payments due with respect to the Certificates.

Additional Payments

The City is obligated under the Lease Agreement to pay when due, during the term of the Lease Agreement, in addition to the Lease Payments, all costs and expenses incurred by the Agency to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (as defined in the Trust Agreement), to the extent not paid from amounts on deposit in the Costs of Issuance Fund, compensation due to the Trustee and all reasonable costs and expenses of auditors, engineers and accountants.

In addition, throughout the term of the Lease Agreement, all improvement, repair and maintenance of the Leased Property is the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof. The City shall also pay or cause to be paid all taxes and

assessments of any type or nature, if any, charged to the Agency or the City affecting the Leased Property or the interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement.

Certificate Insurance

Payment of the principal of and interest with respect to the Certificates when due will be secured by a Financial Guaranty insurance policy to be issued by the Insurer simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" below and APPENDIX G – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" attached hereto.

CERTIFICATE INSURANCE

The following information concerning the Insurer, the Insurance Policy has been furnished by the Insurer for use in this Official Statement, and has not been independently certified or verified by the City or the Underwriter. No representation is made by the City or the Underwriter as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Insurer subsequent to the date of this Official Statement. Reference is made to APPENDIX G for a specimen of the Insurance Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

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

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

In the event the Trustee has notice that any payment of principal of or interest with respect to a Certificate which has become Due for Payment and which is made to a Certificate holder by or on behalf of the City has been deemed a preferential transfer and theretofore

recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Financial Guaranty Insurance Policy. Specifically, the Financial Guaranty Insurance Policy does not cover: (1) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (2) payment of any redemption, prepayment or acceleration premium; and (3) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or paying agent, if any.

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

Upon payment of the insurance benefits, the Insurer will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering Certificate Owner's rights to payment.

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

The Insurer

The Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory capital of approximately \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the City, as issuer of the Certificates. No representation is made by the Insurer regarding the federal income tax treatment of payments that are made by the Insurer under the terms of the Policy due to non-appropriation of funds by the City.

The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the heading "CERTIFICATE INSURANCE."

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be read and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at (800) SEC-0330 for further information on the public reference room. The Commission maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the Commission, including the Company. These reports, proxy statements and other information can also be read at the office of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

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

Incorporation of Certain Documents by Reference

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

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
7. The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;

8. The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;

9. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;

10. The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;

11. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;

12. The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003; and

13. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003.

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

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Certificates. There can be no assurance that other risk factors will not become evident at any future time.

No Tax Pledge

The obligation of the City to pay the Lease Payments does not constitute an obligation of the City for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt or indebtedness of the City, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limited or restriction.

Appropriation

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement, so long as the Leased Property is available for its use and possession, to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and has covenanted in the Lease Agreement that, for so long as the Leased Property is available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments. However, the City is currently liable on other obligations payable from general revenues, and the Lease Agreement does not prohibit the City from incurring additional obligations payable from general revenues on a parity with or prior to the Lease Payments. See "APPENDIX B - CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION" herein and the financial statements included in APPENDIX C hereto. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement, except from amounts on

deposit in the Lease Payment Fund. The same result could occur if, because of the State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues (see "Article XIII B of the State Constitution" below).

No Limit on Additional Debt

The City has the ability to enter into other obligations which may constitute additional charges against its general revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

Rights of Certain Parties

The City has previously entered into the 2001 Lease, pursuant to which the City has incurred general fund lease payment obligations with respect to the City corporate yard and Kraemer Park components of the Leased Property. Although the owners of the 2001 Certificates have the same claim as the owners of the Certificates with respect to the receipt of their payments from the City's general fund, such owners do have certain priority rights with respect to remedies and condemnation and insurance proceeds involving those particular portions of the Leased Property under the 2001 Lease and the 2001 Trust Agreement as described below.

Any Net Proceeds from casualty insurance or condemnation with respect to such components of the Leased Property not used for repair or replacement, will be applied first to defease and prepay the 2001 Certificates. The Certificates will be defeased and prepaid with any remaining proceeds. Use of such proceeds to so defease and prepay could adversely affect the amount of funds available to repair or rebuild the Leased Property. Failure to repair or rebuild the Leased Property may cause the abatement of Lease Payments under the Lease Agreement to continue.

Abatement and Eminent Domain

The obligation of the City to pay Lease Payments is in consideration for the right to the use and possession of the Leased Property. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund and the Reserve Fund created under the Trust Agreement) may be abated in whole or in part if the City does not have use and possession of the Leased Property.

The amount of Lease Payments due under the Lease Agreement will be adjusted or abated during any period in which by reason of damage or destruction or eminent domain there is interference with the use and possession of the Leased Property. Such adjustment or abatement will end with the substantial completion or replacement, repair or reconstruction of the Leased Property. The Reserve Fund will be available, along with amounts on deposit in the Lease Payment Fund and Agency Payments, if and when received by the City, in the event amounts received by the Trustee are insufficient to pay principal and interest on the Certificates as such amounts become due. If damage or destruction or eminent domain proceedings with respect to the Leased Property result in abatement of Lease Payments and the resulting Lease Payments, together with moneys in the above-described amounts, are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Leased Property is being replaced, repaired or reconstructed, then such payments or principal and interest may not be made and no remedy is available to the Trustee or the Owners of the Certificates, under the Lease Agreement or Trust Agreement, for nonpayment under such

circumstances. Additionally, the owners of the 2001 Certificates secured by the Leased Property have prior rights to net proceeds of insurance and condemnation with respect to the Leased Property (see "Rights of Certain Parties" above).

Limitation on Enforcement of Remedies; No Acceleration

The enforcement of any remedies provided in the Lease Agreement and Trust Agreement could prove both expensive and time consuming. Although the Lease Agreement provides that the Trustee may take possession of the Leased Property and lease it if there is a default by the City, and the Lease Agreement provides that the Trustee may have such rights of access to the Leased Property as may be necessary to exercise any remedies, portions of such Leased Property may not be easily recoverable and, could be of little value to others. Furthermore, due to the essential nature to the governmental functions of the Leased Property, it is possible that a court would not permit the exercise of the remedies of repossession and leasing with respect thereto. See "THE LEASED PROPERTY" herein.

IN THE EVENT OF A DEFAULT UNDER THE LEASE AGREEMENT, THERE IS NO AVAILABLE REMEDY OF ACCELERATION OF THE TOTAL LEASE PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE CITY WILL ONLY BE LIABLE FOR LEASE PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE LEASE PAYMENTS AS THEY COME DUE. IN ADDITION, ANY SUCH SUIT FOR MONEY DAMAGES COULD BE SUBJECT TO LIMITATIONS ON LEGAL REMEDIES AGAINST PUBLIC AGENCIES IN CALIFORNIA, INCLUDING A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS NEEDED TO SERVE THE PUBLIC WELFARE AND INTEREST AND A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS OF A FISCAL YEAR OTHER THAN THE FISCAL YEAR IN WHICH THE LEASE PAYMENTS WERE DUE.

Loss of Tax Exemption

As discussed under "CONCLUDING INFORMATION - Tax Exemption" herein, the interest due with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date such Certificates were issued, as a result of acts or omissions of the City in violation of its covenants in the Trust Agreement and the Lease Agreement to comply with certain provisions of the Internal Revenue Code of 1986, as amended, subsequent to the execution and delivery of the Certificates. Should such an event of taxability occur, the Certificates are not subject to early prepayment and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

Geologic, Topographic and Climatic Conditions

The value of the Leased Property, and the financial stability of the City, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and tornadoes). The Leased Property is within a 100-year flood plain.

The area encompassed by the City, like that in much of California, may be subject to unpredictable seismic activity. The City is located within a regional network of several active and potentially active faults. Seismic activity affecting Placentia is comparable to that affecting most surrounding areas in Los Angeles Basin. A frontal fault zone exists at the base of the San Gabriel Mountains north of the City. City officials do not believe that the Leased Property is situated on an earthquake fault. Faults within the vicinity of the City are the Norwalk Fault, the Whittier/Elsinore Fault, the Newport/Inglewood Fault, the Sierra Madre/San Fernando/Santa Susana Fault, the Palos Verdes Fault, the San Jacinto Fault and the San Andreas Fault. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City's right to use and occupy all or a portion of the Leased Properties, which could result in Lease Payments being subject to abatement. See "Abatement" above. Under the Lease Agreement, the City is required to maintain earthquake insurance only if available at reasonable cost from reputable insurers in the judgment of the City (whose determination shall be final and conclusive). The City does not currently maintain earthquake insurance on the Leased Property, and does not expect to do so in future years based on the current cost of such insurance. If there were to be an occurrence of severe seismic activity in the City, there could be an abatement or adverse impact on the City's ability to pay the Lease Payments. See "Abatement and Eminent Domain" above.

Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including improvements of the Leased Property. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the City. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the Leased Property, as well as public and private improvements within the City in general, may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

Hazardous Substances

An environmental condition that may result in the reduction in the assessed value of parcels, with a corresponding reduction in property tax revenue, would be the discovery of hazardous substances that would limit the beneficial use of a property within the City, or the value of the Leased Property. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator as any thing to do with creating or handling the hazardous substance. The effect, therefore, should the Leased Property or any substantial amount of property within

the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction could adversely impact the property tax revenues received by the City and deposited in the general fund. The corporate yard component of the Leased Property contains gasoline and natural gas storage facilities.

Public Debt Burden

The ability of property owners within the City to pay property tax installments as they come due could be affected by the existence of other taxes and assessments, imposed upon land and related improvements. In addition, other public agencies whose boundaries overlap those of the City could, without consent of the City, and in certain cases without the consent of the owners of the property within the City, impose additional taxes or assessment liens on the property within the City to finance public improvements to be located inside of or outside of the City. See "Limitations on Remedies Available; Bankruptcy" below.

Impact of State Budget

The State is experiencing serious budgetary shortfalls for the current fiscal year, and it is currently projected to experience budgetary shortfalls next fiscal year. The State General Fund Budget for fiscal year 2002/03 was adopted over two months late, and required the Legislature to close an approximately \$24 billion deficit. The impact of the State's budget on the City for Fiscal Year 2002/03 involved minor reductions or delays in receiving grants and/or certain State reimbursements. The Fiscal Year 2002/03 budget ended with a deficit of over \$10 billion. The City cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. The current projections from the Governor's office for Fiscal Year 2003/04 estimate a continued deficit of over \$8 billion. These developments at the State level will most likely adversely affect local governments, including the City. The State's revenue transfers to local governments, including vehicle license fee revenue backfill to the City, could be reduced or the State could decide to shift certain of its financial obligations to local governments.

On August 12, 2003, the Governor signed the budget bill for Fiscal Year 2003/04. In addition to suspending, deferring or eliminating certain State mandated local programs, the budget reduced the vehicle license fee backfill to cities and counties by approximately \$662 million (reflection the termination of backfill payments from the period of July 1, 2003 until the vehicle license fees are increased in October, 2003). However, Assembly Bill 1768 was subsequently adopted by the Legislature which requires the State to repay this transferred amount of vehicle license fees by August 15, 2006. The budget also created a one-half cent sales tax shift from cities and counties to repay deficit reduction bonds to be issued by the State, with a corresponding shift of property tax revenues back to local agencies. There can be no assurance that at some future date the State will not take action that reduces the amount of repayments to local governments.

The budget bills do not resolve the State's budget deficit. The budget requires the State to borrow approximately \$13 billion in Fiscal Year 2003/04, and litigation is challenging these revenue enhancements, which if either is ultimately successful or significantly delays realization of such revenues, will result in a material increase of the State budget deficit. If the State is unable to borrow such funds, the legislature will be required to find other funds, or make additional cuts in expenditures. The Legislature must also address the expected deficit in the

2003/04 budget. The City cannot predict what actions the Legislature will take to address such issues, or whether it will enact measures which shift revenues away from the City, and cannot predict the impact, if any, of such legislation on revenues in the City's General Fund. In addition, pursuant to a special election held on October 7, 2003, Governor Davis was recalled and Arnold Schwarzenegger was elected to complete his term. Governor Schwarzenegger was sworn into office on November 17, 2003, and immediately announced a repeal of the vehicle license fee increase. The Governor's ability to repeal the increase has not been tested. The City is unable to predict at this time the impact of the repeal on the in-lieu fees received by the City relating to the vehicle license fee, or the impact of the recall process on the resolution of current or future State funding issues.

The City budget for Fiscal Year 2003/04 does not currently reflect any reduction in revenues resulting from the State budget crisis. Instead, the City intends to adjust the budget revenues and expenditures once the extent of any shift of revenues has been finalized by the Legislature.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. Additionally, failure by major property owners to pay property taxes when due, may have an adverse impact on revenues available to pay Lease Payments. See "APPENDIX B - Assessed Valuation and Collections" hereto for a description of property tax collections and delinquencies within the City.

Substitution and Removal of Property

The Agency and the City may, under the terms of the Lease Agreement, substitute alternate real property for any portion of the Leased Property or release a portion of the Leased Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Leased Property for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement. See "THE LEASED PROPERTY - Substitution of Property" and "- Release of Property" herein.

Early Redemption of Premium Certificates

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated for federal tax purposes as having amortizable premium. If such Premium Certificates are paid prior to maturity as described herein under "THE CERTIFICATES - Prepayment" or otherwise, not all of the amortized premium may be realized

by the Owner. The Premium Certificates are treated as all other Certificates for purposes of selection for redemption prior to maturity as described herein.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

Article XIII A of the State Constitution, known as Proposition 13, except under certain circumstances limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the 1975/76 Fiscal Year tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation implementing Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirements that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These amendments have resulted in marginal reductions in the property tax revenues of the City.

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

Article XIII A Litigation

In June 1978, Article XIII A of the California Constitution was amended by Proposition 13 to limit, among other things, a County assessor’s ability to adjust for inflation to 2% per year (see “Article XIII A of the State Constitution” above). On November 2, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the “Orange County Litigation”) that the Orange County Assessor raised a homeowner’s assessment in violation of Article XIII A by increasing the assessment on the homeowner’s property by more than 2% per year, when the appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of the property remained flat or declined after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. On December 12, 2002, the Court certified the Orange County Litigation to proceed as a class-action suit (but only with respect to residents of Orange County). All 58 counties in the State (including Orange County) follow a similar process to the one used by the Orange County Assessor. Comparable claims have been filed in other jurisdictions, some of which have been rejected by the courts. This case will go to the State 4th District Court of Appeal, and if it is upheld on appeal, the decision could have far-reaching adverse implications for the property tax system in California.

The City cannot predict the outcome of the Orange County Litigation. At this point in time, the Court's ruling in the Orange County Litigation applies only to the particular assessment involved in the case. However, if the Court's ruling is applied generally, the loss of tax revenues to communities could be significant. Additionally, the ruling creates the possibility that all taxing agencies, including the City, would be required to give refunds for amounts collected above 2% per year for up to the last four years. Further, the City cannot predict the effect, if any, that the outcome of the Orange County Litigation would have on property tax revenues to be received by the City, although, if upheld and applied generally to Orange County, the effect would be adverse.

Article XIII B of the State Constitution

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

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

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

For Fiscal Year 2002/03 the City's appropriations limit was \$44,911,297, and its estimated actual appropriations in Fiscal Year 2002/03 were approximately \$16,576,844. For Fiscal Year 2003/04 the City's appropriations limit is \$46,812,585, and its budgeted expenditures subject to this limit are \$16,899,630. The City is subject to and is operating in conformity with Article XIII B.

Proposition 218

On November 5, 1996, California voters approved Proposition 218, which added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The voter approval requirements of proposition 218 reduce the City Council's flexibility to deal with fiscal problems by raising revenue, and no assurances can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

At this time, the City management has determined that all current fees, taxes and assessments are in compliance with Proposition 218. However, the City's position is unclear regarding the extent to which Proposition 218 is impacted by a 1995 California Supreme Court ruling (the *Guardino* case) that upheld the voter approval requirements of a previously enacted state initiative (Proposition 62), particularly with regard to taxes imposed, extended or increased between November 5, 1986 and December 11, 1995.

Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges.

While the City is unable to predict how Proposition 218 will be interpreted or whether and to what extent Proposition 218 may be held valid under the California and United States Constitutions, or to what extent this measure will affect the revenues in the City's General Fund, and while no assurances can be given regarding the impact of the application of Proposition 218, the City does not expect Proposition 218 to materially adversely affect its ability to pay the Lease Payments when due.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988/89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

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

Future Initiatives

Article XIII A, Article XIII B, Proposition 62 and Proposition 218 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

CONCLUDING INFORMATION

Underwriting

The original purchase price to be paid for the Certificates, upon execution and delivery thereof, is \$10,981,670.50, being the principal amount of the Certificates, less an Underwriter's discount of \$139,312.50 and less net original issue discount of \$24,017.00. The Underwriter intends to offer the Certificates to the public initially at the prices and/or yields set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Certificates to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Certificates at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

Financial Advisor

The Agency has retained HNTB Management Consulting, Los Angeles, California, as Financial Advisor for the sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness of fairness of the information contained in this Official Statement. HNTB Management Consulting is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal or other public securities.

Professional Fees

In connection with the issuance of the Certificates, fees payable to HNTB Management Consulting, as Financial Advisor, McFarlin & Anderson LLP, as Special Counsel, Nossaman, Guthner, Knox & Elliott, LLP, Disclosure Counsel, and U.S. Bank National Association, as Trustee, are contingent upon the issuance of the Certificates.

Legal Opinion

McFarlin & Anderson LLP, Lake Forest, California, Special Counsel, will render an opinion substantially in the form of APPENDIX D hereto with respect to the validity and enforceability of the City's obligations under the Lease Agreement and the validity of the Certificates. Except with respect to certain legal matters, Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement. Special Counsel's fee for delivery of its opinion is contingent on successful execution and delivery of the Certificates. Certain matters will be passed upon for the City by the City Attorney and by Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California, Disclosure Counsel.

Tax Exemption

In the opinion of McFarlin & Anderson LLP ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest evidenced by the Certificates is excluded from gross

income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

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

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

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

the tax status of interest evidenced by, the Certificates. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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

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

The form of Special Counsel's Opinion with respect to the Certificates is attached hereto as APPENDIX D.

Litigation

The City is not aware of any pending or threatened litigation concerning the validity of the Certificates or the Lease Agreement or challenging any action taken by the City or the Agency with respect to the Certificates or the Lease Agreement. Furthermore, the City is not aware of any pending or threatened litigation to restrain, enjoin, question or otherwise affect the Lease Agreement or the Trust Agreement or in any way contesting or affecting the validity or enforceability of any of the foregoing or any proceedings of the City taken with respect to any of the foregoing. Although there are a number of lawsuits and claims pending and threatened against the City, it is the opinion of the City that such litigation, claims and threatened litigation will not materially affect the City's finances or impair its ability to make Lease Payments or otherwise meet its obligations under the Lease Agreement.

Ratings

Standard & Poor's Credit Market Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") has assigned its municipal bond rating of "AAA" to the Certificates with the understanding that upon delivery of the Certificates, the Insurance Policy insuring the scheduled payment when due of the principal and interest with respect to the Certificates will be issued by the Insurer. In addition, Standard & Poor's has assigned its municipal bond rating of "A-" to the Certificates, notwithstanding the delivery of the Insurance Policy.

The ratings reflect only the views of such organization, and an explanation of the significance of such ratings may be obtained from Standard & Poor's. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. The City undertakes no responsibility to oppose any downward

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following are brief summaries of the provision of the Lease Agreement, the Trust Agreement and the Assignment Agreement. These summaries are not intended to be definitive. Reference is made to the actual documents (copies of which are available from the City) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in the Official Statement. Any terms not expressly defined in this Summary but previously defined in the Official Statement have the respective meanings previously given.

Definitions. The following terms will have the meanings indicated below unless the context clearly requires otherwise:

“Additional Lease Payments” means all amounts payable as additional lease payments by the City under the Lease Agreement.

“Agency” means the Redevelopment Agency of the City of Placentia, a body politic and corporate organized and existing under the laws of the State.

“Ambac Assurance” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Assignment Agreement” means the Assignment Agreement, dated as of November 1, 2003, by and between the Agency and the Trustee, together with any duly authorized and executed amendment thereto.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office of the Trustee is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

“Certificates” means the \$11,145,000 aggregate principal amount of “Certificates of Participation (2003 Refunding and Improvement Project)” to be executed and delivered pursuant to this Agreement.

“Closing Date” means the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase price of the Certificates by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as in effect on the date of delivery of the Certificates or (except as otherwise referenced in the Lease Agreement or the Trust Agreement) as it may be amended to apply to obligations issued on the date of delivery of the Certificates, together with applicable temporary and final regulations promulgated under the Code.

“Defeasance Obligations” has the meaning given to such term in the Trust Agreement.

“Delivery Costs” means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with this Agreement, the Lease Agreement, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; title insurance fees; legal fees and expenses of counsel with respect to the Lease Agreement; costs of compliance

with the California Environmental Quality Act; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee (including those of its counsel); and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the Lease Agreement, to the extent such fees and expenses are approved by the City.

“Escrow Bank” means U.S. Bank National Association, its successors and assigns, as Escrow Bank under the Escrow Deposit and Trust Agreement.

“Escrow Deposit and Trust Agreement” means the agreement by that name dated as of November 1, 2003 by and between the City and the Escrow Bank.

“Escrow Fund” means the fund of that name created under the Escrow Deposit and Trust Agreement.

“Event of Default” means an event of default under the Lease Agreement, as defined therein.

“Federal Securities” means direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, or its agencies, the obligations for timely payment of principal of and interest on which are guaranteed by, the United States of America.

“Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest with respect to the Certificates as provided therein.

“Fiscal Year” means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

“Insurance and Condemnation Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Insurer” means Ambac Assurance.

“Lease Agreement” means the Lease Agreement, dated as of November 1, 2003 between the City and the Agency, as originally executed or as it may from time to time be amended in accordance with its terms.

“Lease Payment Date” means the fifteenth (15th) day of June and December in each year during the Term of the Lease Agreement, commencing June 15, 2004.

“Lease Payment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Lease Payments” means all payments required to be paid by the City pursuant to the Lease Agreement, including any prepayment thereof pursuant to the Lease Agreement, which payments consist of an interest component and a principal component.

“Leased Property” means the equipment, land and facilities described in and to be leased to the City pursuant to the Lease Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and approved by the Agency.

“Net Proceeds” means when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Lease Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“Outstanding” means, when used as of any particular time with respect to Certificates, (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except -

(1) Certificates canceled by the Trustee;

(2) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

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

“Owner” or **“Certificate Owner”** or any other similar term, when used with respect to a Certificate means the person in whose name such Certificate shall be registered on the Registration Books.

“Payment Dates” or **“Payment Date”** means January 1 and July 1 in each year commencing July 1, 2004, so long as any Certificates are Outstanding.

“Permitted Encumbrances” means as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, nor then delinquent or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid; (b) the Assignment Agreement; (c) the Lease Agreement; (d) the 2001 Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the City certifies in writing will not materially impair the use of the Lease Property; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Agency and the City consent in writing which do not reduce the value of the Lease Property.

“Permitted Investments” shall mean any of the following to the extent then permitted by law:

1. Cash (insured at all times by the Federal Deposit Insurance Corporation);
2. Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - a. U.S. treasury obligations
 - b. All direct or fully guaranteed obligations
 - c. Farmers Home Administration
 - d. General Services Administration
 - e. Guaranteed Title XI financing
 - f. Government National Mortgage Association (GNMA)

- g. State and Local Government Series
3. Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - a. Export-Import Bank
 - b. Rural Economic Community Development Administration
 - c. U.S. Maritime Administration
 - d. Small Business Administration
 - e. U.S. Department of Housing & Urban Development (PHAs)
 - f. Federal Housing Administration
 - g. Federal Financing Bank
 4. Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - a. Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - b. Obligations of the Resolution Funding Corporation (REFCORP)
 - c. Senior debt obligations of the Federal Home Loan Bank System
 - d. Senior debt obligations of other Government Sponsored Agencies approved by Ambac
 5. U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
 6. Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
 7. Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
 8. Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - a. which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
 - b. which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
 9. Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

10. Investment Agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);
11. Other forms of investments (including repurchase agreements) approved in writing by the Insurer; and
12. Any state administered pool investment fund in which the City is statutorily permitted or required to invest moneys.

“Principal Corporate Trust Office” means the corporate trust office of the Trustee in Los Angeles, California.

“Rating Category” means with respect to any Permitted Investment, one of the generic categories of rating by Moody’s applicable to such Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

“Record Date” means the fifteenth (15th) day of the calendar month preceding each Payment Date, whether or not such day is a Business Day.

“Record Period” means each twelve-month period during the Term of the Lease Agreement commencing on January 2 in any year and ending on January 1 in the next succeeding year, except that the first Rental Period shall commence on the Closing Date.

“Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Reserve Requirement” means as of any date of calculation the amount equal to the lesser of (i) 10% of the initial principal component of the Certificates, (ii) maximum principal and interest evidenced by the Outstanding Certificates each remaining Certificate Year, or (iii) 125% of average a principal and interest evidenced by the Outstanding Certificates each remaining Certificate Year, which amount may be satisfied in whole or in part by a Credit Facility approved by the Insurer.

“S&P” means Standard & Poor’s, a Division of McGraw Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and assigns except that if such corporation shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and approved by the Agency.

“Term of the Lease Agreement” means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

“Trust Agreement” means the Trust Agreement, dated as of November 1, 2003, by and among the Agency, the Trustee and the City of Placentia, together with any duly authorized amendments thereto.

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America having a corporate trust office in Los Angeles, California, or its successor as Trustee under the Trust Agreement.

LEASE AGREEMENT

The Agency and the City have determined to (i) sublease the 2001 Project comprising the City's corporate yard and a City park and (ii) an additional City park (collectively, the "Leased Property") and to that end the Agency and the City will enter into the Lease Agreement. The Agency will assign and transfer certain of its rights under the Lease Agreement to U.S. Bank National Association, as trustee (the "Trustee"), and in consideration of such assignment and the execution of the Trust Agreement dated as of November 1, 2003, by and among the City, the Agency and the Trustee, the Trustee has agreed to execute and deliver the 2003 Certificates of Participation (2003 Refunding and Improvement Project), each evidencing a direct, undivided fractional interest in the lease payments to be paid by the City under the Lease Agreement.

Right of Substitution. The City may at any time and from time to time, with the prior written consent of the Insurer substitute other real property (the "Substitute Property") for the Leased Property, or any portion thereof (the "Former Property"), provided that the City satisfies all of the following requirements which are conditions precedent to such substitution. See "SECURITY FOR THE CERTIFICATES - Substitution of Property" in the Official Statement.

Sublease under the 2001 Lease. The Agency and the City have previously entered into the 2001 Lease Agreement dated as of June 1, 2001, and a Memorandum of Lease and of Assignment dated as of June 1, 2001, which was recorded on July 11, 2001 as Instrument No. 2001-0464227 in the Official Records of the County of Orange (the "2001 Lease"), for the purpose of leasing and subleasing, respectively, certain land and facilities used by the City for its municipal purposes, as more fully described therein (collectively the "2001 Project"). The Agency has previously assigned and transferred certain of its rights under the 2001 Lease pursuant to the Assignment Agreement dated as of June 1, 2001 to U.S. Bank National Association (successor to U.S. Bank Trust National Association), as trustee (the "2001 Trustee"), and the bank has previously executed and delivered \$4,500,000 aggregate principal amount of Certificates of Participation dated June 1, 2001 (the "2001 Certificates") of which \$3,575,000 will be outstanding as of January 2, 2004, each evidencing a direct, undivided fractional interest in the lease payments to be made by the City under and as defined in the 2001 Lease (the "2001 Lease Payments"). The Lease Agreement shall constitute a sublease under the 2001 Lease in accordance with the 2001 Lease.

Term of Agreement. The term of the Lease Agreement shall commence on the date of execution of the Certificates and shall end on January 1, 2028, unless such term is extended as provided in the Lease Agreement. If on January 1, 2028, the Trust Agreement shall not be discharged by its terms, then the Term of the Lease Agreement shall be extended until the Trust Agreement shall be discharged by its terms, but not beyond January 1, 2038. If prior to January 1, 2038, the Trust Agreement shall be discharged by its terms, the term of the Lease Agreement shall thereupon end. The foregoing provisions are subject in all respects to the provisions of the Lease Agreement relating to the termination of the Lease Agreement in the event of eminent domain proceedings with respect to the Leased Property.

Lease of Leased Property. The City has previously leased a portion of the Leased Property to the Agency pursuant to the 2001 Lease, and the Agency has previously subleased such portion of the Leased Property to the City pursuant to the 2001 Lease. The City shall continue to and does lease the Leased Property to the Agency and the Agency shall continue to and does sublease the Leased Property to the City, upon the terms and conditions set forth in the Lease Agreement, without interruption by virtue of the sublease thereby.

Lease Payments.

(a) Obligation to Pay. Subject to the provisions of the Lease Agreement relating to damage, destruction and eminent domain and the use of net proceeds and the provisions relating to prepayment of Lease Payments, the City agrees to pay to the Agency, its successors and assigns, as rental for the use and possession of the Leased Property during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in the Lease Agreement, to be due and payable on the respective Lease Payment Dates. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole and other than amounts required for payment of Certificates not yet surrendered) shall be credited towards the Lease Payment then due and payable; no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Leased Property payable in any Rental Period shall be for the use of the Leased Property for such Rental Period.

(b) Effect of Prepayment. In the event that the City prepays all remaining Lease Payments in full pursuant to the terms of the Lease Agreement, the City's obligations under the Lease Agreement shall thereupon cease and terminate, including, but not limited to, the City's obligation to pay Lease Payments under the Lease Agreement, subject however, to the provisions relating to prepayment of Lease Payments in the case of prepayment by application of a security deposit. In the event that the City prepays the Lease Payments pursuant to the Lease Agreement in part but not in whole or as a result of any insurance or condemnation award with respect to any portion of the Leased Property, such prepayment shall be credited entirely towards the prepayment of the Lease Payments as follows: (i) the principal components of each remaining such Lease Payments shall be reduced on a *pro rata* basis in integral multiples of \$5,000; and (ii) the interest component of each remaining Lease Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby prepaid pursuant to the Trust Agreement.

(c) Source of Payments; Budget and Appropriation. The Lease Payments shall be payable from any source of available moneys of the City, subject to the provisions relating to damage, destruction, eminent domain and prepayment of Lease Payments. The City covenants to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and for Additional Payments. To that end, the City Council shall direct budgetary staff to include in each annual budget proposal to the City Council an appropriation sufficient to pay Lease Payments and Additional Lease Payments. The covenants on the part of the City contained in the Lease Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City. During the Term of the Agreement the City will furnish to the Trustee, no later than 20 days following the adoption of the budget for that fiscal period, a Certificate of the City Representative that the Lease Payments due in that fiscal period have been included in the budget approved by the City Council for such fiscal period.

(d) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Agency to the Trustee in trust, pursuant to the Assignment Agreement, for the benefit of the Owners of the Certificates, and the City assents to such assignment. The Agency directs the City, and the City agrees to pay to the Trustee at the Principal Corporate Trust Office of the Trustee, all payments payable by the City pursuant to the Lease Agreement as Lease Payment or for the prepayment of Lease Payments.

Title. During the Term of the Lease Agreement, the City shall hold fee title to the Leased Property.

If the City prepays the Lease Payments in full pursuant to the Lease Agreement or makes the security deposit permitted by the Lease Agreement, or pays all Lease Payments during the Term of the Lease Agreement as the same become due and payable, the leasehold estate of the Agency in and to the Leased Property shall be terminated. The Agency agrees to take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such termination of interest.

Maintenance, Utilities, Taxes and Assessments. Throughout the Term of the Lease Agreement, as part of the consideration for the sublease of the Leased Property, all improvement, repair and maintenance of the Leased Property shall be the responsibility of the City and the City shall pay, or otherwise arrange, for the payment of all utility services supplied to the Leased Property which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments, the Agency agrees to provide only the Leased Property.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Agency or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Agency shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Agency in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Agency with full security against any loss which may result from nonpayment, in form satisfactory to the Agency.

Modification of Leased Property. The City shall, at its own expense, have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All additions, modifications and improvements to the Leased Property, but not any additional buildings or improvements, shall thereafter comprise part of the Leased Property and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Property, substantially alter its nature, cause the interest component of Lease Payments to be subject to federal income taxes or cause the Leased Property to be used for purposes other than those authorized under the provisions of State and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto pursuant to the Lease Agreement, shall be of a value which is not substantially less than the value of the Leased Property immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City; provided that if any such lien is established and the City shall first notify the Agency of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Agency with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Agency. The Agency will cooperate fully in any such contest, upon the request and at the expense of the City.

Public Liability and Leased Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive general liability insurance policy or policies in protection of the City, the Agency and the Trustee, including their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed 10% of the policy amount) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance; Earthquake Insurance. The City shall maintain, or cause to be maintained throughout the Term of the Lease Agreement, insurance against loss or damage to any part of the Leased Property by earthquake or fire and lightning, with extended coverage and vandalism and malicious mischief insurance; *provided, however,* that the City shall be required to maintain earthquake insurance only if, in the opinion of the City, such insurance may be procured from a reputable insurer at a reasonable cost. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of the Leased Property. Such insurance may be subject to deductible clauses of not to exceed 10% of the policy amount for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the City and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose or self-insurance. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

Rental Interruption Insurance. The City shall maintain, or cause to be maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Leased Property during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance relating to fire and extended coverage described above, in an amount equal to maximum Lease Payments and lease payments due under the 2001 Lease payable during any twenty-four month period following the effective date of said policy. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance.

(i) On the Closing Date, the City shall provide, from moneys in the Delivery Costs Fund or at its own expense, a CLTA title insurance policy covering, and in the amount of not less than the principal amount of the Certificates and of the outstanding 2001 Certificates, insuring the City's leasehold estate in that portion of the Leased Property that consists of real property, subject only to Permitted Encumbrances.

(ii) The Net Proceeds of such title insurance shall be applied as provided in the Lease Agreement.

Insurance Net Proceeds; Form of Policies. Each policy or other evidence of insurance described above shall provide that all proceeds thereunder shall be payable to the Trustee and applied as described below

Installation of City's Equipment. The City may, at any time and from time to time in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Leased Property. All such items shall remain the sole property of the City in which neither the Agency nor the Trustee shall have any interest and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the City from purchasing or leasing items to be installed pursuant to the Lease Agreement under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

Eminent Domain. If all of the Leased Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Property shall be taken permanently, or if all of the Leased Property or any part thereof shall be taken temporarily under the power of eminent domain, (1) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments thereunder, in an amount to be agreed upon by the City and the Agency such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property, except to the extent of special funds, such as amounts in the Reserve Fund and/or the Lease Payment Fund.

Application of Net Proceeds.

(a) From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Leased Property by fire or other casualty shall be paid by the City to the Trustee, as assignee of the Agency under the Assignment Agreement, deposited in the Insurance and Condemnation Fund held by the Trustee and applied as set forth in the Trust Agreement.

(b) From Eminent Domain Award. The Net Proceeds of any eminent domain award resulting from any event described above shall be paid by the City to the Trustee, as assignee of the Agency under the Assignment Agreement, deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

(c) From Title Insurance. The Net Proceeds of any title insurance award shall be paid to the Trustee, as assignee of the Agency under the Assignment Agreement, deposited in the Insurance and Condemnation Fund, and applied as set forth in the Trust Agreement.

Abatement of Lease Payments in the Event of Damage and/or Destruction. Lease Payments shall be abated during any period in which, by reason of damage or destruction (other than by eminent domain which is provided for in the Lease Agreement), there is substantial interference with the beneficial use and occupancy by the City of the Leased Property or any portion thereof as shall be agreed upon by the City and the Agency such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that the proceeds of rental interruption insurance, amounts in the Reserve Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being declared in the Lease Agreement that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Assignment by the Agency. The Agency's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Lease Agreement, have been assigned to the Trustee pursuant to the Assignment Agreement.

Assignment and Subleasing by the City. The Lease Agreement may not be assigned by the City. The City may sublease the Leased Property or any portion thereof, but only with the written consent of the Agency and subject to, and delivery to the Agency of a certificate as to, all of the following conditions:

(a) The Lease Agreement and the obligation of the City to make Lease Payments under the Lease Agreement shall remain obligations of the City;

(b) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Agency and the Trustee a true and complete copy of such sublease;

(c) No such sublease by the City shall cause the Leased Property to be used for a purpose other than as may be authorized under the provisions of the Constitution and laws of the State; and

(d) The City shall furnish the Agency and the Trustee with a written opinion of nationally-recognized bond counsel, which shall be an Independent Counsel, stating that such sublease does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

Amendment of the Lease Agreement.

(a) Release of Site. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Leased Property, provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such release:

(i) The City shall file with the Agency and the Trustee an amended Exhibit B to the Lease Agreement which describes the Leased Property, as revised by such release;

(ii) The City delivers to the Trustee and the Agency evidence that the Leased Property, as revised by such release, is of a value at least equal to the value of the Leased Property as of the Closing Date;

(iii) The City shall provide notice of such release to any rating agency then rating the Certificates and

(iv) The Insurer shall have given its prior written consent to such release.

(b) Generally. Neither the City nor the Agency will alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease Agreement, except in connection with a release permitted by the Lease Agreement and permitted by the Trust Agreement.

Events of Default Defined. The following shall be “events of default” under the Lease Agreement and the terms “Events of Default” and “Default” shall mean, whenever they are used in the Lease Agreement, with respect to the Leased Property, any one or more of the following events:

(a) Failure by the City to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified in the Lease Agreement.

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement or under the Trust Agreement, other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Agency, the Trustee, or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then outstanding; *provided, however*, if the failure stated in the notice can be corrected, but not within the applicable period, the Agency, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may later be enacted.

Remedies on Default. Whenever any Event of Default referred to above shall have happened and be continuing, it shall be lawful for the Agency to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however*, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant to be kept and performed by the City is expressly made a condition and upon the breach thereof, the Agency may exercise any and all rights of entry and re-entry upon the Leased Property, and also, at its option, with or without such entry, may terminate the Lease Agreement; *provided*, that no such termination shall be effected either by operation of law or acts of the parties to the Lease Agreement, except only in the manner expressly provided and provided that such rights of entry and re-entry are subordinate to the rights afforded under the 2001 Lease which have been assigned to the 2001 Trustee for the benefit of the owners of the 2001 Certificates. In the event of such default and notwithstanding any re-entry by the Agency, the City shall, as expressly provided, continue to remain liable

for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement and, in any event such rent and/or damages shall be payable to the Agency at the time and in the manner as provided, to wit:

(a) In the event the Agency does not elect to terminate the Lease Agreement in the manner described in subparagraph (b) below, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Agency for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Agency is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Lease Payments under the Lease Agreement, notwithstanding such entry or re-entry by the Agency or any suit in unlawful detainer, or otherwise, brought by the Agency for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Agency. The City irrevocably appoints the Agency as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property in the event of default by the City in the performance of any covenants contained in the Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Leased Property, to place such property in storage or other suitable place within Orange County, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Agency from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of such property by the Agency or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City waives any and all claims for damages caused or which may be caused by the Agency in re-entering and taking possession of the Leased Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Property. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Agency to re-lease the Leased Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Agency in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement shall vest in the Agency to be effected in the sole and exclusive manner described in paragraph (b) below.

(b) In an Event of Default under the Lease Agreement, the Agency at its option may terminate the Lease Agreement and re-lease all or any portion of the Leased Property. In the event of the termination of the Lease Agreement by the Agency at its option and in the manner provided in the Lease Agreement on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Agency in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Agency all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease Agreement in the case of payment of Lease Payments. Any surplus received by the Agency from such re-leasing shall be credited towards the Lease Payments next coming due and payable. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Agency shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Agency shall have given written notice to the City of the election on the part of the Agency to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Leased Property and/or of the remainder of the Term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Agency by such written notice.

Security Deposit. Notwithstanding any other provision of the Lease Agreement, the City may, on any date, secure the payment of all of the Lease Payments remaining due by an irrevocable deposit with the Trustee or an escrow holder under an escrow deposit and trust agreement as referenced in the Trust Agreement, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) cash in an amount which, together with amounts on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Exhibit F, or (ii) Defeasance Obligations in such amount as will, in the written opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Defeasance Obligations or cash then on deposit and interest earnings thereon in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, be fully sufficient to pay all unpaid Lease Payments on their respective Lease Payment Dates.

In the event of a deposit pursuant to the Lease Agreement as to all Lease Payments and the payment of all fees, expenses and indemnifications owed to the Trustee, all obligations of the City under the Lease Agreement shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all payments from the deposit made by the City pursuant to the Lease Agreement, and title to the Leased Property shall vest in the City on the date of said deposit automatically and without further action by the City or the Agency. Said deposit and interest earnings thereon shall be deemed to be and shall constitute a special fund for the payments provided for and said obligation shall thereafter be deemed to be and shall constitute the installment purchase obligation of the City for the Leased Property. Upon said deposit, the Agency will execute or cause to be executed any and all documents as may be necessary to confirm title to the Leased Property in accordance with the provisions of the Lease Agreement. In addition, the Agency appoints the City as its agent to prepare, execute and file or record, in appropriate offices, such documents as may be necessary to place record title to the Leased Property in the City.

Mandatory Prepayment From Net Proceeds of Insurance, Title Insurance, Eminent Domain or Other Extraordinary Event. The City shall be obligated to prepay the Lease Payments allocable to the Leased Property, in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of a casualty insurance, title insurance or condemnation award with respect to the Leased Property theretofore deposited in the Lease Payment Fund for such purpose pursuant to the Lease Agreement and the Trust Agreement. The City and the Agency agree that such Net Proceeds shall be applied first to the payment of any delinquent Lease Payments, and thereafter shall be credited towards the City's obligations under the Lease Agreement. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which shall represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment.

Net-net-net Lease. The Lease Agreement shall be deemed and construed to be a "net-net-net lease" and the City agrees that the Lease Payments shall be an absolute net return to the Agency, free and clear of any expenses, charges or set-offs whatsoever.

TRUST AGREEMENT

Trustee The Trustee is appointed pursuant to the Trust Agreement and is authorized to prepare, execute and deliver the Certificates thereunder, and to act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds, and invest amounts held under the Trust Agreement in accordance with the City's instructions.

Application of Proceeds of Certificates. The proceeds received from the sale of the Certificates shall be deposited in the Delivery Costs Fund, the Reserve Fund, the Escrow Fund and in the Improvement Fund, as provided in the Trust Agreement. In addition, a portion of the Certificate proceeds have, in accordance with written instructions from the City, been paid by the initial purchaser of the Certificates to the Insurer to pay the premium for the Financial Guaranty Insurance Policy.

Escrow Fund. The Escrow Bank will, pursuant to the terms of the Escrow Deposit and Trust Agreement, (a) establish a special fund designated as the “2001 Certificates Escrow Fund” and will apply the moneys therein to the payment and redemption of the January 1, 2004 payment of the City of Placentia 2001 Certificates of Participation (Traffic Circulation Project) and (b) establish a special fund designated as the “2001 Certificates Refunding Escrow Fund” and will apply the moneys therein to the full payment and redemption of the City of Placentia Taxable Convertible Certificates of Participation (2003 Capital Improvement Financing Project), all as provided in the Escrow Deposit and Trust Agreement.

Improvement Fund. All moneys in the Improvement Fund shall be held by the Trustee in trust and applied by the Trustee to the payment of the costs of the improvements as directed by the City or the reimbursement of the City for costs previously incurred pursuant to a written requisition as in the form attached to the Trust Agreement. Upon receiving written notification from the City that all costs have been paid, the Trustee shall close the Improvement Fund and transfer any funds contained therein to the Lease Payment Fund.

Delivery Costs Fund. The Trustee shall disburse moneys from the Delivery Costs Fund on such dates and in such amounts as are necessary to pay deliver costs. One year after the Closing Date, the Trustee shall transfer any amounts then remaining in the Delivery Costs Fund to the Interest Account.

Reserve Fund. There shall be maintained in the Reserve Fund an amount equal to the Reserve Requirement. Subject to the limitations set forth in the Trust Agreement, amounts in the Reserve Fund may be applied to pay the principal and interest evidenced by the Certificates when due in the event that the moneys in the Interest Account and the Principal Account of the Lease Payment Fund are insufficient therefor.

Lease Payment Fund.

(a) Lease Payment Fund. The Trustee shall disburse moneys from the Lease Payment Fund established under the Trust Agreement on such dates and in such amounts as are necessary to pay administrative expenses of the City relating to the Trust Agreement or the Lease Agreement, in each case upon the Statement of the City, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Lease Payment Fund.

(b) Deposit of Lease Payments. Commencing July 1, 2004, the Trustee shall transfer from the Lease Payment Fund the following amounts at the times and in the manner provided in the Trust Agreement, and shall deposit such amounts in one or more of the following respective accounts each of which shall be disbursed and applied only as hereinafter authorized. Such amounts shall be so transferred to and deposited in the following respective accounts in the following order of priority, the requirements of each such account at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(i) Interest Account. The Trustee, on or before each January 1 and July 1 of each year (commencing on July 1, 2004) shall deposit in the Interest Account an amount representing the portion of the Lease Payments designated as interest coming due on said January 1 or July 1,

respectively. No deposit need be made into the Interest Account so long as there shall be in such Account moneys sufficient to pay the interest coming due with respect to the Certificates on said January 1 or July 1, as applicable. Except as hereinafter provided, moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Certificates when due and payable.

(ii) Principal Account. The Trustee, on or before January 1 of each of the years (commencing January 1, 2005) shall deposit in the Principal Account an amount representing the portion of the Lease Payments designated as principal coming due on said January 1. No deposit need be made into the Principal Account so long as there shall be in such Account moneys sufficient to pay the portion designated as principal of all Certificates then Outstanding coming due on said January 1. Except as hereinafter provided, moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal with respect to the Certificates when due and payable.

(iii) Reserve Fund. No deposit need be made into the Reserve Fund so long as there shall be sufficient moneys in cash or in the form of a Credit Facility to meet the Reserve Requirement. On each January 1 and July 1 on which the balance in the Reserve Fund is less than the Reserve Requirement, the Trustee shall transfer from the Lease Payment an amount sufficient to increase the balance in the Reserve Fund to the Reserve Requirement.

(iv) Prepayment Account. Moneys to be used for prepayment pursuant to the Trust Agreement and paid by the City pursuant to the Lease Agreement shall be deposited in the Prepayment Account on the prepayment date specified in the Written Request of the City filed with the Trustee pursuant to the Lease Agreement. Said moneys shall be set aside in the Prepayment Account solely for the purpose of prepayment of the Certificates in advance of their respective stated maturities and shall be applied on or after the date specified for prepayment pursuant to the Trust Agreement to the payment of the principal and, as to Certificates to be prepaid on a date other than a Payment Date, the accrued interest with respect to the Certificates to be prepaid.

Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award.

(a) Any Net Proceeds of insurance against accident to or destruction of any part of the Leased Property collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund to be established when needed and designated as the "Insurance and Condemnation Fund." The Trustee shall keep such Fund separate and apart from all other funds and accounts held by it, and shall administer such Fund as provided in the Trust Agreement.

(b) Within forty five (45) days following any accident to or destruction of any part of the Leased Property, the City shall determine and notify the Trustee and the Insurer in writing of its determination either (i) that the replacement, repair, restoration, modification or improvement of the Leased Property is not economically feasible or in the best interest of the City, or (ii) that all or a portion of such Net Proceeds are to be applied to the prompt replacement repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property.

(c) In the event the City's determination is as set forth in clause (i) of paragraph (b) above, such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund, applied to the prepayment of Lease Payments pursuant to the Lease Agreement and applied to the prepayment of Certificates as provided in the Trust Agreement, provided, however, that in the event of damage or destruction

of a portion of the Leased Property, such Net Proceeds may be transferred to the City's Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Lease Payments pursuant to the Lease Agreement; provided further, however, that in the event of damage or destruction of the Leased Property in part, such Net Proceeds may be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments only if the resulting Lease Payments represent fair consideration for the remaining portions of the Leased Property, evidenced by a certificate signed by a City Representative and a Agency Representative.

(d) In the event the City's determination is as set forth in clause (ii) of paragraph (b) above, Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, and disbursed by the Trustee upon receipt of requisitions signed by a City Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. The Trustee shall not be responsible for such requisitions and may conclusively rely thereon. Any balance of the Net Proceeds remaining after such work has been completed shall, upon request of the City, be paid to the City.

Application of Net Proceeds of Eminent Domain Award. If all or any part of the Leased Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

(a) If the City has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Leased Property or the ability of the City to meet any of its obligations with respect to the Leased Property under the Lease Agreement, and (ii), such proceeds are not needed for repair or rehabilitation of such Leased Property, the City shall so certify to the Trustee and the Trustee, at the City's written request, shall transfer such proceeds to the Lease Payment Fund to be applied towards the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

(b) If the City has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Leased Property or the ability of the City to meet any of its obligations with respect to the Leased Property under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of the Leased Property, the City shall so certify to the Trustee and the Trustee, at the City's written request, shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation.

(c) If (i) less than all of such Leased Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the City has given written notice to the Trustee of the determination that such eminent domain proceedings have materially affected the operation of the Leased Property or the ability of the City to meet any of its obligations with respect to the Leased Property under the Lease Agreement or (ii) all of the Leased Property shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

(d) In making any determination under the Trust Agreement, the City may, but shall not be required to, obtain at its expense, the report of an independent engineer or other independent professional consultant, a copy of which shall be filed with the Trustee. Any such determination by the City shall be final.

Application of Net Proceeds of Title Insurance Award. The Net Proceeds from a title insurance award shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be transferred to the Lease Payment Fund to be credited towards the prepayment of Lease Payments required to be paid pursuant to the Lease Agreement and applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

Investment of Moneys in Funds. All moneys in any of the funds and accounts established pursuant to the Trust Agreement shall be invested upon the Written Request of the City by the Trustee in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund or account. The Trustee shall invest such moneys in Permitted Investments in accordance with the Written Request of the City. In the absence of such a Written Request of the City, the Trustee shall invest such moneys in Permitted Investments listed in clause 1 of the definition thereof. Securities acquired as an investment of moneys in a fund or account shall be credited to such fund or account. All Permitted Investments shall be acquired subject to the limitations as to maturities described in this paragraph and such additional limitations or requirements consistent with the foregoing as may be established by a Statement of the City.

Any interest, profit or other income on such investments in the Lease Payment Fund shall be deposited in the Lease Payment Fund and any interest, profit or other income on such investments in other funds or accounts shall be transferred to the Lease Payment Fund.

The Trustee may sell or present for prepayment any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle any of the funds or accounts established pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling.

The Trustee may make any investments through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Trust Agreement.

Action on Default or Termination. Upon the occurrence of an Event of Default (as that term is defined in the Lease Agreement), which event shall constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default, and subject to the Insurer's right to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners, the Trustee or the Owners of not less than a majority in aggregate principal amount of Certificates at the time outstanding shall be entitled, upon notice in writing to the City and the Agency, to exercise any of the remedies granted to the Agency in the Lease Agreement, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in (a), (b) or (c) below.

Other Remedies of the Trustee. The Trustee (with the written consent of the Insurer) shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any board member, officer or employee thereof, and to compel the City or any such board member, officer or employee to perform or carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the City and its directors, officers and employees to account as the trustee of an express trust.

Application of Lease Payments Upon an Event of Default. All Lease Payments received by the Trustee after the date of the declaration of an Event of Default as provided in the Lease Agreement shall be applied in the following order --

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due with respect to Certificates for principal and interest, in respect of which or for the benefit of which, money has been collected (other than Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable on such Certificates, for principal and interest, respectively, with interest on the past due amounts at the highest rate per annum then payable with respect to the Certificates.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or Trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for thirty (30) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such thirty-day period by the Owners of a majority in principal amount of the Outstanding Certificates; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal and interest or the Prepayment Price represented by any Certificate at and after the maturity or earlier prepayment thereof.

Consent of the Insurer in the Event of Insolvency. Any reorganization or liquidation plan with respect to the City must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold the Insurer-insured Certificates absent a default by the Insurer under the Financial Guaranty Insurance Policy insuring such Certificates.

Consent of the Insurer Upon Default. Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined in the Trust Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

Removal and Resignation of Trustee. The Trustee may be removed at any time, at the request of the Agency, for any breach of the trust set forth in the Trust Agreement. The Trustee may be removed at any time, at the request of the Insurer, for any breach of the trust set forth in the Trust Agreement. Additionally, the Owners of a majority in aggregate principal evidenced by all Certificates Outstanding, or the Agency or the City so long as no Event of Default has occurred and is continuing, may by written request, remove the Trustee initially a party to the Trust Agreement, and any successor thereto, and may appoint a successor Trustee.

Amendments Permitted.

(a) Subject to the provisions of the Trust Agreement relating to consent of the Insurer, the Trust Agreement and the rights and obligations of the Agency and the City and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment to the Trust Agreement which shall become binding when the written consent of the Owners of at least sixty percent (60%) in aggregate principal evidenced by the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, and the written consent of the Insurer as required by the Trust Agreement shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest components or reduce the amount of principal represented thereby, without the consent of the Owner of each Certificate so affected, (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without its written consent thereto.

(b) Subject to the provisions relating to the consent of the Insurer, the Trust Agreement and the rights and obligations of the Agency and the City and of the Owners of the Certificates may also be modified or amended at any time by an amendment to the Trust Agreement which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only upon receipt of an unqualified opinion of nationally recognized bond counsel selected by the City and approved by the Agency to the effect that such amendment or supplement is permitted by the provisions of the Trust Agreement and does not adversely affect the exclusion of the interest portion of the Lease Payments received by the Owners from gross income for federal income tax purposes, and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Agency or the City contained in the Trust Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Trust Agreement reserved to or conferred upon the Agency or the City, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement, as the Agency or the City may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates;

(3) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any

similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to modify, amend or supplement the Trust Agreement in such manner as to cause interest evidenced by the Certificates to be excludable, or remain, from gross income for purposes of federal income taxation by the United States of America;

(5) to supplement the Trust Agreement to provide for the execution of certificates of participation to refund the Certificates, subject to the limitations of the Trust Agreement; and

(6) to make such other amendments or modifications which shall not adversely affect the interests of the Owners of the Certificates, provided that the City, the Agency and the Trustee may rely in entering into any such amendment or supplement upon an opinion of nationally recognized bond counsel selected by the City and approved by the Agency stating that the requirements of this subsection have been met with respect to such amendment or supplement.

Consent of the Insurer in Addition to Owner Consent. Unless otherwise provided in the Trust Agreement, the Insurer's consent shall be required in addition to Owner consent, when required, for the following purposes: (i) execution and delivery of any supplemental Trust Agreement or any amendment, supplement or change to or modification of the Lease Agreement, (ii) removal of the Trustee or selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

Discharge of Trust Agreement. When the obligations of the City under the Lease Agreement shall cease pursuant to the provisions of the Trust Agreement relating to defeasance of the Certificates (except for the right of the Trustee and the obligation of the City to have the money and Permitted Investments mentioned therein applied to the payment of Lease Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, determine and become void except for the right of the Owners and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Certificates as set forth in the Trust Agreement and the Trustee shall turn over to the City, as an overpayment of Lease Payments, any surplus in the Lease Payment Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Certificates at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest represented by the Certificates, and after such payment, the Trust Agreement shall become void.

Deposit of Money or Securities with Trustee. Whenever in the Trust Agreement or the Lease Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Trust Agreement and shall be --

(a) an amount equal to the principal amount represented by such Certificates and all unpaid interest represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which 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, the amount to be deposited or held shall be the Prepayment Price represented by such Certificates; or

(b) investments consisting solely of one or more of the following: (i) cash; (ii) United States Treasury Obligations - State and Local Government Series (“SLGS”); or (iii) Permitted Investments described in clauses 1, 2(a), 2(b), 2(c), 2(e), 2(g), 2(h), or 12 of the definition of Permitted Investments (each a “Defeasance Obligation”), the principal of and interest on which when due will provide money sufficient to pay the principal plus all accrued interest to maturity or the Prepayment Price, as the case may be, represented by the Certificates to be paid or prepaid, as such amounts become due, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, 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;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Trust Agreement and the Lease Agreement or by Written Request of the City) to apply such money to the payment of such principal and interest represented by such Certificates or the Prepayment Price. The sufficiency of any such deposit, other than money alone, shall be verified by the report of an independent firm of nationally recognized certified public accountants.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, to the extent permitted by law, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal or Prepayment Price represented by any of the Certificates which remain unclaimed for two (2) years after the date of deposit of such moneys if deposited with Trustee after the date when the interest and principal or Prepayment Price represented by such Certificates have become payable, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the interest and principal or Prepayment Price represented by such Certificates.

The Insurer’s Right to Subrogation. Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest components due on the Certificates shall be paid by the Insurer pursuant to the Financial Guaranty Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and all covenants, agreements and other obligations of the City to the Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

ASSIGNMENT AGREEMENT

The Agency and the Trustee will enter into the Assignment Agreement under which the Agency assigns and sets over to the Trustee, for the benefit of the Owners of the Certificates, substantially all of the Agency’s rights under the Lease Agreement (subject to certain exceptions), including the right of the Agency to receive and collect Lease Payments, its right to receive and collect proceeds of condemnation and insurance awards and the right to exercise rights and remedies of the Agency in the Lease Agreement to enforce payments of amounts thereunder. The Trustee accepts such assignment for the purpose of securing the Lease Payments, subject to the provisions of the Trust Agreement.

APPENDIX B CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

The information herein is subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the Certificates shall under any circumstances imply that there has not been any change in the affairs of the City or in any other information contained herein since the date of the Official Statement. The Certificates are payable solely from the sources described herein (see "SECURITY FOR THE CERTIFICATES"). The taxing power of the City of Placentia, the County of Orange, the State of California or any political subdivision thereof is not pledged to the payment of the Certificates. See the information under the caption "THE CERTIFICATES."

General

The City is located in northeastern Orange County, approximately 24 miles southeast of the City of Los Angeles, and covers approximately 6.7 square miles. The City was founded and incorporated in 1926. The City provides police protection, animal control, emergency medical aid, building safety regulation and inspection, street lighting, beautification, sewer service, land use planning, and zoning, housing and community services, maintenance and improvement of streets and related structures, traffic safety maintenance and improvement and a full range of recreational and cultural programs for citizen participation. Refuse collection is provided by the City through a contract. The City's estimated population in 2003 is approximately 49,100.

The City operates under a Council-Administrator form of government. The five City Council members are elected to four-year terms in alternate slates of three and two every two years, with the Mayor being elected every two years. The Mayor presides over meetings of the Council and has one vote. The City Council appoints the City Administrator, who heads the executive branch of government, implements Council directives and policies, and manages the administrative and operational functions through the various departmental heads, who are appointed by the City Administrator. The Council also appoints the City Attorney. The City Clerk and City Treasurer are elected.

Population

The City's population in 1970 was 21,948, and in 1980 it was 34,950, an increase of 59.2%. By 1990 the population was 41,250, representing an increase of 18.0% over the 1980 figure. By 2000, the population was 46,300, representing an increase of 12.2% over the 1990 figure. The following table summarizes the population estimates for the City, Orange County and State of California as of January 1, for the years 1996 through 2003.

**TABLE 1
CITY OF PLACENTIA
1996 through 2003 Population Estimates**

<u>Calendar Year</u>	<u>City of Placentia</u>	<u>County of Orange</u>	<u>State of California</u>
1996	42,750	2,625,300	31,837,000
1997	43,150	2,672,800	32,207,000
1998	44,150	2,724,500	32,657,000
1999	45,700	2,776,100	33,140,000
2000	46,300	2,829,800	33,753,000
2001	46,900	2,880,600	34,367,000
2002	48,200	2,930,500	35,000,000
2003	49,100	2,978,800	35,591,000

Source: State Department of Finance; as of January 1.

Employee Relations

The City employs approximately 131 full-time employees and 24 part-time employees, including approximately 53 sworn police officers.

There have been no work stoppages by City employees. Approximately 72.3% of all City employees are covered under three negotiated agreements. The current agreements covering the Placentia police officers and police management have expiration dates of September 25, 2004.

Insurance

The City is self insured through the Public Agency Risk Sharing Authority of California ("PARSAC"). PARSAC is made up of approximately 35 California cities and provides joint protection wherein cities pool their resources, share risks, purchase excess insurance and share costs for professional risk management and claims administration. The program includes comprehensive liability coverage for member cities. Under the liability program, the City retains the risk of loss for general liability claims of up to the first \$100,000 per person per occurrence. Portions of general liability claims exceeding the above mentioned amounts are covered by PARSAC up to a maximum of \$1,000,000 and the California Affiliated Risk Management Authority ("CARMA") provides excess coverage above \$1 million to \$3 million. Losses exceeding \$3 million to \$10 million are reinsured by Am Re Managers Specific coverage, including comprehensive and general liability, personal injury, contractual liability, errors and omission, and certain other coverage.

The City is self-insured for all other risks of loss, including workers' compensation (up to the first \$250,000 with excess coverage thereafter), employee health, fire, water, boiler and machinery insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three Fiscal Years.

Employee Retirement System

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment

and administrative agent for participating public entities within the State of California. All full-time employees are eligible to participate in PERS and become vested in the system after five years of service. City contributions (including the employees' portion of payments) to the pension benefit plan were approximately \$1,264,416 in the Fiscal Year ended June 30, 2002 and approximately \$1,202,135 in the Fiscal Year ended June 30, 2003. The City has budgeted a contribution of \$1,395,860 for Fiscal Year 2003/04.

In addition to the pension benefits, the City maintains a deferred compensation plan. All full-time employees of the City are eligible for participation in both plans. Contributions to the deferred compensation plan are from employees only. The City also provides certain health care and life insurance benefits for retired employees on a two-tiered system. The benefits are funded by expensing the annual insurance premiums, which were \$608,930 in Fiscal Year 2002/03.

Investment Policy

The City invests its funds in accordance with the City's Investment Policy, most recently amended in 2002. In accordance with Sections 53600 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer.

Investments permitted under the Investment Policy include the following:

- U.S. Treasury Securities
- Federal Agency Securities
- Bankers Acceptances
- Commercial Paper (issued by corporations and financial institutions)
- Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements (although it is the City's policy to not invest directly in reverse repurchase agreements and to not invest in any pool with more than 10% of its total portfolio in reverse repurchase agreements)
- State of California Local Agency Investment Fund ("LAIF")
- Orange County Investment Pool ("OCIP") (All current deposits are to be withdrawn as soon as they become available. OCIP may be considered as a future investment option once the OCIP is restructured; however such option must be evaluated by the City Treasurer and Investment Advisory Committee and be subject to City Council approval).

Funds are invested in the following order of priority:

- Safety- Preservation of principal and interest.
- Liquidity- Provision for cash for City operations as needed.
- Yield - Only after safety and liquidity needs are met will yield be considered.

The City Treasurer is required to provide a quarterly report to the City Council showing the type of investment, institution, date of maturity, amount of deposit, current market value for all securities, rate of interest, interest earned, and other such information as may be required by the City Council.

According to the City Treasurer's most recent report for the month ended June 30, 2003, the City has invested funds with a market value totaling approximately \$2,233,725. As of June 30, 2003, less than 1 % of the portfolio consisted of Federal agency notes and U.S. Treasury securities (based on market value). The average maturity of the portfolio was two days. As of June 30, 2003, the market value of the City's investment portfolio (\$2,233,725) was 100 % of the investment portfolio's book value (\$2,233,725).

The following table summarizes certain information relating to the City's investment portfolio as of June 30, 2003:

**TABLE 2
CITY OF PLACENTIA
INVESTMENT PORTFOLIO SUMMARY
(As of June 30, 2003)**

<u>Type of Investment</u>	<u>Book Value</u>	<u>Market Value (1)</u>
LAIF	\$1,401,205	\$1,401,205
Bank CD's	832,209	832,209
Fed. Agencies – Coupon	<u>311</u>	<u>311</u>
Total	\$2,233,725	\$2,233,725

Source: City of Placentia

(1) Market Value as of June 30, 2003.

Budgetary Process

The Fiscal Year of the City begins on the first day of July of each year and ends on the 30th day of June of the following year.

All budgets are adopted on a basis consistent with generally accepted accounting principles. After January 1, department heads prepare estimates for required appropriations for the Fiscal Year commencing the following July 1. The proposed budget includes estimated expenditures and forecasted revenues for the Fiscal Year. The data is presented to the City Administrator for review. Prior to June 1, the City Administrator submits to the City Council a proposed operating budget for the upcoming Fiscal Year. The operating budget includes a summary of the proposed expenditures and financial resources of the City, as well as historical data for the preceding two fiscal periods. Public hearings are conducted to obtain taxpayer's comments. The City Council adopts the budget prior to July 1 through passage of an adopting resolution. This appropriated budget covers substantially all City expenditures, including rebudgeted items. All appropriated amounts are as originally adopted or as amended by the City Council and lapse at Fiscal Year end.

The City Administrator is authorized to transfer budgeted amounts within departments, and within funds. Transfers of appropriations between departments and between funds may be made only with the approval of the City Council. Total fund and department expenditures in excess of total budgeted amounts are prohibited. The City Council approves various amendments during the year.

The City Council employs, at the beginning of each Fiscal Year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually,

and at such other times as the City Council shall determine, examines the financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the Fiscal Year, a final audit and report is submitted by such accountant to the City Council and copy of the financial statements as of the close of the Fiscal Year is published.

Following is a table which shows the adopted and actual General Fund Budget for Fiscal Year 2002/03 and the adopted General Fund Budget for Fiscal Year 2003/04.

**TABLE 3
CITY OF PLACENTIA
GENERAL FUND BUDGETS
(Fiscal Years 2002/03 and 2003/04)**

	Adopted Budget Fiscal Year <u>2002/03</u>	Actual Fiscal Year <u>2002/03(1)</u>	Adopted Budget Fiscal Year <u>2003/04</u>
Revenues:			
Taxes	\$12,808,800	\$12,312,750	\$13,054,820
Licenses and permits	635,660	789,712	635,600
Fines and forfeitures	355,000	330,242	290,000
Investment Income	510,000	306,812	473,000
Intergovernmental	2,670,100	2,776,697	2,871,320
Charges for services	391,440	447,587	577,880
Other	<u>227,400</u>	<u>429,780</u>	<u>247,000</u>
Total revenues	<u>\$17,598,400</u>	<u>\$17,393,580</u>	<u>\$18,150,010</u>
Expenditures:			
Current:			
General government	\$ 3,346,284	\$ 3,129,030	\$ 3,510,000
Public safety	12,584,420	12,515,794	12,599,790
Public works	4,223,000	4,189,353	4,033,790
Community development and services	1,685,047	1,643,735	1,952,920
Debt service:			
Principal retired	-	452,633	-
Interest and fiscal charges	-	185,757	-
Estimated appropriation savings	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$21,838,751</u>	<u>\$22,116,302</u>	<u>\$22,096,510</u>
Excess of revenues over (under) expenditures	(4,240,351)	(4,722,722)	(3,946,500)
Other financing sources (uses):			
Proceeds from long-term debt	-	-	-
Operating transfer in	3,816,510	4,676,909	3,725,510
Operating transfers out	<u>-</u>	<u>(493,383)</u>	<u>(494,000)</u>
Total other financing sources (uses)	<u>3,816,510</u>	<u>4,183,526</u>	<u>3,231,510</u>
Excess of revenues and other sources over (under) expenditures and other uses)	(423,841)	(539,196)	(714,990)
Fund balance – July 1	<u>7,225,870</u>	<u>7,225,870</u>	<u>6,686,674</u>
Fund balance – June 30	<u>\$6,802,029</u>	<u>\$6,686,674</u>	<u>\$5,971,684</u>

Source: City of Placentia Financial Statements and City of Placentia Finance Department.
(1) Estimated.

Financial Statements

The accounting policies of the City conform to generally accepted accounting principles. Accounts of the City are organized on the basis of funds and account groups each of which is considered a separate accounting entity. Operations of each fund are accounted for with a separate set of self-balancing accounts. All Governmental Funds and Fiduciary Funds use the modified accrual basis of accounting. The Proprietary and Account Groups use the accrual basis of accounting.

The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. Revenues and expenditures in the City's General Fund for Fiscal Years 2000/01 through 2002/03 are shown in the following table. Taxes, Charges for Current Services, Intergovernmental Revenues, and Investment Income are the City's major sources of revenues.

Set forth in the following pages are a general fund balance sheet and a statement of revenues, expenditures and changes in fund balances for the City's general fund for the last three Fiscal Years.

**TABLE 4
CITY OF PLACENTIA
GENERAL FUND BALANCE SHEET
(As of June 30)**

	<u>2001</u>	<u>2002</u>	<u>2003(1)</u>
<u>Assets</u>			
Cash and investments	\$ 133,431	\$ -	\$ 832,591
Cash with fiscal agents	-	347,306	131,844
Taxes and accounts receivable, net	1,583,729	1,751,657	1,164,002
Due from other funds	-	482,151	25,175
Loan receivables	-	345,663	413,034
Due from ONTRAC JPA	4,059,626	5,063,556	5,063,556
Inventory of supplies	63,513	68,740	68,443
Advance to Placentia Red. Agency	140,000	120,000	100,000
Prepaid expenses	<u>0</u>	<u>0</u>	<u>12,678</u>
Total Assets	<u>\$ 5,980,299</u>	<u>\$ 8,179,073</u>	<u>\$ 7,811,323</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 569,432	\$ 418,340	\$ 432,326
Payroll payable	233,779	245,231	279,289
Deferred revenue	<u>14,782</u>	<u>361,346</u>	<u>413,034</u>
Total Liabilities	817,993	1,024,917	1,124,649
Fund Balances:			
Reserved for:			
Advances to other funds	140,000	120,000	100,000
Inventory of supplies	63,513	68,740	68,443
Prepaid expense	-	-	12,678
ONTRAC JPA receivables	4,059,626	5,063,556	5,063,556
Unreserved:			
Designated for council contingencies	1,900,000	1,900,000	1,900,000
Designated for economic stabilization	-	1,860	-
Undesignated	<u>(1,000,833)</u>	<u>-</u>	<u>(458,003)</u>
Total fund balances	<u>5,162,306</u>	<u>7,154,156</u>	<u>6,686,674</u>
Total liabilities and fund balances	<u>\$ 5,980,299</u>	<u>\$ 8,179,073</u>	<u>\$ 7,811,323</u>

Source: City of Placentia Financial Statements for Fiscal Years 2000/01 and 2001/02.

(1) Estimated.

TABLE 5
CITY OF PLACENTIA
STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
(Year Ended June 30)

	<u>2001</u>	<u>2002</u>	<u>2003(1)</u>
Revenues:			
Taxes:			
Property taxes	\$ 4,479,326	\$ 4,626,526	\$ 4,966,137
Sales and use taxes	5,024,601	5,214,489	4,902,680
Other taxes	2,513,043	2,689,167	2,443,933
Intergovernmental	3,167,693	2,961,908	2,776,697
Licenses and permits	829,920	765,595	789,712
Fines and forfeitures	365,452	324,419	330,242
Investment income	571,085	294,014	306,812
Charges for services	223,308	515,970	447,587
Miscellaneous	<u>340,699</u>	<u>509,056</u>	<u>429,780</u>
Total revenues	<u>17,515,127</u>	<u>17,901,144</u>	<u>17,393,580</u>
Expenditures:			
Current:			
General government	3,159,658	3,173,497	3,129,030
Public safety	10,908,587	12,652,504	12,515,794
Public works	3,985,730	4,066,044	4,189,353
Community Services	1,297,039	1,689,503	1,643,735
Capital outlay	927,626	573,461	-
Debt service:			
Principal	-	280,000	452,633
Interest	-	<u>78,520</u>	<u>185,757</u>
Total expenditures	<u>20,278,640</u>	<u>22,513,529</u>	<u>22,116,302</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,763,513)</u>	<u>(4,612,385)</u>	<u>(4,722,722)</u>
Other financing sources (uses):			
Operating transfers-in	3,737,962	6,067,040	4,676,909
Operating transfers-out	(698,805)	(2,751,695)	(493,383)
Transfer to component unit	-	(302,974)	-
Contribution to ONTRAC	-	(4,309,929)	-
Proceeds of debt	-	4,500,000	-
Proceeds from sale of land	<u>-</u>	<u>3,495,270</u>	<u>-</u>
Total other financing sources (uses)	<u>3,039,157</u>	<u>6,697,712</u>	<u>4,183,256</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<u>275,644</u>	<u>2,085,327</u>	<u>(539,196)</u>
Fund balances at beginning of year, as restated	<u>4,886,662</u>	<u>5,068,829</u>	<u>7,225,870</u>
Fund balances at end of year	<u>\$ 5,162,306</u>	<u>\$ 7,154,156</u>	<u>\$6,686,674</u>

Source: City of Placentia Financial Statements for Fiscal Years 2000/01 and 2001/02.

(1) Estimated.

General Fund Unreserved and Undesignated Ending Balances

The following chart illustrates the unreserved and undesignated fund balances of the City which are available (upon action by the City Council) for Fiscal Years 1991/92 through 2003/04:

TABLE 6
CITY OF PLACENTIA
GENERAL FUND UNRESERVED AND UNDESIGNATED ENDING BALANCES
(As of June 30)

<u>Fiscal Year</u>	<u>Ending Fund Balance</u> ⁽³⁾
1992	\$ 41,559
1993	56,767
1994	57,669
1995	678,259
1996	1,300,000
1997	3,305,000
1998	3,005,000
1999	2,902,186
2000	4,634,896
2001	4,958,793
2002	1,901,860
2003 ⁽¹⁾	0
2004 ⁽²⁾	0

Source: City of Placentia Department of Finance.

(1) Estimated.

(2) Budgeted.

(3) Designated for Council contingencies and designated for economic stabilization.

Financial Obligations of the City's General Fund

Equipment Leases. The City leases equipment and trucks, computer equipment, street sweepers and energy management systems under capital lease agreements. The related liabilities are included in obligations under capital leases in the general long-term debt account group. See APPENDIX C hereto for a description of such obligations as of June 30, 2002. As of June 30, 2003, the outstanding balance of those obligations was \$611,478, and the scheduled payments due in Fiscal Year 2003/04 total \$225,250.

Long-Term Obligations. The City has certain outstanding and overlapping obligations including revenue bonds, lease revenue bonds, certificates of participation, capital leases and tax allocation bonds payable from tax increment revenues, enterprise funds and/or the general fund. The following Table shows these long-term outstanding obligations and the sources of revenues pledged or otherwise available for payment.

**CITY OF PLACENTIA
CURRENT OUTSTANDING CERTIFICATES OF PARTICIPATION
PAYMENTS REQUIREMENTS TO MATURITY**

<u>Fiscal Year Ending June 30</u>	<u>Certificates of Participation/Capital Leases</u>
2004	\$1,125,789
2005	1,169,872
2006	1,196,934
2007	1,077,605
2008 & Beyond	10,836,718

SOURCE: City of Placentia Department of Finance.

City Assessed Valuations

The County Assessor of Orange County assesses all real and personal property in the City of Placentia for tax purposes except public utility property which is assessed by the State Board of Equalization. California law exempts \$7,000 of the assessed valuation of an owner occupied dwelling. Effective with the 1980/81 Fiscal Year, State law also exempted 100% of the value of business inventories from taxation, rather than 50% as in prior years. The law provides for reimbursements to local agencies based on their share of the revenues derived from the application of the maximum tax rate applied to business inventories in the 1979/80 Fiscal Year, with adjustments to reflect increases in population and the consumer price index.

Revenue estimated to be lost to local taxing agencies due to such exemptions is reimbursed from State sources. Such reimbursement is based upon total taxes due upon such exempt values and is not reduced by any amount for estimated delinquencies. The summary below presents the City's 1993/94 through 2003/04 taxable valuation.

**TABLE 8
CITY OF PLACENTIA
ASSESSED VALUATION
(Fiscal Years 1993/94 to 2003/04)
(000'S Omitted)**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1993/94	\$1,999,526	\$4,720	\$111,127	\$2,115,373
1994/95	2,017,466	2,254	109,339	2,129,059
1995/96	2,028,149	2,445	110,158	2,140,752
1996/97	2,033,690	2,520	110,504	2,146,714
1997/98	2,089,760	2,624	117,127	2,209,511
1998/99	2,249,813	3,099	127,545	2,380,457
1999/00	2,450,981	3,246	129,755	2,583,982
2000/01	2,667,945	3,284	131,891	2,803,120
2001/02	2,886,544	3,320	127,502	3,017,366
2002/03	3,117,649	3,136	139,740	3,260,525
2003/04 ⁽¹⁾	3,356,855	2,939	137,233	3,497,027

Source: HdL Coren & Cone.
(1) Estimated.

Tax Levies and Delinquencies

Although Orange County has implemented the Alternative Method of Distribution of Tax Levies and Collections and Tax Sale Proceeds (the "Teeter Plan"), which allows each entity levying property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected, the City does not participate in the Teeter Plan. The table below sets forth the property tax levies, collections and delinquencies in the City for Fiscal Years 1993/94 to 2002/03.

**TABLE 9
CITY OF PLACENTIA
SECURED PROPERTY TAX LEVIES AND COLLECTIONS⁽¹⁾
(As of June 30)**

<u>Fiscal Year</u>	<u>Total Current Levy</u>	<u>Total Current Collections</u>	<u>% of Levy Collected</u>
1994	\$3,274,332	\$3,100,868	95%
1995	3,283,075	3,052,797	93
1996	3,467,250	3,009,121 ⁽²⁾	87
1997	3,395,964	3,201,953	94
1998	3,488,580	3,375,579	97
1999	3,741,552	3,649,299	98
2000	4,111,906	4,055,696	99
2001	4,504,569	4,430,446	98
2002	4,844,853	4,768,462	98
2003 ⁽³⁾	5,356,082	5,248,960	98

Source: County of Orange.

- (1) Net of redevelopment agency collections.
- (2) In 1995/96 the County Assessor's Office Appeals Board granted \$368,377 in prior year's adjudicated property tax reassessment refunds.
- (3) Estimated.

State Legislative Shift of Property Tax Allocation

Beginning in 1992/93, the State has required that local agencies remit a portion of property taxes received to augment school funding. For Fiscal Year 1992/93 and 1993/94, this amount was approximately \$350,000 and \$763,000, respectively. The City's property tax reduction in Fiscal Year 2002/03 was approximately \$1,219,000. This payment is expected to continue in future Fiscal Years, but is partially offset by an increase in motor vehicle licensing fees and an increase in sales tax made permanent by voters in November 1993.

See "RISK FACTORS – Impact of State Budget" herein for a discussion of circumstances which will adversely impact certain of the City's tax receipts.

Non-Real Estate Taxes

In addition to *ad valorem* taxes on real property, the City receives the following non-real estate taxes:

Sales and Use Tax. The 7.75% sales and use tax is levied and collected by the State, which returns to the City 1.0% of the amount of sales in the City.

Transient Occupancy Tax. A Transient Occupancy Tax is charged to any person exercising occupancy from a hotel operator. The tax is 10% of the rate charged by the hotel operator. There are currently three hotels in the City.

Franchise Tax. The franchise tax is levied on public utilities in the amount of 2% of gross receipts. Franchised public utilities include electric, water, natural gas, refuse collection and cable TV.

Business License Tax. The business license tax is levied on all business operating within the City limits. The rate varies by industry type and it is calculated on gross receipts.

The following table presents the tax revenues of the City for the last five Fiscal Years:

**TABLE 10
CITY OF PLACENTIA
GENERAL FUND TAX REVENUES BY SOURCE
(AS OF JUNE 30)**

	<u>1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03(1)</u>
Property Taxes	\$4,793,687	\$5,555,283	\$5,872,378	\$6,042,242	\$6,420,027
Sales and Use Tax	4,486,397	4,760,567	5,024,601	5,214,489	4,902,680
Transit Occupancy Tax	478,117	512,206	572,910	528,890	499,448
Franchise Taxes	1,007,351	1,075,084	1,028,370	1,225,380	1,117,808
Business License Tax	746,024	705,225	725,730	719,340	694,963
Other Taxes	<u>272,092</u>	<u>220,203</u>	<u>186,033</u>	<u>215,560</u>	<u>268,995</u>
TOTALS	\$11,783,668	\$12,828,568	\$13,410,022	\$13,945,901	\$13,903,921

Source: City of Placentia Department of Finance.

(1) Estimated.

In-Lieu Payments

A significant revenue source of the City is State of California payments and other payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles fees collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as "intergovernmental revenues."

**TABLE 11
CITY OF PLACENTIA
IN-LIEU PAYMENTS
(Year ended June 30)**

<u>Fiscal Year</u>	<u>In-Lieu Payment</u>
1998	\$1,888,136
1999	2,061,230
2000	2,343,946
2001	2,578,897
2002	2,634,204
2003 ⁽¹⁾	2,554,397
2004 ⁽²⁾	2,750,000

Source: City of Placentia Department of Finance.

(1) Estimated.

(2) Budgeted.

In light of recent budget problems experienced by the State of California, the City is expected to lose approximately \$502,600 of In-Lieu Payments in Fiscal Year 2003/04,

although such amounts are required to be repaid by the State by August, 2006. See "RISK FACTORS – Impact of State Budget" herein.

Largest Property Taxpayers

The ten largest secured property-taxpayers in the City for the Fiscal Year 2002/03 and their percentage of total secured property taxes are shown in the following table:

**TABLE 12
CITY OF PLACENTIA
LARGEST PAYERS OF PROPERTY TAX
(as of June 30, 2002)**

<u>Property Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>% of Total⁽¹⁾</u>
Hunt Wesson, Inc.	Unsecured	\$13,483,722	0.40%
F & F Placentia Associates LLC	Industrial	11,322,000	0.34
Knott Family Company LLC	Industrial	10,543,972	0.31
Marriott Residence Inn II	Residential	7,570,042	0.23
CTG Properties	Industrial	8,260,654	0.25
Donahue Schriber Realty Group	Commercial	36,990,703	1.10
MNC Brothers	Miscellaneous	5,739,078	0.17
Totea Associates	Industrial	5,275,606	0.16
Union Development Company, Inc.	Miscellaneous	4,950,587	0.15
TR Somerset Ownership Corp.	Residential	<u>27,853,465</u>	<u>0.83</u>
Totals		\$131,989,829	3.94%

Source: Orange County Assessor 2002/03 Secured & Unsecured Tax Rolls.

(1) 2002/03 Total Assessed Valuation: \$3,352,657,272.

Direct and Overlapping Bonded Debt

The statement of direct and overlapping debt (the "Debt Report") set forth below was prepared by California Municipal Statistics, Inc. as of September 25, 2003. The Debt Report includes only such information as has been reported to California Municipal Statistics, Inc. by the issuers of the debt described therein and by others. The Debt Report is included for general information purposes only. The City takes no responsibility for its completeness or accuracy.

Direct and Overlapping Bonded Debt

CITY OF PLACENTIA

2003-04 Assessed Valuation: \$3,499,256,371
 Redevelopment Incremental Valuation: 155,335,718
 Adjusted Assessed Valuation: \$3,343,920,953

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 9/1/03</u>
Orange County Teeter Plan Obligations	1.282%	\$ 1,595,129
Metropolitan Water District	0.275	1,221,811
North Orange County Joint Community College District	5.687	7,838,676
Placentia-Yorba Linda Unified School District	29.363	12,676,829
City of Placentia Community Facilities District No. 89-1	100.	23,140,000
City of Placentia 1915 Act Bonds	100.	<u>605,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$47,077,445
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 9/1/03</u>
Orange County General Fund Obligations	1.282%	\$12,152,386
Orange County Pension Obligations	1.282	1,497,023
Orange County Board of Education Certificates of Participation	1.282	256,144
Orange County Transit District Authority	1.282	63,331
Municipal Water District of Orange County Water Facilities Corporation	1.554	648,251
Placentia-Yorba Linda Unified School District Certificates of Participation	29.363	1,629,647
Placentia Library District Authority	98.459	142,766
Orange County Sanitation District Certificates of Participation	1.783	2,664,961
City of Placentia Certificates of Participation	100.	<u>7,715,000</u> (2)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$26,769,509
Less: Orange County Transit District Authority (80% self-supporting)		50,665
MWDOC Water Facilities Corporation (100% self-supporting)		<u>142,766</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$26,576,078
GROSS COMBINED TOTAL DEBT		\$73,846,954 (3)
NET COMBINED TOTAL DEBT		\$73,653,523

(1) Based on 2002-03 ratios.

(2) Excludes issue to be sold.

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

Ratios to 2003-04 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.35%

Ratios to Adjusted Assessed Valuation:

COMBINED DIRECT DEBT (\$7,715,000) 0.23%
 Gross Combined Total Debt.....2.21%
 Net Combined Total Debt.....2.20%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: \$0

Source: California Municipal Statistics, Inc.

Median Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes

imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City, the County of Orange, the State of California and the United States for the period 1999 through 2002.

TABLE 13
EFFECTIVE BUYING INCOME
(As of January 1)

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1999	City of Placentia	\$ 937,216	\$51,709
	Orange County	55,179,528	48,773
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2000	City of Placentia	\$ 962,348	\$59,268
	Orange County	62,330,828	55,262
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	City of Placentia	\$ 959,401	\$55,022
	Orange County	62,568,674	53,277
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	City of Placentia	\$ 918,960	\$52,482
	Orange County	60,602,515	49,726
	California	647,879,427	37,840
	United States	5,340,682,818	38,035

Source: Sales & Marketing Management Survey of Buying Power.

Employment

Orange County comprises the Orange County Primary Metropolitan Statistical Area ("PMSA"), reported on a monthly basis by the State Department of Employment Development.

**TABLE 14
ORANGE COUNTY
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT⁽¹⁾
(Number in Thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003*</u>
Employment	1,432,700	1,474,600	1,490,800	1,496,100	1,504,600
Unemployment	<u>39,000</u>	<u>38,400</u>	<u>46,300</u>	<u>64,600</u>	<u>56,400</u>
Civilian Labor Force	1,471,000	1,513,000	1,537,100	1,560,700	1,561,000
Unemployment Rate	2.6%	2.5%	3.0%	4.1%	3.6%

Source: State of California Employment Development Department.

* As of May, 2003

(1) By place of residence, including workers involved in labor disputes. The figures used for the employment and unemployment are an annual average.

The major employers within the City and the number of persons employed by each company are shown in the following table.

**TABLE 15
CITY OF PLACENTIA
MAJOR INDUSTRIAL EMPLOYERS
(As of April 2002)**

<u>Company</u>	<u>Number of Employees</u>
The Hartwell Corporation	290
Laird Technologies	140
Knott's Berry Farm Foods	122
George Westin Bakeries, Inc.	95
A-1 Carbide	89
Modular Display Systems	50
Integrated Aerospace	35
L. W. LeFort Co.	25
Magnavon Industries	20

Source: Placentia Chamber of Commerce.

TABLE 16
MAJOR NON-MANUFACTURING EMPLOYERS
(as of January 2003)

<u>Company</u>	<u>Number of Employees</u>
Placentia-Yorba Linda School District	2,400
Placentia-Linda Community Hospital	350
Primedia	200
Fairway Ford	110
Hometown Buffet	100
Stater Bros.	85

Source: City of Placentia.

Construction Activity

The following table summarizes building permit valuation in the City in the last five years.

TABLE 17
CITY OF PLACENTIA
CONSTRUCTION ACTIVITY
(As of June 30)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003⁽¹⁾</u>
<u>Commercial/Industrial</u>					
Number of units	2	4	1	3	4
Valuation	\$ 2,396,177	\$ 1,573,610	\$ 3,255,422	\$ 1,375,000	\$2,625,942
<u>Residential Construction</u>					
Number of units	186	219	132	137	148
Valuation	<u>\$34,100,972</u>	<u>\$15,513,753</u>	<u>\$47,062,149</u>	<u>\$34,802,706</u>	<u>\$38,387,554</u>
Total Construction Value	\$36,497,149	\$17,087,363	\$50,317,571	\$36,177,706	\$41,013,496

Source: City of Placentia, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2002, except for 2003.

(1) Estimated.

Commercial Activity

The table below summarizes taxable sales for the calendar years 1997 through 2001.

TABLE 18
CITY OF PLACENTIA
TAXABLE RETAIL SALES FOR 1997-2001
(In Thousands)

<u>Business</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Retail Stores					
Apparel Stores	\$6,280	\$3,524	\$1,128	\$1,165	\$1,044
General Merchandise	16,663	16,939	20,776	26,143	20,751
Food Stores	21,034	21,564	23,538	24,179	23,810
Eating/Drinking Places	37,790	41,061	42,338	44,847	47,357
Home furn. & appliances	4,277	5,788	5,410	6,078	6,141
Bldg. matr. & farm implmt.	24,429	31,823	33,285	29,027	32,450
Auto dealers, supplies	60,961	67,895	74,726	85,929	91,034
Service Stations	23,379	19,451	23,275	27,723	28,427
Other retail stores	<u>40,439</u>	<u>41,813</u>	<u>43,280</u>	<u>54,470</u>	<u>61,427</u>
Retail Stores Total	\$235,252	\$249,858	\$267,756	\$299,561	\$312,441
All Other Outlets		<u>127,283</u>	<u>132,662</u>	<u>136,394</u>	<u>130,105</u>
	<u>112,229</u>				
TOTAL ALL OUTLETS	\$347,481	\$377,141	\$400,418	\$435,955	\$442,546

Source: California State Board of Equalization.

Community Facilities

Public Utilities. Water is provided by the Southern California Water Company. The City participates in the Orange County Sanitation District, which operates two sewage treatment plants with a 230 million gallons per day capacity. Electricity is supplied by the Southern California Edison Company and natural gas by the Southern California Gas Company. The Pacific Bell Telephone Company provides telephone service. Solid waste is collected by a private collection company, Placentia Disposal Inc. contracted by the City and disposed of at an Orange County landfill.

Police. The Placentia Police Department employs approximately 60 sworn persons, or approximately 1.22 police persons per 1,000 population (49,000).

Fire. For fire and paramedic service, the City contracts the Orange County Fire Authority (OCFA). Within the City limits, OCFA has two manned and equipped fire stations. There are approximately three pieces of equipment, eight on duty personnel, staffing a paramedic engine company (four personnel, two are firefighter/certified medics), a 90-foot ladder company (four personnel), an engine company (three personnel, one of which is a firefighter/certified paramedic). Services are provided on a 24-hour basis utilizing three shifts, each shift is managed by an area Battalion Chief covering both stations. The Fire Authority maintains a fire prevention program. The OCFA has mutual assistance agreements with surrounding fire districts.

Transportation. Highway 57, the Orange Freeway, passes through the City and provides a major north-south link to the surrounded area. Highway 91, the Riverside Freeway,

provides access to Los Angeles and the eastern communities of Riverside County. The City is also close to the Costa Mesa Freeway, Highway 55, allowing for easy access to John Wayne-Orange County Airport, 14 miles to the South. Los Angeles International Airport is approximately 36 miles to the West.

Education. Public Education in Placentia is provided through nine elementary schools, two junior high schools, three high schools, and two parochial schools. Residents also have access to institutions of higher learning provided by Los Angeles and Orange Counties, including five campuses of the State University and College System. Five junior colleges and eight colleges or universities are located within a 30 minute drive.

Medical Facilities. Placentia is served by one general hospital, the Placentia-Linda Community Hospital, with a total bed capacity of 114. This facility is also close to a number of clinics, convalescent hospitals, rest homes, and laboratories.

Recreation Facilities. Recreational outlets for the City's residents include the City's own community parks and the outdoor recreation opportunities provided by the surrounding area. In addition to the Tri-City Park area, located within adjacent to the City, residents enjoy the use of a number of community centers, including two gymnasiums, two city-owned swimming pools, two school-owned pools and 13 parks with playgrounds.

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APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2001/2002

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The Honorable Mayor and City Council
City of Placentia, California

Independent Auditors' Report

We have audited the accompanying general purpose financial statements of the City of Placentia, California as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the management of the City of Placentia, California. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Placentia, California, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund, and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Placentia, California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole. The scope of our audit did not include the statistical schedules identified in the table of contents and we do not express an opinion on them.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated August 30, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

August 30, 2002

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CITY OF PLACENTIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit
June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits</u>				
Assets:				
Cash and investments (notes 3 and 6)	\$ -	-	173,394	2,856,997
Cash with fiscal agents (note 3)	347,306	-	1,002,906	7,071,280
Taxes and accounts receivable, net	1,751,657	387,126	9,326	402,196
Due from other funds (note 4)	482,151	2,376,901	-	-
Loans receivable (note 5)	345,663	-	-	1,179,308
Due from ONTRAC JPA (note 28)	5,063,556	2,401,314	-	-
Prepaid items	-	-	-	-
Inventory of supplies	68,740	-	-	-
Advance to Placentia Redevelopment Agency (note 8)	120,000	-	-	-
Restricted assets:				
Cash with fiscal agents (note 3)	-	-	-	-
Cash pledged as collateral (notes 3 and 6)	-	-	-	-
Notes receivable pledged as collateral (note 6)	-	-	-	-
Property and equipment, net where applicable of accumulated depreciation (note 7)	-	-	-	-
Other debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets and other debits	\$ 8,179,073	5,165,341	1,185,626	11,509,781
<u>Liabilities, Equity and Other Credits</u>				
Liabilities:				
Accounts payable	\$ 418,340	106,212	22,368	296,315
Payroll payable	245,231	2,932	-	7,717
Insurance claims payable (note 17)	-	-	-	-
Due to other governments	-	-	171,041	-
Due to other funds (note 4)	-	5,055,290	42,574	552,505
Deferred revenue	361,346	54,683	-	3,920,297
Deposits payable	-	-	-	-
Advance from City (notes 8 and 11)	-	-	-	-
Compensated absences (note 8)	-	-	-	-
Certificates of participation (notes 8, 9 and 12)	-	-	-	-
Tax allocation bonds (notes 8, 10 and 12)	-	-	-	-
Capital lease payable (notes 8 and 13)	-	-	-	-
ONTRAC JPA payable (note 28)	-	-	-	-
Total liabilities	1,024,917	5,219,117	235,983	4,776,834
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings	-	-	-	-
Fund balances (notes 19 and 20):				
Reserved	5,252,296	2,401,314	841,321	7,556,172
Unreserved, designated	1,901,860	2,184,820	173,394	-
Unreserved, undesignated	-	(4,639,910)	(65,072)	(823,225)
Total equity and other credits	7,154,156	(53,776)	949,643	6,732,947
Total liabilities, equity and other credits	\$ 8,179,073	5,165,341	1,185,626	11,509,781

See accompanying notes to financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals - Primary Government (Memorandum Only)		Component Unit
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Debt	2002	2001	ONTRAC JPA
75,258	1,461,845	1,907,796	-	-	6,475,290	4,680,519	-
200,000	609,863	1,765,340	-	-	10,996,695	2,356,282	-
18,800	-	40,171	-	-	2,609,276	2,042,443	110,000
-	2,816,492	-	-	-	5,675,544	4,345,650	-
-	-	-	-	-	1,524,971	1,210,308	-
-	-	-	-	-	7,464,870	6,460,940	-
-	152,191	-	-	-	152,191	-	-
-	-	-	-	-	68,740	63,513	-
-	-	-	-	-	120,000	140,000	-
-	-	2,000,000	-	-	2,000,000	2,000,000	-
-	-	64,927	-	-	64,927	85,917	-
-	-	523,845	-	-	523,845	650,074	-
-	1,096,005	-	11,083,792	-	12,179,797	11,151,510	-
-	-	-	-	949,643	949,643	1,028,583	-
-	-	-	-	17,201,836	17,201,836	4,057,963	7,464,870
294,058	6,136,396	6,302,079	11,083,792	18,151,479	68,007,625	40,273,702	7,574,870
164,913	36,200	-	-	-	1,044,348	938,227	466,413
-	-	-	-	-	255,880	233,779	331
-	263,914	-	-	-	263,914	279,642	-
-	-	815,205	-	-	986,245	1,101,334	-
25,175	-	-	-	-	5,675,544	4,345,650	-
-	-	-	-	-	4,336,326	141,633	110,000
-	-	5,486,874	-	-	5,486,874	5,192,084	-
-	-	-	-	120,000	120,000	140,000	-
-	-	-	-	2,909,868	2,909,868	2,481,546	-
-	-	-	-	6,565,000	6,565,000	2,465,000	-
-	-	-	-	7,755,000	7,755,000	-	-
179,471	906,407	-	-	801,611	1,887,489	-	-
-	-	-	-	-	-	-	7,464,870
369,559	1,206,521	6,302,079	-	18,151,479	37,286,489	17,318,895	8,041,614
-	-	-	11,083,792	-	11,083,792	10,054,456	-
27,285	1,858,302	-	-	-	1,885,587	1,885,587	-
(102,786)	3,071,573	-	-	-	2,968,787	2,441,093	-
-	-	-	-	-	16,051,103	2,646,846	-
-	-	-	-	-	4,260,074	7,800,266	-
-	-	-	-	-	(5,528,207)	(1,873,441)	(466,744)
(75,501)	4,929,875	-	11,083,792	-	30,721,136	22,954,807	(466,744)
294,058	6,136,396	6,302,079	11,083,792	18,151,479	68,007,625	40,273,702	7,574,870

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CITY OF PLACENTIA

EXHIBIT BB

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
All Governmental Fund Types and Discretely Presented Component Unit
Year ended June 30, 2002

	Governmental Fund Types			Totals - Primary Government (Memorandum Only)		Component Unit	
	General	Special Revenue	Debt Service	Capital Projects	2002	2001	ONTRAC JPA
	Revenues:						
Taxes:							
Property taxes	\$ 4,626,526	-	1,133,093	282,623	6,042,242	5,872,378	-
Sales and use taxes	5,214,489	-	-	-	5,214,489	5,024,601	-
Other taxes	2,689,167	2,978,730	-	-	5,667,897	5,252,554	-
Intergovernmental	2,961,908	2,027,901	-	2,008,803	6,998,612	5,481,216	94,609
Licenses and permits	765,595	-	-	-	765,595	829,920	-
Fines and forfeitures	324,419	128,821	-	-	453,240	452,357	-
Investment income	294,014	16,648	40,262	218,277	569,201	880,088	285
Charges for service	515,970	429,129	-	-	945,099	604,641	-
Miscellaneous	509,056	3,980	-	137,323	650,359	311,602	-
Total revenues	17,901,144	5,585,209	1,173,355	2,647,026	27,306,734	24,709,357	94,894
Expenditures:							
Current:							
General government	3,173,497	-	85,022	2,606,832	5,865,351	3,906,202	-
Public safety	12,652,504	146,391	-	-	12,798,895	11,137,901	-
Public works	4,066,044	482,278	-	-	4,548,322	4,454,948	-
Community services	1,689,503	-	-	-	1,689,503	1,297,039	-
Capital outlay	573,461	605,845	-	6,392,612	7,571,918	4,109,048	5,742,283
Debt service:							
Principal	280,000	-	231,839	-	511,839	130,000	2,500,000
Interest	78,520	-	194,930	-	273,450	192,790	-
Administration	-	-	-	-	-	12,250	-
Total expenditures	22,513,529	1,234,514	511,791	8,999,444	33,259,278	25,240,178	8,242,283
Excess (deficiency) of revenues over (under) expenditures	(4,612,385)	4,350,695	661,564	(6,352,418)	(5,952,544)	(530,821)	(8,147,389)
Other financing sources (uses):							
Operating transfers in	6,067,040	-	771,850	3,487,057	10,325,947	4,550,000	-
Operating transfers out	(2,751,695)	(4,886,110)	(1,512,354)	(1,060,887)	(10,211,046)	(4,381,055)	-
Transfers (to) from component unit	(302,974)	-	-	16,125	(286,849)	-	286,849
Contribution to ONTRAC JPA (note 29)	(4,309,929)	-	-	-	(4,309,929)	-	4,309,929
Proceeds of debt	4,500,000	-	-	7,755,000	12,255,000	-	3,503,930
Proceeds of capital lease	-	-	-	893,450	893,450	-	-
Proceeds from sale of land	3,495,270	-	-	-	3,495,270	-	-
Total other financing sources (uses)	6,697,712	(4,886,110)	(740,504)	11,090,745	12,161,843	168,945	8,100,708
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	2,085,327	(535,415)	(78,940)	4,738,327	6,209,299	(361,876)	(46,681)
Fund balances (deficit) at beginning of year, as restated (note 2)	5,068,829	481,639	1,028,583	1,994,620	8,573,671	8,935,547	(420,063)
Fund balances (deficit) at end of year	\$ 7,154,155	(53,776)	949,643	6,732,947	14,782,970	8,573,671	(466,744)

See accompanying notes to financial statements.

CITY OF PLACENTIA

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General, Special Revenue and Debt Service Fund Types

Year ended June 30, 2002

	General		Variance- Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Taxes:			
Property taxes	\$ 4,417,700	4,626,526	208,826
Sales and use taxes	4,898,000	5,214,489	316,489
Other taxes	2,657,300	2,689,167	31,867
Intergovernmental	2,581,500	2,961,908	380,408
Licenses and permits	628,800	765,595	136,795
Fines and forfeitures	331,000	324,419	(6,581)
Investment income	739,500	294,014	(445,486)
Charges for services	592,100	515,970	(76,130)
Miscellaneous	351,000	509,056	158,056
Total revenues	<u>17,196,900</u>	<u>17,901,144</u>	<u>704,244</u>
Expenditures:			
Current:			
General government	3,011,429	3,173,497	(162,068)
Public safety	12,296,304	12,652,504	(356,200)
Public works	4,991,835	4,066,044	925,791
Community services	1,638,086	1,689,503	(51,417)
Capital outlay	625,338	573,461	51,877
Debt service:			
Principal	17,600	280,000	(262,400)
Interest	6,200	78,520	(72,320)
Total expenditures	<u>22,586,792</u>	<u>22,513,529</u>	<u>73,263</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,389,892)</u>	<u>(4,612,385)</u>	<u>777,507</u>
Other financing sources (uses):			
Operating transfers in	4,163,400	6,067,040	1,903,640
Operating transfers out	-	(2,751,695)	(2,751,695)
Transfers to component unit	-	(302,974)	(302,974)
Contribution to ONTRAC	-	(4,309,929)	(4,309,929)
Proceeds of debt	-	4,500,000	4,500,000
Proceeds from sale of land	-	3,495,270	3,495,270
Total other financing sources (uses)	<u>4,163,400</u>	<u>6,697,712</u>	<u>2,534,312</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<u>(1,226,492)</u>	<u>2,085,327</u>	<u>3,311,819</u>
Fund balances at beginning of year, as restated	<u>5,068,829</u>	<u>5,068,829</u>	<u>-</u>
Fund balances (deficit) at end of year	<u>\$ 3,842,337</u>	<u>7,154,156</u>	<u>3,311,819</u>

See accompanying notes to financial statements.

Budgeted Special Revenue (note 22)			Debt Service		
Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
-	-	-	-	1,133,093	1,133,093
-	-	-	-	-	-
3,419,400	2,978,730	(440,670)	-	-	-
1,936,200	2,027,901	91,701	-	-	-
-	-	-	-	-	-
40,000	128,821	88,821	-	-	-
73,350	16,648	(56,702)	-	40,262	40,262
391,500	429,129	37,629	-	-	-
-	3,980	3,980	-	-	-
<u>5,860,450</u>	<u>5,585,209</u>	<u>(275,241)</u>	<u>-</u>	<u>1,173,355</u>	<u>1,173,355</u>
-	-	-	90,589	85,022	5,567
135,788	146,391	(10,603)	-	-	-
329,800	482,278	(152,478)	-	-	-
-	-	-	-	-	-
665,400	605,845	59,555	-	-	-
-	-	-	120,000	231,839	(111,839)
-	-	-	175,520	194,930	(19,410)
<u>1,130,988</u>	<u>1,234,514</u>	<u>(103,526)</u>	<u>386,109</u>	<u>511,791</u>	<u>(125,682)</u>
<u>4,729,462</u>	<u>4,350,695</u>	<u>(378,767)</u>	<u>(386,109)</u>	<u>661,564</u>	<u>1,047,673</u>
-	-	-	-	771,850	771,850
(4,904,860)	(4,886,110)	18,750	-	(1,512,354)	(1,512,354)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(4,904,860)</u>	<u>(4,886,110)</u>	<u>18,750</u>	<u>-</u>	<u>(740,504)</u>	<u>(740,504)</u>
(175,398)	(535,415)	(360,017)	(386,109)	(78,940)	307,169
476,560	476,560	-	1,028,583	1,028,583	-
<u>301,162</u>	<u>(58,855)</u>	<u>(360,017)</u>	<u>642,474</u>	<u>949,643</u>	<u>307,169</u>

CITY OF PLACENTIA

Combined Statement of Revenues, Expenses and Changes in Retained Earnings -
All Proprietary Fund Types

Year ended June 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)	
			2002	2001
Operating revenues:				
Departmental charges	\$ -	3,551,521	3,551,521	2,708,020
Reimbursements	-	260,912	260,912	2,504
Landfill	404,068	-	404,068	387,258
Contractor	1,407,878	-	1,407,878	1,413,080
Miscellaneous	132,421	-	132,421	120,458
Total operating revenues	<u>1,944,367</u>	<u>3,812,433</u>	<u>5,756,800</u>	<u>4,631,320</u>
Operating expenses:				
Administration fees	496	245,380	245,876	232,082
Reinsurance premiums	-	77,355	77,355	-
Claims	-	389,901	389,901	487,679
Medical and dental premiums	-	1,750,029	1,750,029	1,312,415
Liability insurance premiums	-	293,392	293,392	13,673
Depreciation expense	-	500,487	500,487	394,699
Landfill charges	596,435	-	596,435	590,574
Contractor charges	1,261,510	-	1,261,510	1,213,716
Total operating expenses	<u>1,858,441</u>	<u>3,256,544</u>	<u>5,114,985</u>	<u>4,244,838</u>
Operating income (loss)	<u>85,926</u>	<u>555,889</u>	<u>641,815</u>	<u>386,482</u>
Nonoperating revenues (expenses):				
Investment income	902	-	902	1,738
Interest expense	(4,646)	(23,476)	(28,122)	(1,163)
Total nonoperating revenues (expenses)	<u>(3,744)</u>	<u>(23,476)</u>	<u>(27,220)</u>	<u>575</u>
Income (loss) before capital contributions and operating transfers	82,182	532,413	614,595	387,057
Capital contributions	-	28,000	28,000	-
Operating transfers in	-	88,600	88,600	-
Operating transfers out	(203,501)	-	(203,501)	(168,945)
Net income (loss)	<u>(121,319)</u>	<u>649,013</u>	<u>527,694</u>	<u>218,112</u>
Retained earnings at beginning of year	18,533	2,422,560	2,441,093	2,222,981
Retained earnings (deficit) at end of year	<u>\$ (102,786)</u>	<u>3,071,573</u>	<u>2,968,787</u>	<u>2,441,093</u>

See accompanying notes to financial statements.

CITY OF PLACENTIA

Combined Statement of Cash Flows - All Proprietary Fund Types

Year ended June 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)	
			2002	2001
Cash flows from operating activities:				
Cash received from customers	\$1,825,118	-	1,825,118	1,863,440
Cash received from user departments	-	3,551,521	3,551,521	2,707,146
Cash payments to suppliers for goods and services	(1,856,860)	(2,921,605)	(4,778,465)	(3,927,745)
Cash received from other operations	132,421	261,786	394,207	122,962
Net cash provided by (used for) operating activities	100,679	891,702	992,381	765,803
Cash flows from noncapital financing activities:				
Cash received from other funds	25,175	370,914	396,089	-
Cash paid to other funds	(203,501)	(477,198)	(680,699)	(585,861)
Net cash provided by (used for) noncapital financing activities	(178,326)	(106,284)	(284,610)	(585,861)
Cash flows from capital and related financing activities:				
Proceeds of capital lease	200,000	1,010,131	1,210,131	-
Acquisition of property and equipment	-	(471,438)	(471,438)	(462,866)
Principal payments	(20,529)	(103,724)	(124,253)	-
Interest paid	(4,646)	(23,476)	(28,122)	(1,163)
Net cash provided by (used for) capital and related financing activities	174,825	411,493	586,318	(464,029)
Cash flows from investing activities:				
Interest income received	902	-	902	1,738
Net cash provided by (used for) investing activities	902	-	902	1,738
Net increase (decrease) in cash and cash equivalents	98,080	1,196,911	1,294,991	(282,349)
Cash and cash equivalents at beginning of year	177,178	874,797	1,051,975	1,334,324
Cash and cash equivalents at end of year	\$ 275,258	2,071,708	2,346,966	1,051,975
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 85,926	555,889	641,815	386,482
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:				
Depreciation	-	500,487	500,487	394,699
(Increase) decrease in accounts receivable	13,172	874	14,046	62,391
(Increase) decrease in prepaid items	-	(152,191)	(152,191)	105,157
Increase (decrease) in accounts payable	1,581	2,371	3,952	(35,324)
Increase (decrease) in insurance claims payable	-	(15,728)	(15,728)	(147,439)
Increase (decrease) in deferred revenue	-	-	-	(163)
Total adjustments	14,753	335,813	350,566	379,321
Net cash provided by (used for) operating activities	\$ 100,679	891,702	992,381	765,803

Noncash financing, capital or investing activities:

During the fiscal year ended June 30, 2002, the City received two donated vehicles valued at \$28,000.

See accompanying notes to financial statements.

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CITY OF PLACENTIA
Notes to Financial Statements
Year ended June 30, 2002

(1) Summary of Significant Accounting Policies

The financial statements of the City of Placentia, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

(a) Reporting Entity

The City of Placentia, California was incorporated December 2, 1926. The City operates under an elected Council/City Manager form of government and under provisions of a City Charter adopted on June 29, 1965.

As required by generally accepted accounting principles, these financial statements present the City of Placentia and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. A brief description of the City's component units are as follows:

- The Placentia Redevelopment Agency (Agency) was established on December 7, 1982, pursuant to the State of California Health and Safety Code Section 33000 entitled, "Community Redevelopment Law." Although it is a legally separate entity from the City, the Agency is reported as if it were part of the City because of its purpose to encourage private redevelopment of property and to rehabilitate areas suffering from economic blight within the territorial limits of the City. Transactions for the Agency are reported in separate Debt Service and Capital Projects Funds.
- The Civic Center Authority (Authority) was organized on May 22, 1972 under a joint exercise of powers agreement between the City and the Placentia Library District (Library District) for the purpose of financing and constructing a new civic center building for lease to the City and a new library building for lease to the Library District. The joint exercise of powers

CITY OF PLACENTIA

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Reporting Entity, (Continued)

agreement establishing the Authority is effective for forty years from May 22, 1972 and provides that at the end of the term all real and personal property shall vest in the respective parties which lease the property from the Authority, and that any surplus money shall be returned to the City and the Library District in proportion to the contributions made by each. Transactions for the Authority related to the civic center are reported in a separate Debt Service Fund.

- The Placentia Public Financing Authority (PFA) was formed in 1996 to issue Special Tax Revenue Bonds. The proceeds of the debt refunded the existing Mello-Roos Community Facilities District 89-1 bonds originally issued in September 1996. Transactions for the PFA are reported in a separate Agency Fund.

Since the City Council serves as the governing board for these component units, they are considered to be blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with the interfund data of the primary government. The Agency and the Authority issue separate component unit financial statements that may be obtained through written request to the City Department of Finance or the City Clerk's office at City Hall, 401 East Chapman Avenue, Placentia, California 92870.

- The Orange North-American Trade Rail Access Corridor Joint Powers Authority (ONTRAC JPA) was established on April 1, 2000 to provide a lowered rail transportation corridor and to finance the construction of such facilities through grants and forms of financing approved by the ONTRAC board. Since the City Council appoints the governing board of the ONTRAC JPA, it is reported as a discreetly presented component unit. The ONTRAC JPA issues separate component unit financial statements that may be obtained through written request to the City Department of Finance or the City Clerk's Office at City Hall, 401 East Chapman Avenue, Placentia, California 92870.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(I) Summary of Significant Accounting Policies, (Continued)

(b) Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein the operations of each fund are accounted for in a separate set of self-balancing accounts that records resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

The following is a summary of the fund types and account groups utilized by the City:

Governmental Fund Types

- The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenditures and capital improvement costs which are not paid through other funds.
- Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.
- Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.
- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary Fund Types.

Proprietary Fund Types

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

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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

Fiduciary Fund Type

- Agency Funds are used to account for assets held by the City as an agent for individuals or private organizations, other governmental units and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Account Groups

- The General Fixed Assets Account Group is used to maintain control and costs information on capital assets owned by the City, other than those of the Proprietary Fund Types.
- The General Long-Term Debt Account Group is used to account for the unmatured long-term liabilities of the City, other than those specific liabilities of the Proprietary Fund Types.

(c) Measurement Focus and Basis of Accounting

Governmental (general, special revenue, debt service and capital projects) fund types are accounted for on a “spending” measurement focus. Accordingly, only current assets and current liabilities are included on their balance sheets. The reported fund balance provides an indication of available, spendable resources. Operating statements for governmental fund types report increases (revenues) and decreases (expenditures) in available spendable resources.

The proprietary (enterprise and internal service) fund types are accounted for on an “income determination” or “cost of services” measurement focus. Accordingly, all assets and liabilities are included on the balance sheet, and the reported fund equity provides an indication of the economic net worth of the fund. Operating statements for proprietary fund types report increases (revenues) and decreases (expenses) in total economic net worth.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF PLACENTIA

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

The modified accrual basis of accounting is followed by the governmental and agency funds. Under the modified accrual basis of accounting, revenues are susceptible to accrual when they become both *measurable and available*. Measurable means that amounts can be estimated, or otherwise determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when a current liability is incurred. Liabilities are considered current when they are normally expected to be liquidated with expendable available financial resources.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

The accrual basis of accounting is utilized by the proprietary funds. Revenues are recognized when they are earned and expenses are recorded when the related liability is incurred. Unbilled service receivables, if material, have been reflected in the financial statements.

The City applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. The fair value of the investments is generally based on published market prices and quotations from major investment firms.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(e) Cash Equivalents

For purposes of the statement of cash flows, equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

(f) Property, Plant and Equipment

Acquisitions of general fixed assets are recorded as expenditures in the Governmental Funds at the time of purchase. These assets are stated at historical cost in the General Fixed Assets Account Group. Donated general fixed assets are recorded at their fair market value at the time received. Expenditures for infrastructure (roads, curbs, sidewalks, sewers) are not capitalized, as such assets are immovable and of value only to the City. No depreciation is provided for assets capitalized in the General Fixed Assets Account Group.

Property, plant and equipment acquired by Proprietary Fund Types are capitalized at historical cost at the time of purchase. Assets acquired from gifts or contributions are recorded at fair market value on the date received. Depreciation of such assets is computed using the straight-line method over the estimated useful lives noted below and charged to operations:

Automotive equipment	2 to 10 years
Computer equipment	5 years

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for compensated absences (unpaid vacation, sick leave and compensatory time) since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16 a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) which is outside the control of the City and the employee.

(h) Deferred Revenue

Deferred revenue represents receivables at year-end that will not be collected soon enough to finance current year expenditures, and grant reimbursement revenue received in advance of the recognition of a related fund expenditure.

(i) Long-Term Obligations

Governmental fund long-term debt service (principal, interest and fiscal charges) is recorded as an expenditure when due regardless of when the liability is incurred. Obligations that are expected to be financed for spendable, available financial resources are reported as a fund liability. The remainder is reported in the General Long-Term Debt Account Group. Bond discounts and issuance costs are recognized in the period that the debt is issued.

(j) Inventories

Inventories consist primarily of office supplies and automotive parts. The inventories are stated at average cost. Inventories are accounted for under the "consumption method," whereby the costs are capitalized and subsequently recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources."

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(k) Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value and can increase the property tax rate no more than 2% per year. The property taxes go into a pool and are then allocated to the cities based on complex formulas.

Accordingly, the City of Placentia accrues only those taxes which are received from the county within 60 days after year-end:

Lien date	January 1
Levy date	July 1
Collection dates	December 10 and April 10

(l) Budgetary Control and Accounting

The City prepares its budgets on the basis of estimated actual revenues and expenditures and, accordingly, the budget amounts included in the accompanying financial statements are presented on a basis substantially consistent with generally accepted accounting principles. Encumbrance accounting is utilized during the fiscal year, whereby purchase orders, contracts and other commitments are recorded in order to control appropriations. However, at fiscal year end all appropriations lapse. Accordingly, encumbrances are cancelled and generally are reappropriated as part of the following year's budget. Encumbrances are not included in reported expenditures.

Annual budgets are adopted for the General, Special Revenue and Debt Service Funds. The City does not adopt an annual budget for the Undergrounding Utilities Special Revenue Fund since revenues cannot be anticipated. No budgetary comparisons are presented for the Capital Projects Funds, as no annual budgets were adopted for these funds for the fiscal year ended June 30, 2002. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year.

The budgetary level of control for all governmental fund types is the fund level. The City administrator has the discretion to transfer appropriations between departments within a fund, but transfers between funds must be approved by City Council.

Under Article XIII-B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from certain proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

excess must be refunded to the State Controller, returned to the taxpayer through revised tax rates, or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2002, proceeds of taxes did not exceed allowed appropriations.

(m) Interfund Transfers

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residential equity transfers. All other interfund transfers are reported as operating transfers.

(n) Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

(o) Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(p) Memorandum Only – Total Columns

Total columns on the accompanying general purpose financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations or cash flows of the City in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Restatement of Beginning Fund Balances

The following summarizes the effects of a restatement to the beginning fund balances as of June 30, 2002:

	<u>General</u>	<u>Special Revenue</u>	<u>ONTRAC JPA</u>
Fund balances (deficit) at beginning of year, as previously reported	\$5,162,306	388,162	(310,063)
To properly record prior year expenditures in the General Fund instead of the Asset Seizure Fund	(93,477)	93,477	-
To properly record revenue of the prior year as deferred revenue for the ONTRAC JPA	<u>-</u>	<u>-</u>	<u>(110,000)</u>
Fund balances (deficit) at the beginning of the year, as restated	<u>\$5,068,829</u>	<u>481,639</u>	<u>(420,063)</u>

(3) Cash and Investments

Cash and investments held by the City consist of the following at June 30, 2002:

Petty cash	\$ 21,700
Demand deposits	1,283,937
Local Agency Investment Fund	5,234,204
Federal agency securities	<u>376</u>
Total cash and investments held by City	<u>\$6,540,217</u>

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(3) Cash and Investments, (Continued)

Cash and investments held with fiscal agent consist of the following at June 30, 2002:

Mutual funds – money market	\$10,711,596
Local Agency Investment Fund	1,165,422
Federal agency securities	548,177
Investment agreements	<u>571,500</u>
Total cash and investments held with fiscal agent	<u>\$12,996,695</u>

Cash and investments are reported in the accompanying combined balance sheet as follows:

Cash and investments	\$ 6,475,290
Cash with fiscal agents	10,996,695
Restricted assets:	
Cash with fiscal agents	2,000,000
Cash pledged as collateral	<u>64,927</u>
Total	<u>\$19,536,912</u>

The City and its component units are generally authorized under Section 53601 of the California Government Code and the City's investment policy to invest in the following types of investments:

- Securities of the U.S. government or its agencies
- Bankers acceptances
- State of California Local Agency Investment Fund
- Repurchase agreements
- Certificates of deposit
- Negotiable certificates of deposit
- U.S. Treasury securities mutual funds
- Passbook savings account

Deposits

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(3) Cash and Investments, (Continued)

Deposits of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized Agent of Depository and subject to certain regulatory requirements under State law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. Category 3 also includes any uncollateralized deposits. Deposits are categorized as follows:

<u>Form of Deposit</u>	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Deposits held by City:					
Demand deposits	<u>\$285,221</u>	<u>1,126,623</u>	<u>-</u>	<u>1,411,844</u>	<u>1,283,937</u>
Total deposits	<u>\$285,221</u>	<u>1,126,623</u>	<u>-</u>	<u>1,411,844</u>	<u>1,283,937</u>

Investments

Investments of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or the City's custodial agent (which must be a different institution other than the party through which the City purchased the securities) in the City's name. Investments held "in the City's name" include securities held in a separate custodial or fiduciary account and identified as owned by the City in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent in the City's name (or by the trust department of the dealer if the dealer was a financial institution and another department of the institution purchased the securities for the City). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent but not in the City's name. Category 3 also includes all securities held by the broker-dealer agent of the City (the party that purchased the securities for the City) regardless of whether or not the securities are being held in the City's name.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(3) Cash and Investments, (Continued)

<u>Form of Investment</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Investments held by the City:				
Federal agency securities	\$376	-	-	376
Investments held with fiscal agents:				
Federal agency securities	<u>-</u>	<u>-</u>	<u>548,177</u>	<u>548,177</u>
	<u>\$376</u>	<u>-</u>	<u>548,177</u>	548,553
Investments held by City not subject to categorization:				
Investment in Local Agency Investment Fund				5,234,204
Investments held with fiscal agents not subject to categorization:				
Mutual funds – money market				10,711,596
Local Agency Investment Fund				1,165,422
Investment agreements				<u>571,500</u>
Total investments				<u>\$18,231,275</u>

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(4) Interfund Receivables and Payables

Current interfund receivables and payables as of June 30, 2002 are as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 482,151	-
Special Revenue:		
Park Development	906,336	-
Utility Users Tax	156,143	984,215
Bicycle Safety	748	-
Street Lighting	62,018	-
Gasoline Tax	-	3,724,795
Measure M	-	258,782
Sewer Construction	231,784	-
Storm Drain Construction	-	54,493
Thoroughfare Construction	563,325	-
Undergrounding Utilities	5,079	-
Asset Seizure	160,333	-
Supplemental Law Enforcement	89,212	-
Air Quality	116,523	-
Landscape Maintenance District	85,400	-
Housing and Community Development	-	33,005
Debt Service:		
Redevelopment Agency	-	42,574
Capital Projects:		
Redevelopment Agency I	-	136,498
Low and Moderate Housing	-	259,864
Capital Projects	-	156,143
Enterprise:		
CNG	-	25,175
Internal Service:		
Workers' Compensation	1,128,883	-
Equipment Replacement	<u>1,687,609</u>	<u>-</u>
	<u>\$5,675,544</u>	<u>5,675,544</u>

CITY OF PLACENTIA

Notes to Financial Statements

(Continued)

(5) Loans Receivable

Outstanding
Balance at
June 30, 2002

The Agency provides loans to persons or families of low or moderate income under its First-Time Home Buyer and New Construction Programs for purposes of increasing, improving or preserving the Agency's supply of low and moderate income housing. The First-Time Home Buyer Program is designed for low and moderate income home buyers who are residents of the City of Placentia and who will use the house as their principal place of residence. Assistance is provided through a mortgage interest subsidy, a deferred second trust deed or down payment assistance. The New Construction Program provides funds for the construction of either rental units or owner-occupied units. The occupants of the units must meet required income guidelines. Loans under these programs are recorded in the Low & Moderate Housing Capital Projects Fund.

\$ 840,558

The Agency entered into an owner participation agreement dated January 5, 2001. Pursuant to that agreement, the Agency loaned \$150,000 to a businessman in Placentia. The term of the loan is 30 years and does not bear interest, except upon default. The loan is recorded in the Low & Moderate Housing Capital Projects Fund.

143,750

The Agency entered into an owner participation agreement dated October 20, 1999. Pursuant to that agreement, the Agency loaned \$75,000 to a businessman located in Placentia. The term of the loan is 10 years and does not bear interest, except upon default. In the sixth through tenth years of the loan, if the business is in compliance with the terms and conditions of the agreement, \$15,000 of the principal will be forgiven each year. The loan is recorded in the Redevelopment Area I Capital Projects Fund.

75,000

The Agency entered into an owner participation agreement dated April 1, 1997. Pursuant to that agreement, the Agency loaned \$200,000 to a business located in Placentia. The term of the loan is 10 years and does not bear interest, except upon default. If the business is in compliance with the terms and conditions of the agreement, \$20,000 of the principal will be forgiven each year. The loan is recorded in the Redevelopment Area I Capital Projects Fund.

120,000

During the fiscal year ended June 30, 2002, the City made various capital improvements to the Civic Center, which includes both the City Hall and Library buildings. The City recorded a loan receivable in its General Fund from the Placentia Library District (District) for the District's portion of a capital lease liability that funded the project. Annual interest of 6.50% is added to the principal balance on the loan until repayment begins in April 2005.

345,663

Total loans receivable at June 30, 2002

-- \$1,524,971

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(6) Housing and Urban Development Loan Program

The City has Housing and Urban Development (HUD) funds available with the County of Orange to provide housing rehabilitation loans to eligible applicants. As loan applications are received, cash advances are requested from the County and deposited in an interest-bearing savings account. Under one loan arrangement, the City approves the loan, disburses separate bank funds to the loan participant, and transfers the HUD funds from the interest-bearing account to a non-interest bearing account which is collateral for the loans. Under a second arrangement, the City disburses the HUD funds directly for participant loans. The only collateral for these loans is the note receivable on each property, secured by a trust deed.

All cash advances from HUD are reflected in the H.C.D. Rehabilitation Loans Agency Fund. At June 30, 2002, the fund reflected the following balances:

Cash in interest bearing account	<u>\$226,433</u>
Assets held as collateral for rehabilitation loans:	
Cash in non-interest bearing accounts	64,927
Notes receivable, secured by deeds of trust	<u>523,845</u>
	<u>588,772</u>
Total HUD advances through June 30, 2002	<u>\$815,205</u>

A portion of these cash advances have not legally vested with the City; therefore, that portion is reflected as due to other governments (HUD) in the Agency Fund.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(7) Property, Plant and Equipment

A summary of changes in general fixed assets follows:

	<u>Balance at July 1, 2001, as restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2002</u>
City:				
Land	\$ 2,374,535	-	-	2,374,535
Structures and improvements	2,100,005	1,041,954	(38,000)	3,103,959
Equipment	1,069,753	25,382	-	1,095,135
Parksites	1,071,600	-	(275,000)	796,600
Civic Center Authority:				
Civic Center	2,484,720	-	-	2,484,720
Tri-City Park Authority:				
Land	424,094	-	-	424,094
Structures and improvements	<u>804,749</u>	<u>-</u>	<u>-</u>	<u>804,749</u>
Totals	<u>\$10,329,456</u>	<u>1,067,336</u>	<u>(313,000)</u>	<u>11,083,792</u>

The beginning balance as of July 1, 2001 has been restated to reflect \$275,000 of parksites not previously recorded.

At June 30, 2002, the fixed assets of the Internal Service Funds were as follows:

	<u>Equipment Replacement</u>	<u>Information Technology</u>	<u>Total</u>
Equipment	\$3,786,006	44,740	3,830,746
Less accumulated depreciation	<u>(2,704,915)</u>	<u>(29,826)</u>	<u>(2,734,741)</u>
Net fixed assets	<u>\$1,081,091</u>	<u>14,914</u>	<u>1,096,005</u>

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(8) Changes in General Long-Term Debt

A summary of changes in general long-term debt for the year ended June 30, 2002 is as follows:

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2002</u>
1994 Refunding Certificates of Participation	\$ 2,465,000	-	(120,000)	2,345,000
2001 Certificates of Participation	<u>-</u>	<u>4,500,000</u>	<u>(280,000)</u>	<u>4,220,000</u>
Subtotal	2,465,000	4,500,000	(400,000)	6,565,000
2002 Tax Allocation Bonds	-	7,755,000	-	7,755,000
Capital lease payable	-	893,450	(91,839)	801,611
Advance from City	140,000	-	(20,000)	120,000
Compensated absences	<u>2,481,546</u>	<u>428,322</u>	<u>-</u>	<u>2,909,868</u>
Total general long-term debt	<u>\$ 5,086,546</u>	<u>13,576,772</u>	<u>(511,839)</u>	<u>18,151,479</u>

(9) Certificates of Participation

1994 Refunding Certificates of Participation

On April 1, 1994, the Agency issued refunding certificates of participation in the amount of \$3,185,000 to finance the prepayment of lease payments under a lease agreement dated November 1, 1986 by and between the City and the Agency relating to the Certificates of Participation (Series A) originally issued in 1986. The certificates are in denominations of \$5,000 each. Serial certificates of \$1,415,000 mature annually each January 1 in the years 1995 through 2006 and bear interest ranging from 4.10% to 6.60%. Term certificates of \$1,770,000 mature January 1, 2014 and bear interest at 6.90%. Interest is payable semiannually on January 1 and July 1. The required reserve for the certificates of \$297,290 was fully funded as of June 30, 2002. The amount of certificates outstanding as of June 30, 2002 was \$2,345,000.

The serial certificates maturing on or before January 1, 2004 are not subject to call or redemption prior to maturity. Serial certificates maturing on or after January 1, 2005 may be redeemed at par plus a premium ranging from 0.00% to 2.00%. The term certificates maturing on January 1, 2014 are subject to mandatory redemption on January 1, from 2007 to 2014, in amounts ranging from \$175,000 to \$275,000, at a price equal to principal plus accrued interest to redemption date.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(9) Certificates of Participation, (Continued)

Each certificate represents a direct, undivided fractional interest of the owner thereof in lease payments to be made by the City as rental for an existing corporate yard and an existing public park (the Project) pursuant to a First Amended and Restated Lease Agreement (1994 Lease) with the Agency. The City is legally required under the 1994 Lease to make payments from any source of available funds in each year the City has use and occupancy of the Project. The annual lease payments are equal to the annual principal and interest due with respect to the certificates. The City has covenanted that it will provide the necessary appropriations in each annual budget. Pursuant to a Reimbursement Agreement between the Agency and the City dated April 1, 1994, the Agency has agreed to reimburse the City for lease payments due with respect to the certificates from tax increment revenues derived from its redevelopment project area.

2001 Certificates of Participation

On July 11, 2001, the City issued certificates of participation in the amount of \$4,500,000 to finance traffic circulation improvements consisting of preliminary design, engineering and consultant costs relating to the railroad lowering project. The certificates are in denominations of \$5,000 each and bear interest ranging from 2.75% to 4.12%. Principal is payable on January 1. Interest is payable semiannually on January 1 and July 1. The amount of certificates outstanding as of June 30, 2002 was \$4,220,000.

The City is required to establish a reserve fund in the amount of \$450,000 or to obtain a Reserve Surety Bond in place of fully funding the reserve fund. As of June 30, 2002, the Agency had acquired a Reserve Surety Bond to fund the reserve fund.

Each certificate represents a direct, undivided fractional interest of the owner thereof in lease payments to be made by the City as the rental for an existing corporate yard and an existing public park (the Project) pursuant to a Lease Agreement dated June 1, 2001 between the City and the Agency. Pursuant to the Lease Agreement, the City will sublease the property to the Agency and the Agency will sublease the property back to the City. The City had previously entered into a First Amended and Restated Lease Agreement (1994 Lease) dated April 1, 1994 for the Project relating to 1994 Refunding Certificates of Participation. The Lease Agreement is a sublease under the 1994 Lease.

The City is legally required under the Lease Agreement to make lease payments from any source of available funds, including its general fund and Measure M Turnback Money, in each year the City has use and occupancy of the Project. Pursuant to Measure M of the County of Orange, the City receives a portion of sales tax revenues for transportation improvements based on population, arterial highway miles and total taxable sales. The City has pledged to use the proceeds of the lease of the Project to the Agency for transportation improvements and to pay lease payments from moneys received from the Orange County Transportation Authority pursuant to Measure M. The annual lease payments are equal to the annual principal and interest due with respect to the certificates. The City has covenanted that it will provide the necessary appropriations in each annual budget. --

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(9) Certificates of Participation, (Continued)

Lease-Leaseback Agreements

Throughout the terms of the lease-leaseback agreements, title to the Project remains vested in the City. The following is a summary of the future amounts to be received by the Agency from the City under the leases (before reduction for amounts available in the debt service fund):

<u>Year Ending June 30,</u>	<u>1994 Refunding Certificates of Participation</u>	<u>2001 Certificates of Participation</u>	<u>Total</u>
2003	\$ 290,008	453,908	743,916
2004	281,435	477,865	759,300
2005	282,403	514,840	797,243
2006	287,410	529,781	817,191
2007	291,093	566,905	857,998
Thereafter	<u>2,009,171</u>	<u>2,436,620</u>	<u>4,445,791</u>
Total minimum lease payments to be received at June 30, 2002	3,441,520	4,979,919	8,421,439
Less portion relating to interest	<u>(1,096,520)</u>	<u>(759,919)</u>	<u>(1,856,439)</u>
Present value of lease payments receivable	<u>\$2,345,000</u>	<u>4,220,000</u>	<u>6,565,000</u>

(10) 2002 Tax Allocation Bonds

On January 8, 2002, the Agency issued housing set-aside tax allocation bonds in the amount of \$3,100,000 (Series A) and tax allocation bonds in the amount of \$4,655,000 (Series B). Proceeds of the Series A and B bonds will be used to finance the Agency's low and moderate income housing program and its redevelopment program, respectively. The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 3.75% to 5.85% for Series A and 3.75% to 5.75% for Series B. Principal is payable annually on August 1. Interest is payable semiannually on February 1 and August 1. Bonds maturing on or before August 1, 2011 are not subject to call or redemption prior to maturity. Bonds maturing on or before August 1, 2011 may be redeemed at par plus a premium. The required reserves for the Series A and B bonds of \$219,048 and \$324,983, respectively, were fully funded as of June 30, 2002. The amount of bonds outstanding as of June 30, 2002 was \$7,755,000.

CITY OF PLACENTIA

Notes to Financial Statements

(Continued)

(11) Advance from City

On July 15, 1997, the City loaned the Agency \$200,000 to assist the Agency in fulfilling its obligations pursuant to an owner participation agreement. The advance accrues interest at the rate of 4% per annum. There is no set repayment schedule for the advance. The Agency will repay principal and interest from funds available as determined by the Agency. The amount of the advance outstanding as of June 30, 2002 was \$120,000.

(12) Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term debt of the City, as of June 30, 2002 are as follows:

<u>Year Ending June 30,</u>	<u>1994 Refunding Certificates of Participation</u>	<u>2001 Certificates of Participation</u>	<u>2002 Tax Allocation Bonds</u>	<u>Total</u>
2003	\$ 294,260	458,915	342,502	1,095,677
2004	285,755	483,900	537,323	1,306,978
2005	287,115	521,830	538,198	1,347,143
2006	292,690	537,850	543,885	1,374,425
2007	297,130	576,713	539,198	1,413,041
Thereafter	<u>2,064,200</u>	<u>2,477,668</u>	<u>14,012,924</u>	<u>18,554,792</u>
Total debt service	3,521,150	5,056,876	16,514,030	25,092,056
Less interest payments	<u>(1,176,150)</u>	<u>(836,876)</u>	<u>(8,759,030)</u>	<u>(10,772,056)</u>
Outstanding principal	<u>\$2,345,000</u>	<u>4,220,000</u>	<u>7,755,000</u>	<u>14,320,000</u>

The above schedule does not include the \$120,000 advance from City and the \$2,909,868 of compensated absences because there are no defined repayment schedules. The schedule of future minimum lease payments for the capital lease payable is presented in total at note 13.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(13) Capital Lease Payable

On September 28, 2001, the City entered into an Equipment Lease/Purchase Agreement ("Agreement") and an Equipment Sale Agreement ("Sale Agreement") with LaSalle Bank National Association ("LaSalle"). Under the terms of the Sale Agreement, LaSalle purchased certain motor vehicles, construction equipment, telephone equipment and miscellaneous equipment ("Existing Equipment") from the City for a purchase price of \$565,000. Under the terms of the Agreement, \$2,103,581 was deposited into an escrow account with LaSalle, representing the \$565,000 purchase price for the Existing Equipment plus \$1,538,581 for the price of anticipated New Equipment purchases to be made by the City. Disbursements are made from the escrow account to reimburse the City for New Equipment purchases made at the City's discretion. As of June 30, 2002, the escrow account had a remaining balance of \$1,165,422, which included \$23,228 of interest income earned. The entire balance in the escrow account was invested in the Local Agency Investment Fund as of June 30, 2002.

Under the terms of the Agreement, LaSalle leased back the Existing and New Equipment to the City. The lease has an annual interest rate of 4.650% and terminates on September 28, 2006. Rental payments are payable semiannually each March and September. During the term of the Agreement, title to the Equipment reverts with the City. Accordingly, the lease has been recorded as a capital lease liability of the City. A schedule of changes in the capital lease payable for the year ended June 30, 2002 is as follows:

	<u>Balance at</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2002</u>
Proprietary Funds:				
CNG	\$ -	200,000	(20,529)	179,471
Equipment Replacement	-	514,000	(52,942)	461,058
Information Technology	-	496,131	(50,782)	445,349
Subtotal	<u>-</u>	<u>1,210,131</u>	<u>(124,253)</u>	<u>1,085,878</u>
General Long-Term Debt	<u>-</u>	<u>893,450</u>	<u>(91,839)</u>	<u>801,611</u>
Total	<u>\$ -</u>	<u>2,103,581</u>	<u>(216,092)</u>	<u>1,887,489</u>

A schedule of future minimum lease payments under the capital lease is as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 447,373	82,627	530,000
2004	468,417	61,583	530,000
2005	418,494	39,548	458,042
2006	364,549	21,535	386,084
2007	<u>188,656</u>	<u>4,386</u>	<u>193,042</u>
Total	<u>\$1,887,489</u>	<u>209,679</u>	<u>2,097,168</u>

CITY OF PLACENTIA

Notes to Financial Statements

(Continued)

(14) Tax and Revenue Anticipation Notes

On July 2, 2001, the City issued 2001 Tax and Revenue Anticipation Notes totaling \$4,600,000. The notes were issued in denominations of \$1,000 each and bear an interest rate of 2.70%. By statute, the notes are general obligations of the City payable solely from taxes, income, revenues, cash receipts and other moneys legally available for payment thereof. The notes were repaid in June 2002 and the outstanding balance at June 30, 2002 was \$0.

(15) Debt without Government Commitment

Assessment District Bond Issue

On July 2, 1986, \$1,781,000 in Assessment District Bonds (85-1) were issued under the provisions of the Improvement Bond Act of 1915. The bonds were issued to finance public infrastructure improvements in the Alta Vista - Carbon Canyon area. The bonds are secured by the assessments levied against the private property within the assessment district. The bonds are not general obligations of the City, and neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The City is acting only in an agent capacity for the property owners.

The liability of property owners for unpaid principal assessments at June 30, 2002 was \$730,000. This bond liability has not been recorded in the accompanying Financial Statements, in compliance with GASB Statement No. 6.

Special Assessment Bonds Payable

On August 27, 1996, \$27,765,000 of Special Tax Revenue Bonds, Series A and B, were issued to refund the existing Mello-Roos Community Facilities District bonds originally issued in September 1990. On June 15, 2001, \$5,715,000 of Special Tax Revenue Bonds, Series A, were issued to refund the 1996 Special Tax Revenue Bonds, Series B. The bonds were issued to provide financing for the design, construction and installation of certain public improvements within the Community Facilities District No. 89-1. The bonds are secured by the assessments levied against the private property within the assessment district. The bonds are not general obligations of the City, and neither the faith and credit nor taxing power of the City is pledged to the payment of the bonds. The City is acting only in an agent capacity for the property owners.

The liability of property owners for unpaid principal assessments at June 30, 2002 was \$24,855,000. This bond liability has not been recorded in the accompanying Financial Statements, in compliance with GASB Statement No. 6.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(16) Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees on a two-tiered system.

All employees hired prior to November 21, 1995 are in Tier I and become eligible for these benefits as long as they are 50 years of age or older and have worked for the City a minimum of five years. The health benefits for Tier I retirees include medical and dental. Vision benefits are also provided to employees who retired after September 30, 1990. The life insurance is available to all retirees until they reach age 70.

All employees hired on or after November 21, 1995 are in Tier II and, upon retirement, they have the option of participating in a post-retirement insurance benefit program at their own cost.

The benefit plan was established by the City Council. The benefits are funded by expensing the annual insurance premiums, which were \$556,932 for the year ended June 30, 2002. The cost of providing benefits for 56 retirees is not separable from the cost of providing benefits for the 147 active employees.

(17) Insurance

Description of self-insurance pool pursuant to Joint Powers Agreement

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC). The PARSAC is composed of 36 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of the PARSAC is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. Each member government has an elected official as its representative on the Board of Directors. Officers are elected annually by the Board members.

Self-insurance program of the PARSAC

General liability – Annual deposits are paid by member cities, and are adjusted retrospectively to cover cost. Each member city is self-insured for an amount of \$1,000 to \$500,000, based on the option chosen. The City of Placentia is self-insured for the first \$100,000. Participating cities then share in the losses, up to \$1,000,000 per loss occurrence. The California Affiliated Risk Management Authority (CARMA) provides excess coverage above \$1 million to \$3 million. Losses exceeding \$3 million to \$10 million are reinsured by Am Re Managers Specific coverage includes comprehensive and general liability, personal injury, contractual liability, errors and omissions, and certain other coverage. In addition, \$1 billion of shared loss limit all risk insurance for real and personal property, as well as boiler and machinery insurance coverage, was brokered through Robert Driver Company.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(17) Insurance, (Continued)

Other Insurance Coverage

Due to the high cost of earthquake insurance, the City remained self-insured for this coverage. The City is also self-insured for \$300,000 workers' compensation insurance and has obtained from an independent provider coverage for a total of \$5,000,000 in workers' compensation insurance. Fidelity/Public Employee Dishonesty Bond insurance includes all employees (including elected officials) for coverage of \$1,000,000.

Adequacy of protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

At June 30, 2002, \$263,914 had been accrued for self-insurance losses. The amount represents an estimate of the amounts to be paid for claims reported through June 30, 2002 and claims which have been incurred by not reported as of June 30, 2002. While the ultimate amount of losses incurred through June 30, 2002 is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved in the administration of the programs, City management believes the accrual is adequate to cover such losses. A reconciliation of changes in aggregate liabilities for claims filed in the current and prior fiscal years is as follows:

Amount of accrued claims at June 30, 2000	\$427,081
Incurred claims, representing the total of a provision for events of the current fiscal year and any changes (increase or decrease) in the provision for events of prior fiscal years	236,585
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(384,024)</u>
Amount of accrued claims at June 30, 2001	279,642
Incurred claims representing the total of a provision for events of the current fiscal year and any changes (increase or decrease) in the provision for events of prior fiscal years	31,733
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(47,461)</u>
Amount of accrued claims at June 30, 2002	<u>\$263,914</u>

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(18) Segment Information for Enterprise Funds

The City maintains two Enterprise Funds which provide refuse and compressed natural gas services. A summary of the City's enterprise operations at June 30, 2002 is as follows:

	<u>Refuse</u>	<u>CNG</u>	<u>Total</u>
Operating revenues	\$1,944,367	-	1,944,367
Operating income	85,926	-	85,926
Operating transfers out	203,501	-	203,501
Net income (loss)	(116,673)	(4,646)	(121,319)
Net working capital	(70,855)	132,324	61,469
Total assets	94,058	200,000	294,058
Total fund equity	(70,855)	(4,646)	(75,501)

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(19) Fund Balances

The City establishes "reserves" of fund equity to segregate fund balances which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" are established to indicate tentative plans for financial resource utilization in a future period. Each of the City's reserves and designations is described below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Reserved for:					
Advances to other funds	\$ 120,000	-	-	-	120,000
Inventory of supplies	68,740	-	-	-	68,740
Debt service ONTRAC JPA receivable	-	-	841,321	-	841,321
Loans receivable	5,063,556	2,401,314	-	-	7,464,870
Low and moderate housing	-	-	-	1,179,308	1,179,308
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,376,864</u>	<u>6,376,864</u>
	<u>5,252,296</u>	<u>2,401,314</u>	<u>841,321</u>	<u>7,556,172</u>	<u>16,051,103</u>
Unreserved, designated for:					
Council contingencies	1,900,000	-	-	-	1,900,000
Economic stabilization	1,860	-	-	-	1,860
Special revenue purposes	-	2,184,820	-	-	2,184,820
Debt service	-	-	173,394	-	173,394
	<u>1,901,860</u>	<u>2,184,820</u>	<u>173,394</u>	<u>-</u>	<u>4,260,074</u>
Unreserved, undesignated	<u>-</u>	<u>(4,639,910)</u>	<u>(65,072)</u>	<u>(823,225)</u>	<u>(5,528,207)</u>
Total fund balances (deficit)	<u>\$7,154,156</u>	<u>(53,776)</u>	<u>949,643</u>	<u>6,732,947</u>	<u>14,782,970</u>

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(20) Deficit Fund Balances

The following funds had deficit fund balances as of June 30, 2002:

Special Revenue:	
Utility Users Tax	\$ (686,511)
Gasoline Tax	(1,335,385)
Measure M	(258,782)
Housing and Community Development	(33,013)
Capital Projects:	
Capital Projects	(823,225)
ONTRAC JPA	(466,744)

(21) Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the following funds for the year ended June 30, 2002:

	<u>Amount of Excess</u>
Special Revenue:	
Street Lighting	\$ 5,771
Measure M	54,252
Sewer Construction	100,930
Storm Drain Construction	50,188
Asset Seizure	11,654
Supplemental Law Enforcement	50,946
Landscape Maintenance District 92-1	2,747
Housing & Community Development	216,380
Debt Service:	
General Obligations Bonds	110,022
Redevelopment Agency	13,057

(22) Budgeted Special Revenue Funds

The City does not adopt an annual budget for the Undergrounding Utilities Special Revenue Fund since revenues cannot be anticipated. The following schedule reconciles the actual fund balance reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Discreetly Presented Component Units with the actual fund balance reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – All Governmental Fund Types:

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(22) Budgeted Special Revenue Funds, (Continued)

	<u>Special Revenue</u>
Fund balance (deficit) at end of year – GAAP basis	\$(53,776)
Adjustment to exclude actual data not legally budgeted: Undergrounding Utilities Fund	<u>(5,079)</u>
Fund balance (deficit) at end of year – budgetary basis	<u><u>\$(58,855)</u></u>

(23) Defined Benefit Pension Plan (PERS)

Plan Description

The City of Placentia contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. For the year ended June 30, 2002, the amount contributed by the City on behalf of the employees was \$604,421. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer contribution rate for the year ended June 30, 2002 was 14.680% for safety employees and 0.000% for miscellaneous employees. Separately funded plans have been established for each employee group. Benefit provisions and all other requirements are established by state statute and City contract with employee bargaining groups.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(23) Defined Benefit Pension Plan (PERS), (Continued)

Annual Pension Cost

For the year ended June 30, 2002, the City's annual pension cost (employer contribution) of \$604,421 for safety and \$0 for miscellaneous employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 1999, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market effect). PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. PERS has combined the prior service unfunded liability and the current service unfunded liability into a single initial unfunded liability. The single funding horizon for this initial unfunded liability is July 1, 2019 and indefinitely, for safety and miscellaneous plans, respectively.

Safety Employees

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/00	103,078	100%	-
6/30/01	118,953	100%	-
6/30/02	604,421	100%	-

Required Supplementary Information

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/99	32,058,800	33,609,716	(1,550,916)	104.8%	3,635,762	(42.657)%
6/30/00	35,027,062	36,645,491	(1,618,429)	104.6%	3,843,980	(42.103)%
6/30/01	38,065,463	37,559,654	505,809	98.7%	4,119,199	12.3%

*UAAL refers to *unfunded actuarial accrued liability*.

CITY OF PLACENTIA

Notes to Financial Statements

(Continued)

(23) Defined Benefit Pension Plan (PERS)

Miscellaneous Employees

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/00	51,942	100%	-
6/30/01	-	100%	-
6/30/02	-	100%	-

Required Supplementary Information

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/99	20,234,836	26,466,425	(6,231,589)	130.8%	4,025,548	(154.801)%
6/30/00	21,898,713	29,339,206	(7,440,493)	134.0%	4,239,722	(175.495)%
6/30/01	23,833,551	30,466,026	(6,632,475)	127.8%	4,336,367	(153.000)%

(24) Deferred Compensation

The City has made available to its employees two deferred compensation plans, created in accordance with Internal Revenue Code Section 457, whereby employees authorize the City to defer a portion of their salary to be deposited in individual investment accounts. There are several options available for employees to invest, including annuities, life insurance, savings accounts and mutual funds. Funds may be withdrawn by participants upon termination of employment, retirement, or a certified emergency. The City makes no contribution under the plans.

Pursuant to changes in Internal Revenue Code (IRC) Section 457, the City amended its plans and established a trust into which all assets and income of the 457 plan were transferred during the year ended June 30, 1998. The assets and all income attributable to such amounts, are held in trust for the exclusive benefit of the participant and their beneficiaries. These assets are no longer the property of the City, and therefore, are no longer subject to the claims of the City's general creditors. As a result, the assets of the 457 deferred compensation plans are no longer presented in an Agency Fund of the City's financial statements. The City has minimal involvement in the administration of the 457 plans, and therefore, lacks the fiduciary accountability that would require the 457 plan assets be recorded in an expendable trust fund.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(25) Litigation

The City is presently involved in other matters of litigation that have arisen in the normal course of the City's business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to have a material adverse financial impact on the City. Additionally, City management believes that sufficient reserves are available to the City to cover any potential losses, should an unfavorable outcome materialize.

(26) Joint Venture – Orange County Fire Authority

The City entered into a joint powers agreement with 17 other cities and the County of Orange in January 1995, and subsequently amended on September 23, 1999, to create the Orange County Fire Authority (the Authority). Since 1995, other cities within the County have also joined the Authority to bring the total members in the Authority to 21. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, hazardous materials regulation, as well as providing facilities and personnel for such services. The Authority's governing board consists of one representative from each city and two from the County. The operations of the Authority are funded with structural fire fees collected by the County through either the property tax roll or with cash contributions based on the Authority's annual budget. The County pays all structural fire fees it collects to the Authority.

No determination has been made as to each participants' proportionate share of fund equity as of June 30, 2002. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership. Separate audited financial statements may be obtained from the Authority at 180 South Water Street, Orange, California 92866.

(27) Joint Venture – Tri-City Park Authority

The City of Placentia, along with the Cities of Fullerton and Brea, established the Tri-City Park Authority on March 12, 1974. The purpose of the Authority is to oversee and maintain the 40-acre parksite known as Tri-City Park. Each of the three city councils appoint two members to the governing board. The seventh member is appointed by the County of Orange Board of Supervisors. The cities share in management and financing decisions based on their proportionate interests. The Authority prepares an annual budget which is submitted for approval to each of the three cities. Each city's share of the annual budget is based on a population formula and other factors. For the year ended June 30, 2002, the percentages were as follows:

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(27) Joint Venture – Tri-City Park Authority, (Continued)

<u>City</u>	<u>Percentage</u>
Brea	21.6%
Fullerton	35.6%
Placentia	<u>42.8%</u>
	<u>100.0%</u>

The City has an equity interest in the Authority, therefore, an amount has been reported in the General Fixed Assets Account Group. The City has an ongoing financial interest because the City is able to influence the operations of the Authority so that the Authority uses its resources on behalf of the City. Also, an ongoing financial responsibility exists because the Authority is dependent on continued funding from the City. The Authority's financial resources are accumulating.

The condensed financial information of the Authority has not been reproduced in this report, but is available upon request from the Authority at the City of Brea, 1 Civic Center Circle, Brea, CA 92821.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(28) ONTRAC JPA Payable

The operations and capital activity of ONTRAC are financed by contributions from the City of Placentia. These contributions are expected to be repaid with anticipated future grants, proceeds of future debt issuances or contributions from future new members. Because these contributions are expected to be repaid, they have been reported in the accompanying financial statements as advances. There is no stated interest rate or stipulated repayment date and these amounts will be repaid at the discretion of ONTRAC as additional funds become available. Changes in long-term debt of ONTRAC during the year ended June 30, 2002 are as follows:

Balance at July 1, 2001	\$6,460,940
Additions	3,503,930
Repayments	<u>(2,500,000)</u>
Balance at June 30, 2002	<u>\$7,464,870</u>

Long-term debt of ONTRAC is reported in the accompanying combined balance sheet as follows:

	<u>Due from ONTRAC JPA</u>	<u>ONTRAC JPA Payable</u>
General Fund	\$5,063,556	-
Special Revenue:		
Gasoline Tax	2,291,064	-
Storm Drain Construction	60,750	-
Air Quality	49,500	-
ONTRAC JPA	<u>-</u>	<u>7,464,870</u>
	<u>\$7,464,870</u>	<u>7,464,870</u>

(29) Contribution from the City of Placentia to ONTRAC JPA

On July 11, 2001, the City issued certificates of participation and transferred the net proceeds of \$4,309,929 to ONTRAC. ONTRAC used this contribution to fund a \$2,500,000 repayment to the City for existing advances.

CITY OF PLACENTIA
Notes to Financial Statements
(Continued)

(30) Subsequent Events

On July 1, 2002, the City issued 2002 Tax and Revenue Anticipation Notes totaling \$4,270,000. The notes were issued in denominations of \$1,000 each. The notes are due on June 30, 2003 and bear interest at a rate of 3.00%. By statute, the notes are general obligations of the City and are payable solely from taxes, income, revenues, cash receipts and other moneys legally available for payment thereof.

The City entered into a Professional Services Agreement (Agreement) with WEC Corporation (WEC) dated July 1, 2002 through September 30, 2004. Under the terms of the Agreement WEC will provide construction management services for a comprehensive grade separation project. The City's maximum cumulative payment obligation under the Agreement is \$1,298,737, which includes all amounts payable to WEC for subcontracts, leases, materials, labor and expenses. The City may terminate the Agreement at any time by providing written notice to WEC, by reimbursing any allowable costs incurred to date and by paying allowable costs determined to be reasonably necessary to effect the termination.

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APPENDIX D

PROPOSED FORM OF FINAL OPINION

Upon delivery of the Certificates, McFarlin & Anderson LLP, Lake Forest, California, Special Counsel to the City of Placentia, proposes to render their final approving opinion with respect to the Certificates in substantially the following form:

City of Placentia
401 East Chapman Avenue
Placentia, California 92670

**Re: \$11,145,000
 City of Placentia
 2003 Certificates of Participation
 2003 Refunding and Improvement Project
 (Final Opinion)**

Ladies and Gentlemen:

We have acted as special counsel to the City of Placentia (the "City") in connection with the execution and delivery of \$11,145,000 aggregate principal amount of 2003 Certificates of Participation (2003 Refunding and Improvement Project) (the "Certificates") each evidencing proportionate interests of the registered owners thereof in the rights to receive certain Lease Payments (the "Lease Payments") made by the City pursuant to the Lease Agreement (the "Lease Agreement"), dated as of November 1, 2003, by and between the City and the Redevelopment Agency of the City of Placentia (the "Agency"), all of which rights to receive such Lease Payments having been assigned without recourse by the Agency to U.S. Bank National Association, as trustee (the "Trustee"). The Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement (the "Trust Agreement"), dated as of November 1, 2003, by and among the City, the Agency and the Trustee and the Assignment Agreement (the "Assignment Agreement"), dated as of November 1, 2003, between the Agency and the Trustee.

In such connection, we have reviewed the record of the proceedings submitted to us relative to the execution and delivery of the Certificates, including the Trust Agreement, the Lease Agreement, the Tax Certificate of the City dated the date hereof (the "Tax Certificate"), certificates of the City, the Agency, the Trustee and others, and such other documents, opinions and matters to the extent we have deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Lease Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Lease Payments or defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to the Lease Agreement, any Certificates or the interest component of the Lease Payments if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine,

or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Certificates has concluded with their execution and delivery and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease Agreement, the Trust Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions and events will not cause interest components of the Lease Payments to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Lease Agreement, the Trust Agreement and the Tax Certificate and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Lease Agreement, the Trust Agreement or the Assignment Agreement or the accuracy or the sufficiency of the description of any such property contained herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect hereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City is a charter city and municipal corporation, organized and existing under and by virtue of the laws of the State of California.
2. The Lease Agreement and the Trust Agreement have been duly executed and delivered by the City, and assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the City. The Trust Agreement creates a valid pledge, to secure the payment of the principal and interest components of the Lease Payments and certain other amounts (including proceeds of the sale of the Certificates) held by the Trustee in certain funds or accounts established pursuant to the Trust Agreement relating to the Certificates, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.
3. The obligation of the City to make the Lease Payments (as defined in the Lease Agreement) does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction.
4. Assuming due authorization, execution and delivery of the Trust Agreement, and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.
5. The interest component of the Lease Payments made by the Agency under the Lease Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The interest component of the Lease Payments made by the City under the Lease Agreement and received by the registered owners of the Certificates is not a specific preference item

for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other federal or state tax consequences related to the ownership or disposition of, or the accrual or receipt of interest component of, the Lease Payments made by the City under the Lease Agreement.

The foregoing represent our interpretation of applicable law to the facts as described herein. We bring to your attention that our legal opinion and conclusions are an expression of professional judgment and are not a guarantee of a result.

Sincerely,

McFARLIN & ANDERSON LLP

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT, dated as of November 1, 2003 (the "Disclosure Agreement") is executed and delivered by and among the City of Placentia (the "City") and U.S. Bank National Association, as Dissemination Agent hereunder (the "Dissemination Agent") in connection with the issuance of the \$_____ City of Placentia Certificates of Participation (2003 Refunding and Improvement Project) (the "Certificates"). The Certificates are being issued pursuant to a Trust Agreement of Trust, dated as of November 1, 2003 (the "Trust Agreement"), between the City (the "City") and U.S. Bank National Association, as trustee (the "Trustee"). The City and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Owners of the Certificates and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Reports provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the City Administrator or Finance Director of the City, or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Fiscal Year" shall mean the twelve month period beginning on July 1 of each year and ending on June 30 of the following year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

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

"Repository" shall mean each National Repository and each State Repository.

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

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

“Tax-exempt” shall mean that interest on the Certificates is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than February 15 following the end of each Fiscal Year, commencing with the 2002/03 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. The information contained or incorporated in each Annual Report shall be for the Fiscal Year which ended on the preceding June 30. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certifications of the City and shall have no liability, duty or obligation whatsoever to review any such Annual Report. Further, the Dissemination Agent shall have no liability for the contents of any such annual report.

(b) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date specified in subsection (a), the Dissemination Agent shall send a notice to each Repository, or, in the alternative, the Municipal Securities Rulemaking Board, in substantially the form attached as Attachment A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) provide notice to the City that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements for the City prepared in accordance with general accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements

contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing the following:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recent completed Fiscal Year, including information showing tax revenue collections by source;

(ii) information showing the aggregate principal amount of long-term Certificates, leases and other obligations of the City which are payable out of the General Fund of the City, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the City for the most recent completed Fiscal Year, showing the valuation for secured, public utility and unsecured property;

(iv) information regarding the ten largest property taxpayers in the City for the Fiscal Year;

(v) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year; and

(vi) information showing the balance sheet of the General Fund of the City as of the close of the most recent completed Fiscal Year, including categorized assets, liabilities and reserved and unreserved fund balances.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give or cause to be given, notice of the occurrence of any of the following event:

1. Delinquency in payment when due of any principal of or interest with respect to the Certificates.

2. Occurrence of any default under the Trust Agreement (other than as described in clause (1) above).

3. Amendment to or modification of the Trust Agreement, the Lease Agreement or the Financing Agreement (both as defined in the Trust Agreement), or this Disclosure Agreement modifying the rights of the Owners of the Certificates.

4. Giving of a notice of optional or unscheduled prepayment of any of the Certificates.

5. Defeasance of the Certificates or any portion thereof.

6. Any change in any rating on the Certificates.

7. Adverse tax opinions or events affecting the tax-exempt status of the Certificates.

8. Any unscheduled draw on the Reserve Fund reflecting financial difficulties.

9. Unscheduled draws on credit enhancements reflecting financial difficulties.

10. Substitution of credit or liquidity providers, or their failure to perform.

11. The release, substitution or sale of property securing repayment of the Certificates (including property leased, mortgaged or pledged as such security).

(b) The Dissemination Agent shall, within ten (10) Business Days of obtaining actual knowledge of the occurrence of any of the events listed in paragraph (a) of this Section (except events listed in clauses (a)(1), (4) or (5)), with no obligation to determine the materiality thereof, notify the Disclosure Representative of such event, and request that the City promptly notify the Dissemination Agent and the Insurer in writing whether or not to report the event pursuant to subsection (f). For the purpose of this Disclosure Agreement "actual knowledge" means the actual knowledge of the officer of the Dissemination Agent with primary responsibility for matters related to the administration of the Trust Agreement at the principal corporate offices of the Dissemination Agent.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the City shall as soon as possible, but in no event later than three (3) Business Days, determine if such event would constitute material information for Owners of the Certificates under applicable Federal securities law, provided that any event under subsection (a) (6) will always be deemed to be material.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing:

(i) Notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the City gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) Notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of the affected Certificates pursuant to the Trust Agreement.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates.

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the City and the Trustee. If at any time there is no designated Dissemination Agent appointed by the City, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the City shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment requested by the City, provided the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities law, acceptable to the City and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City choose to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and, at the request of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of the outstanding Certificates, shall (but only to the extent funds in any amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges whatsoever related thereto,

including without limitation, fees and expenses of its attorneys), or any Certificate owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of the Dissemination Agent. The Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under said Trust Agreement. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the City all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the City, the owners of the Certificates or any other party. The obligations of the City under this section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and the Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF PLACENTIA

By: _____
City Administrator

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Signatory

**ATTACHMENT A
NOTICE TO REPOSITORIES
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Placentia
Name of Issue: Certificates of Participation (2003 Refunding and Improvement Project)
Date of Issuance: _____, 2003

NOTICE IS HEREBY GIVEN that the City of Placentia has not provided an Annual Report with respect to the above-referenced Certificates as required by the Disclosure Agreement dated as of November 1, 2003 between the City and U.S. Bank National Association. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

**U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent**

By: _____
Authorized Signatory

cc: City

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APPENDIX F

BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the City assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Certificates. The Certificates will be issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchase of Ownership Interests. Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each 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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. **THE CITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE CERTIFICATES.**

Redemption notices shall be sent to DTC. If less than all of the Certificates 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.

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. 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).

Redemption Proceeds. Payments of principal and interest with respect to the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on interest 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 interest payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE TRUSTEE AND THE CITY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE 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 AN OWNER OF CERTIFICATES, 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 OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE CERTIFICATES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS OF THE CERTIFICATES 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 REDEMPTION OF THE CERTIFICATES; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE CERTIFICATES; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE CERTIFICATES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal and interest with respect to the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner 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.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered as described in the Indenture.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered as described in the Indenture and payment of interest to each Owner who owns of record \$1,000,000 or more in aggregate principal amount of Certificates may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15th day after the Trustee's receipt of such request.

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APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

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

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

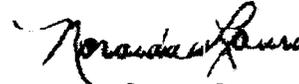


Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative

