

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution (“Article XIII A”) limits the maximum *ad valorem* tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to (1) *ad valorem* taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (3) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment” (“Full Cash Value”). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Taxpayers in the City may appeal the determination of the Los Angeles County Assessor of the Full Cash Value of their property. At any given point in time, appeals are pending in the City. If the assessed value of a property is reduced as a result of an assessment appeal, the reduction is borne by relevant taxing agencies, including the City.

Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a “purchase” or “change of ownership” triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or “severely disabled homeowners” who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence’s assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are “severely disabled,” to transfer the old residence’s assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

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

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of property damaged or destroyed in a disaster.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a

two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Article XIII B of the State Constitution

State and local government agencies in the State are each subject to annual “appropriations limits” imposed by Article XIII B of the State Constitution (“Article XIII B”). Article XIII B prohibits government agencies and the State from spending “appropriations subject to limitation” in excess of the appropriations limit imposed. The base year for establishing such appropriations limit is fiscal year 1978-79. “Appropriations subject to limitation” are generally authorizations to spend “proceeds of taxes,” which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed “the cost reasonably borne by that entity in providing the regulation, product, or service” (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters or appropriations required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, a county’s appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If county revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900, *et seq.* of the State Government Code defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions. [The City estimated that its appropriations limit for “proceeds of taxes” for fiscal year ended June 30, 2011 is \$203,000,000. Estimated appropriations for fiscal year ended June 30, 2011 [are] subject to the limitation total \$114,700,000.] [Update?]

Articles XIII C and XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

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

Article XIII D of the State Constitution (“Article XIII D”) contains several new provisions making it generally more difficult for local agencies to levy and maintain “assessments” for municipal services and programs. “Assessment” is defined to mean any levy or charge upon real property for a

special benefit conferred upon the real property.

Article XIII D also contains several new provisions affecting a “fee” or “charge,” defined for purposes of Article XIII D to mean “any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service.” All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person, exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has three enterprise funds that are self-supporting from fees and charges (refuse, water and electricity), two of which (water and refuse) could, depending upon judicial interpretation of Proposition 218, ultimately be determined to be property-related for purposes of Article XIII D. As a result, the City has since 200 followed the notice and public hearing requirements of Section 6 of Article XIII D before imposing or increasing any water or refuse service fees or charges. The City believes that its water and refuse service fees and charges currently comply with all of the requirements of Section 6 of Article XIII D.

In addition to the provisions described above, Article XIII C removes prohibitions and limitations on the initiative power in matters of any “local tax, assessment, fee or charge.” Consequently, the voters of the City could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. “Assessment,” “fee” and “charge,” are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related as described above) would limit the scope of the initiative power set forth in Article XIII C. If the Article XIII D definitions are not held to limit the scope of Article XIII C initiative powers, then the Article XIII C initiative power could potentially apply to revenue sources that currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and

adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

In addition, Proposition 26 requires a two-thirds approval by each house of the State Legislature to approve laws that increase taxes on any taxpayer, even if the law's overall fiscal effect does not increase State revenues. Proposition 26 also repeals recent State laws that conflict with the measure, unless readopted by two-thirds of each house of the State Legislature by November 2, 2011. [The City does not believe it is currently charging any fees that will have to be reduced or eliminated as a result of Proposition 26. While the City cannot estimate the potential future impact Proposition 26 will have on the City's finances, it does not believe that Proposition 26 will adversely affect its ability to pay when due its debt obligations, including the 2011 Bonds. **[Confirm]**

Proposition 1A

As part of then-Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004.

Proposition 1A prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. If the State does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights.

Proposition 1A of 2004 also allowed the State to borrow up to 8% of local property tax revenues, beginning with Fiscal Year 2008-09, but only if the Governor proclaimed such action was necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approved the borrowing. The amount borrowed was required to be paid back within three years. The 2009-10 State budget authorized the State to exercise its Proposition 1A borrowing authority. This borrowing generated \$1.998 billion that was used to offset State general fund spending. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was approximately \$4.6 million. The City has booked such amount as a receivable.

On November 2, 2010, State voters adopted Proposition 22 ("Proposition 22"), which further restricts the ability of the State to use or borrow money from local governments. Proposition 22 supersedes the provisions of Proposition 1A of 2004 that allow the State to borrow money from local governments and prohibits any future such borrowings by the State from local government funds. However, the Proposition 1A borrowing completed in 2009 is grandfathered.

Statutory Limitations

A statutory initiative ("Proposition 62") was adopted by State voters at the November 4, 1986 General Election, which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

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

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) ("*Woodlake*"), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the State Constitution. The State Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on *Woodlake*. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the "window period" of August 1, 1985 until November 5, 1986. Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature. After the passage of Proposition 218, certain provisions of Proposition 62 (e.g. voter approval of taxes) are governed by the State Constitution.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the State Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Future Initiatives

Article XIII A, Article XIII B and the propositions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

BONDED AND OTHER INDEBTEDNESS

Introduction

The City has issued or caused the issuance of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its own Charter powers. The following summarizes that indebtedness. The City has never failed to pay principal of or interest on any debt or lease obligation when due.

The Director of Finance serves as the City's debt coordinator. The City Treasurer serves on each financing team, along with other finance staff members. All debt issuance must be approved by the City's Finance Committee and the City Council.

Debt Management Policy

The City has adopted debt management policies to standardize and rationalize the issuance and management of debt by the City. One of the principal objectives of the debt management policies is to maintain the highest possible credit ratings for all categories of short and long term debt that can be achieved without compromising the delivery of basic services by the City.

The City's debt management policy requires the City to develop a multi-year capital improvement program to be considered by the City Council as part of the yearly budget process.

General Obligation Debt

Under the City Charter, the City may not incur indebtedness by general obligation bonds which would in the aggregate exceed 15% of the total assessed valuation of all the real and personal property within the City subject to assessment for taxation for municipal purposes. In addition, no bonded indebtedness which will constitute a general obligation of the City may be created unless authorized by the affirmative vote of two-thirds of the electorate voting on such proposition at any election at which the question is submitted. Such bonds are secured by an *ad valorem* property tax assessed against the property owners of the City. The City currently has no general obligation debt outstanding.

Long-Term Debt Obligations Payable from the General Fund

As of June 30, 2011, the City had total long-term debt obligations payable from the City's General Fund of approximately \$622.3 million. Of this total, obligations for general government purposes represented approximately 19.33%, pension obligation bonds approximately 16.82% and self-supporting obligations related to particular activities (such as parking, conference center and the Rose Bowl) approximately 63.83%. For Fiscal Years 2010, 2011, and 2012 the City's annual debt service payable from the General Fund are \$34,697,156, \$34,930,000 and \$32,683,159, respectively. Set forth below is a summary of the City's long-term debt obligations payable from the City's General Fund.

Long Term Obligations Payable from City General Fund
as of June 30, 2011
(\$ in 000s)

City Issues	Original Par	Outstanding	Final Maturity	Variable/Fixed Synthetic Fixed (SWAP)	Letter of Credit Expiration Date	SWAP Counterparty
<u>Pension Obligation Bonds</u>						
1999 A&B Taxable POBs	\$101,940	\$ 73,180	2022	Fixed	-	-
2004 Taxable POBs	40,750	31,533	2015	Variable	-	-
Sub-Total Pension Obligation Bonds	\$142,690	\$104,713				
<u>City Leases</u>						
1993 COPs	\$ 79,835	\$ 15,700	2016	Fixed	-	-
2000 Lease Financing	4,000	2,131	2020	Fixed	-	-
2006 VRDBs (City Hall Portion)	10,355	8,405	2023	Variable	-	-
2006 Equip Lease Financing	180	89	2014	Fixed	-	-
2008 B Refunding COPs	26,759	21,591	2019	Variable	-	-
2008 C Refunding COPs	71,450	66,360	2038	Variable	-	-
2009 Equip Lease Financing	5,287	4,337	2018	Fixed	-	-
2009 Aircraft Lease Financing	2,122	1,740	2018	Fixed	-	-
Sub-Total City Leases	\$199,988	\$120,353				
<u>Self-Supporting Obligations</u>						
1987 VRDB COPs (Los Robles Parking Facility)	\$ 20,300	\$ 4,400	2012	Variable	11/1/2012	-
1993 Refunding COPs (Old Pasadena Parking)	28,050	12,275	2018	Fixed	-	-
1999 Marriott Garage Lease Financing	2,600	1,341	2019	Fixed	-	-
2006 VRDBs (Rose Bowl)	36,945	29,995	2023	Variable/SWAP(Synthetic Fixed)	-	Deutsche Bank
2006 A CAB COPs (Conference Center)	27,139	30,346	2034	Fixed	-	-
2006 Equip Lease Financing	15,060	111	2014	Fixed	-	-
2008 A COPs	134,720	134,720	2035	Variable/SWAP(Synthetic Fixed)	4/16/2011	RBC Bank
2008 B COPs	890	718	2019	Variable	-	-
2008 Paseo Colorado Taxable Revenue Bonds	28,800	27,500	2038	Variable	9/1/2011(?)	-
2010 A PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-Exempt	36,808	36,808	2033	Fixed	-	-
2010 B PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-BABS	106,660	106,660	2043	Fixed	-	-
2010 C PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Taxable	5,005	5,005	2020	Fixed	-	-
2010 D PPA Lease Revenue Bonds (Rose Bowl Renovation Project) Tax-RZEDBS	7,400	7,400	2043	Fixed	-	-
Sub-Total Self-Supporting	\$450,377	\$397,279				
Total General Fund Obligations	\$793,055	\$622,345				

Source: City of Pasadena, Finance Department

Revenue Bonds

The City Charter and State law provide for the issuance of revenue bonds, and the execution of installment purchase contracts that support revenue certificates of participation, which are secured by and payable from the revenues generated by various enterprise and special fund operations. These revenue bonds do not represent obligations of the General Fund of the City, nor are they secured by taxes. Revenue bonds and certificates of participation have been issued that are secured by electric, water.

Cash-flow Borrowings

The City has not recently [in the past ten years?] issued tax and revenue anticipation notes to alleviate short-term cash flow needs that occur early in the fiscal year when taxes and revenues have not yet been received.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of June 30, 2011 is shown on the following page.

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**CITY OF PASADENA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
As of June 30, 2011**

2010-11 Assessed Valuation:	\$21,086,792,638
Redevelopment Incremental Valuation:	<u>2,824,789,269</u>
Adjusted Assessed Valuation:	\$18,262,003,369

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽¹⁾</u>	<u>Debt 06/30/11</u>
Los Angeles County Flood Control District	2.131%	\$1,146,371
Metropolitan Water District	1.024	2,331,341
Pasadena Area Community College District	32.841	37,827,028
La Cañada Unified School District	0.234	74,377
Pasadena Unified School District	71.118	205,939,949
City of Pasadena Community Facilities District No. 1	100.000	8,685,000
Los Angeles County Improvement District No. 2658-M	98.287	3,253,300
Los Angeles County Regional Park and Open Space Assessment District	1.998	3,941,754
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$263,199,120</u>

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Los Angeles County General Fund Obligations	1.998%	\$ 29,909,616
Los Angeles County Superintendent of Schools Certificates of Participation	1.998	243,854
Los Angeles County Sanitation District Nos. 15, 16 & 17 Certificates of Participation	0.422-58.097	12,429,181
Pasadena Area Community College District Certificates of Participation	32.841	591,138
City of Pasadena General Fund Obligations	100.000	503,639,935
City of Pasadena Pension Obligations	100.000	<u>104,825,319</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$651,639,043

COMBINED TOTAL DEBT \$914,838,163⁽²⁾

<u>Ratios to 2010-11 Assessed Valuation:</u>	
Total Direct and Overlapping Tax and Assessment Debt	1.25%
<u>Ratios to Adjusted Assessed Valuation:</u>	
Combined Direct Debt (\$608,465,254)	3.33%
Combined Total Debt.....	5.01%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

(1) Percentage of overlapping agency's assessed valuation located within the boundaries of the city.

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

Source: MuniServices, LLC

LITIGATION

As of the date of the Official Statement, there is no litigation pending against the City or, to the knowledge of its officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2011 Bonds or the Trust Agreement in any way contesting or affecting the validity thereof or the authorizations or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security

provided for the payment of the 2011 Bonds or the use of the proceeds of the 2011 Bonds.

There are no pending lawsuits as of the date hereof, that the City Attorney believes challenge the validity of the 2011 Bonds or the Trust Agreement, the corporate existence of the City, or the title of the executive officers to their respective offices. The Office of the City Attorney has prepared the following summary, as of the date of the Official Statement, of certain claims and lawsuits (for which the estimated loss to the City as of such date exceeds [\$1 million] (“Material Litigation”)) pending against the City: **[To come]**

The summaries and estimated losses to the City of the Material Litigation set forth above are based on the City’s reasonable estimates as of the date of this Official Statement, based on information available at such time, are subject to change without notice and the City disclaims any responsibility to update any information provided below for any matters relating to these claims and lawsuits or any new claims or lawsuits that may be brought to the attention of the City after the date hereof.

[The City believes as of the date of this Official Statement and subject to the assumptions and limitations in the paragraph above, that it has sufficient defenses against such claims and lawsuits and that the aggregate amount of the uninsured liabilities of the City which may result from adverse rulings, judgments or settlements in any or all of such pending Material Litigation should not have a material adverse effect on the City’s financial position.][Confirm]