

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."



\$9,700,000
CITY OF MOUNTAIN VIEW
Water Revenue Bonds
(Graham Reservoir Project)
2004 Series A

Dated: Date of Delivery

Due: June 1, as shown below

Authority for Issuance. The bonds captioned above (the "Series A Bonds") are being issued by the City of Mountain View (the "City") under the City Charter and the bond procedures adopted by the City, a resolution adopted by the City on August 17, 2004, and an Indenture of Trust, dated as of September 1, 2004 (the "Indenture") by and between the City and U.S. Bank National Association, as trustee for the Series A Bonds (the "Trustee").

Use of Proceeds. The Series A Bonds are being issued to provide funds to (i) acquire and construct a new reservoir and related improvements for the City's municipal water enterprise (the "Water System"), (ii) provide a reserve account for the Series A Bonds, and (iii) pay the costs of issuing the Series A Bonds. See "FINANCING PLAN."

Security for the Series A Bonds. The Series A Bonds are payable from and secured by the City's pledge under the Indenture of that portion of "Net Revenues" necessary to pay debt service on the Series A Bonds and any Parity Bonds issued under the Indenture. "Net Revenues" are defined generally as gross revenues received from the Water System, less maintenance and operation costs of the Water System. The Series A Bonds are also secured by all moneys on deposit in the Debt Service Fund established under the Indenture. See "SECURITY FOR THE SERIES A BONDS."

Bond Terms; Book-Entry Only. The Series A Bonds will bear interest at the rates shown below, payable semiannually on December 1 and June 1 of each year, commencing on June 1, 2005, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Series A Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Series A Bonds will not receive certificates representing their interests in the Series A Bonds. Payments of the principal of, premium, if any, and interest on the Series A Bonds will be made by DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Series A Bonds. See "THE SERIES A BONDS — General Provisions."

Issuance of Additional Parity Obligations. The City may issue or incur additional obligations and bonds on a parity with or subordinate to the Series A Bonds, provided that the conditions set forth in the Indenture are met. See "SECURITY FOR THE SERIES A BONDS — Parity Obligations," "— Governmental Loans" and "— Subordinate Obligations."

Redemption. The Series A Bonds are subject to optional redemption and special mandatory redemption from insurance or condemnation proceeds prior to maturity. See "THE SERIES A BONDS — Redemption."

Bond Insurance. The payment of the principal of and interest on the Series A Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series A Bonds.



NEITHER THE SERIES A BONDS NOR THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF OR INTEREST THEREON CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE SERIES A BONDS ARE SECURED SOLELY BY THE PLEDGE OF NET REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE SERIES A BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF SERIES A BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE SERIES A BONDS.

The Series A Bonds will be sold and awarded by competitive bid held on Tuesday, September 14, 2004, subject to the conditions set forth in the Official Notice of Sale. The Series A Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the Series A Bonds will be delivered in definitive form through DTC on or about September 29, 2004.

MATURITY SCHEDULE
(Base CUSIP[†]: 624437)

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP[†]</u>
2005	\$365,000	3.000%	101.166	AA7
2006	250,000	3.000	102.466	AB5
2007	255,000	3.000	103.115	AC3
2008	265,000	3.000	103.163	AD1
2009	270,000	3.000	102.189	AE9
2010	280,000	3.250	102.342	AF6
2011	290,000	3.500	103.000	AG4
2012	300,000	4.000	105.400	AH2
2013	310,000	4.000	104.623	AJ8
2014	325,000	4.000	103.902	AK5
2015	335,000	4.000	102.991 ^C	AL3
2016	350,000	4.000	102.089 ^C	AM1
2017	365,000	4.000	101.197 ^C	AN9
2018	380,000	4.000	100.154 ^C	AP4
2019	390,000	4.000	99.118	AQ2
2020	410,000	4.000	98.053	AR0
2021	425,000	4.200	98.813	AS8
2022	440,000	4.250	98.165	AT6
2023	460,000	4.375	98.426	AU3
2024	480,000	4.500	98.964	AV1
2025	505,000	4.500	98.407	AW9
2026	525,000	4.500	97.959	AX7
2027	550,000	4.500	97.495	AY5
2028	575,000	4.500	97.155	AZ2
2029	600,000	4.500	96.665	BA6

^C Priced to the optional call date of June 1, 2014

[†] Copyright 2004, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

CITY OF MOUNTAIN VIEW

CITY COUNCIL

Matt Pear, *Mayor*
Matt Neely, *Vice Mayor*
Nick Galiotto, *Councilmember*
R. Michael Kasperzak, Jr., *Councilmember*
Gregory Perry, *Councilmember*
Rosemary Stasek, *Councilmember*
Mary Lou Zoglin, *Councilmember*

CITY STAFF

Kevin C. Duggan, *City Manager*
Nadine P. Levin, *Assistant City Manager*
Michael D. Martello, *City Attorney*
Robert F. Locke, *Finance and Administrative Services Director*
Patty J. Kong, *Assistant Finance and Administrative Services Director*
Maryanne Achterberg, *Investment Officer*
Cathy R. Lazarus, *Public Works Director*
Timothy Ko, *Assistant Public Works Director*
Angelita M. Salvador, *City Clerk*

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Stone & Youngberg LLC
San Francisco, California

TRUSTEE

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Series A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Series A Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

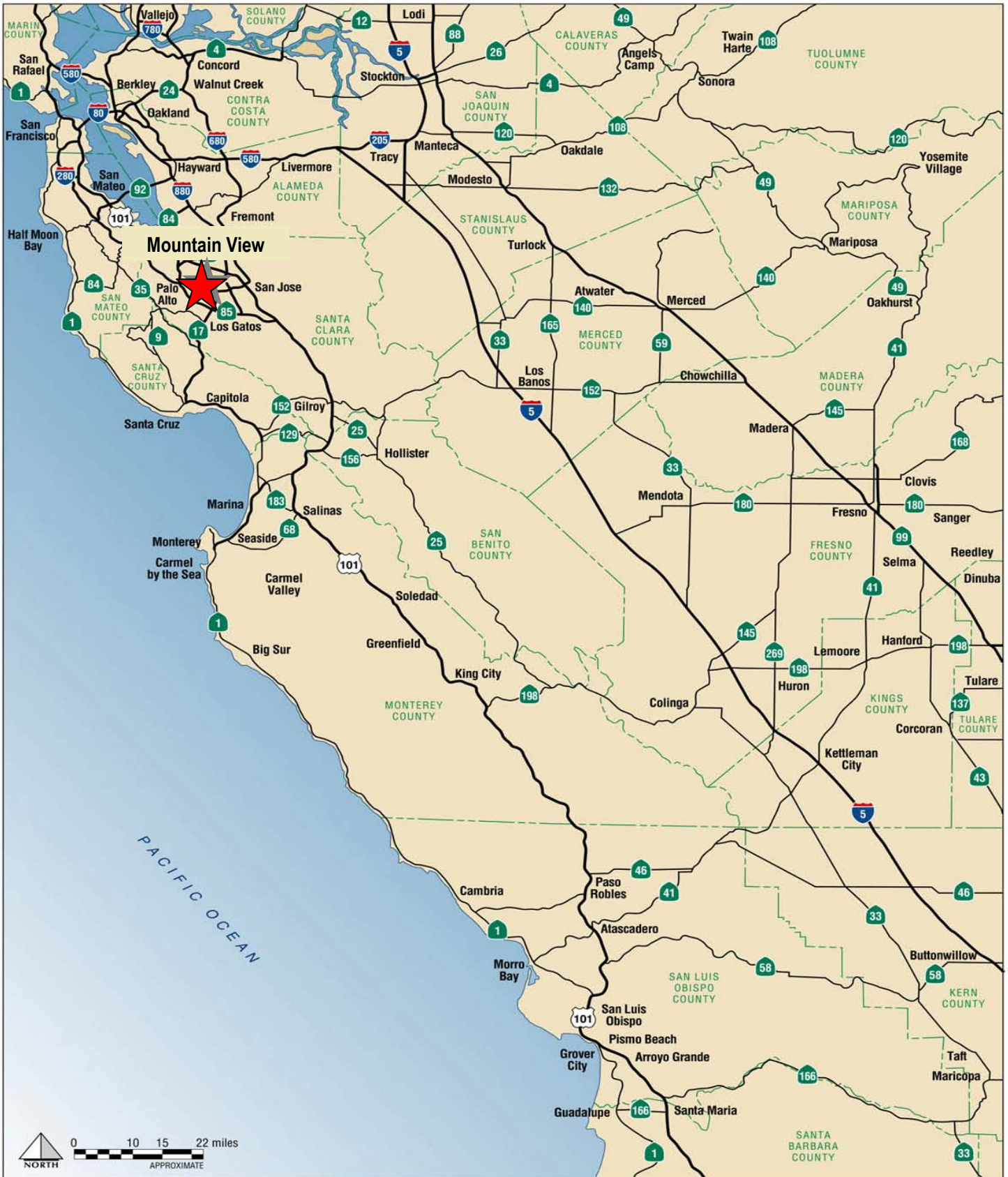
Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

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

THE SERIES A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE SERIES A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

REGIONAL LOCATION MAP

City of Mountain View, Santa Clara County, CA



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OFFICIAL STATEMENT

\$9,700,000
CITY OF MOUNTAIN VIEW
Water Revenue Bonds
(Graham Reservoir Project)
2004 Series A

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series A Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance. The City of Mountain View (the "City") is issuing the bonds captioned above (the "Series A Bonds") under (a) the City charter (the "City Charter") and the bond procedures adopted by the City, (b) a resolution adopted by the City Council of the City on August 17, 2004 (the "Resolution"), and an Indenture of Trust (the "Indenture"), dated as of September 1, 2004, between the City and U.S. Bank National Association, as trustee (the "Trustee").

Form of Bonds. The Series A Bonds will be dated their date of delivery and will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. See "THE SERIES A BONDS – General Provisions." When delivered, the Series A Bonds will be registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee. DTC will act as securities depository for the Series A Bonds. Individual purchases of Bonds will be made in book-entry form only in the principal amount of \$5,000 each or any integral multiple thereof. Purchasers of the Series A Bonds will not receive certificates representing the Series A Bonds purchased. See "THE SERIES A BONDS - Book-Entry Only System" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Purpose of the Series A Bonds. The Series A Bonds are being issued to provide funds to (i) acquire and construct a new reservoir to be known as the Graham Reservoir and related improvements for the City's municipal water enterprise (the "Water System"), (ii) provide a reserve account for the Series A Bonds, and (iii) pay the costs of issuing the Series A Bonds. See "FINANCING PLAN."

Pledge of Water System Revenues. The Series A Bonds and any Parity Bonds issued under the Indenture (collectively, the “Bonds”) are payable from and secured by a (i) first pledge of and lien on “Net Revenues” received from the operation of the Water System. “Net Revenues” are generally defined as “Gross Revenues” received from the Water System, less “Maintenance and Operation Costs” of the Water System. “SECURITY FOR THE SERIES A BONDS – Pledge of Net Revenues.”

Rate Covenant. The City will make the following covenants in the Indenture with respect to Charges for the Water System:

Sum Sufficient. The City will fix, prescribe, revise and collect Charges during each Fiscal Year which (together with transfers to the Revenue Fund from the Rate Stabilization Account, and other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

(a) all Maintenance and Operation Costs estimated by the City to become due and payable in such Fiscal Year;

(b) the Debt Service on the Outstanding Bonds and Governmental Loans (if any) becoming due and payable during such Fiscal Year, including the Redemption Price of Term Bonds subject to Sinking Fund Installment redemption during such Fiscal Year, if any;

(c) all other payments required for compliance with the Indenture and the instruments under which any Parity Bonds are issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

Coverage Test. The City will fix, prescribe, revise and collect Charges during each Fiscal Year that are sufficient to yield Net Revenues at least equal to 125% of the Debt Service on the Outstanding Bonds and Governmental Loans (if any) becoming due and payable during such Fiscal Year.

See “SECURITY FOR THE SERIES A BONDS - Rate Covenant.”

Issuance of Additional Parity Obligations. The City may issue or incur additional obligations and bonds on a parity with or subordinate to the Series A Bonds, provided that the conditions set forth in the Indenture are met. See “SECURITY FOR THE SERIES A BONDS – Parity Obligations,” “– Governmental Loans” and “– Subordinate Obligations.”

Reserve Account. A Reserve Account will be established and available if there are insufficient amounts in the Debt Service Fund to make payment on the Series A Bonds. Upon delivery of the Series A Bonds, the City will meet the “Reserve Requirement” (described herein) by depositing a portion of the proceeds of the Series A Bonds with the Trustee. See “SECURITY FOR THE SERIES A BONDS – Reserve Account.”

Bond Insurance and Reserve Surety. Concurrently with issuance of the Series A Bonds, MBIA Insurance Corporation (“MBIA” or the “ Insurer”), will issue its municipal bond insurance policy for the Series A Bonds, and its debt service reserve fund surety to satisfy the

Reserve Requirement. See "MUNICIPAL BOND INSURANCE AND RESERVE SURETY" and "APPENDIX H – Specimen Municipal Bond Insurance Policy and Reserve Surety."

Redemption. The Series A Bonds are subject to optional redemption and special mandatory redemption prior to their stated maturity dates. See "THE SERIES A BONDS – Redemption."

Risks of Investment. The Series A Bonds are repayable only from certain money available to the City from the Water System. For a discussion of some of the risks associated with the purchase of the Series A Bonds, see "BOND OWNERS' RISKS."

Neither the Series A Bonds nor the obligation of the City to pay principal of or interest thereon constitutes a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City. The Series A Bonds are secured solely by the pledge of Net Revenues of the City and certain funds held under the Indenture.

FINANCING PLAN

The Project

General. The City intends to use the proceeds of the Series A Bonds to finance the cost of the "Project," which is defined as the construction of the Graham Reservoir and related improvements for the Water System. (Under the Indenture, the City has the option of applying the proceeds of the Series A Bonds to any other capital project integral to the Water System.)

Graham Reservoir. The Graham Reservoir is designed as an 8 million gallon reservoir to be located under a newly reconstructed Graham Middle School playfield under a lease and related agreements with the Mountain View-Whisman School District. The project includes the construction of the Graham Reservoir and related improvements (such as a pump station, off-site piping, yard piping and appurtenances, athletic fields and landscaping, and restroom and storage improvements).

Construction of the Graham Reservoir project began in June 2004. The Graham Reservoir is scheduled to be complete in October 2005, and the related athletic fields and landscaping are scheduled to be complete in March 2006.

The construction cost for the Graham Reservoir project was originally anticipated to equal approximately \$12.1 million. Based on construction bids received on September 16, 2004, the cost of the project is currently anticipated to equal approximately \$16 million. The City intends to solicit new bids for the project in October 2004, but the City anticipates that it will be able to pay any project costs in excess of the original estimates through available funds of the Water Fund.

The City anticipates that the total cost of the Graham Reservoir project will be funded through a combination of the proceeds of the Series A Bonds deposited in the Project Fund, a contribution from the Mountain View-Whisman School District, a contribution from the Shoreline Regional Park Community Fund (because the Graham Reservoir is anticipated to serve the future water needs of the North Bayshore Area of the Mountain View Shoreline Regional Park Community), and available funds of the Water Fund as needed.

See "THE WATER SYSTEM – Capital Improvement Program" for a further discussion of the Graham Reservoir project and other current and future planned maintenance and capital improvement projects.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the Series A Bonds are as follows:

Sources:

Principal Amount of Series A Bonds	\$9,700,000.00
<i>Plus</i> Original Issue Premium	7,751.80
Less Underwriter's Discount	<u>(81,919.41)</u>
TOTAL SOURCES	\$9,625,832.39

Uses:

Deposit to Project Fund [1]	\$9,420,000.00
Deposit to Costs of Issuance Fund [2]	<u>205,832.39</u>
TOTAL USES	\$9,625,832.39

[1] Represents funds to be used to finance a portion of the costs of the Project. See “– The Project” above.

[2] Represents funds to be used to pay Costs of Issuance, which include legal fees, financial advisor's fee, reserve fund surety bond premium, printing costs, rating agency fees and other miscellaneous expenses. The municipal bond insurance policy premium will be paid directly by the Underwriter.

DEBT SERVICE SCHEDULE

Annual debt service on the Series A Bonds is presented below.

Bond Year Ending <u>June 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Debt Service</u>
2005	\$365,000	\$262,334.72	\$627,334.72
2006	250,000	379,300.00	629,300.00
2007	255,000	371,800.00	626,800.00
2008	265,000	364,150.00	629,150.00
2009	270,000	356,200.00	626,200.00
2010	280,000	348,100.00	628,100.00
2011	290,000	339,000.00	629,000.00
2012	300,000	328,850.00	628,850.00
2013	310,000	316,850.00	626,850.00
2014	325,000	304,450.00	629,450.00
2015	335,000	291,450.00	626,450.00
2016	350,000	278,050.00	628,050.00
2017	365,000	264,050.00	629,050.00
2018	380,000	249,450.00	629,450.00
2019	390,000	234,250.00	624,250.00
2020	410,000	218,650.00	628,650.00
2021	425,000	202,250.00	627,250.00
2022	440,000	184,400.00	624,400.00
2023	460,000	165,700.00	625,700.00
2024	480,000	145,575.00	625,575.00
2025	505,000	123,975.00	628,975.00
2026	525,000	101,250.00	626,250.00
2027	550,000	77,625.00	627,625.00
2028	575,000	52,875.00	627,875.00
2029	<u>600,000</u>	<u>27,000.00</u>	<u>627,000.00</u>
Total:	\$9,700,000	\$5,987,584.72	\$15,687,584.72

THE SERIES A BONDS

Authority for Issuance

The City is a charter city authorized to issue bonds under the powers of cities with respect to municipal affairs in accordance with Section 5 of Article XI of the California Constitution, and under Section 200 of the City Charter. The City is issuing the Series A Bonds under the City Charter and the bond procedures adopted by the City, the Resolution, and the Indenture. Under the Resolution, the City authorized the issuance of the Series A Bonds in a principal amount not to exceed \$11,000,000.

General Provisions

Bond Terms. The Series A Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000, so long as no Series A Bond has more than one maturity date. The Series A Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the cover page of this Official Statement.

Payments of Principal and Interest. Interest on the Series A Bonds will be payable on December 1 and June 1 in each year, beginning June 1, 2005 (each an "Interest Payment Date") to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date. Interest will be paid by check or draft of the Trustee mailed to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Series A Bonds, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books. While the Series A Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Series A Bond will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Series A Bonds.

Principal of and premium (if any) on any Series A Bond will be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the Series A Bonds will be payable in lawful money of the United States of America.

Calculation of Interest. The Series A Bonds will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless the date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to May 15, 2005, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any Series A Bond, interest thereon is in default, such Series A Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Redemption

Optional Redemption. The Series A Bonds maturing on or before June 1, 2014, are not subject to optional redemption prior to maturity. The Series A Bonds maturing on or after June 1, 2015 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, from any source of available funds, in an order to be determined by the City, on any date on or after June 1, 2014, at a Redemption Price equal to the principal amount of the Series A Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Special Mandatory Redemption From Insurance or Condemnation Proceeds.

The Series A Bonds are also subject to redemption as a whole or in part on any date, in any manner selected by the City and by lot within a maturity, to the extent of the Net Proceeds of hazard insurance not used to repair or rebuild the Water System or the Net Proceeds of condemnation awards received with respect to the Water System to be used for such purpose under the Indenture, at a Redemption Price equal to the principal amount of the Series A Bonds plus interest accrued to the date fixed for redemption, without premium.

Notice of Redemption. Unless waived by any Owner of Series A Bonds to be redeemed, official notice of any redemption of Series A Bonds will be given, at the expense of the City, by the Trustee by mailing a copy of an official redemption notice by first class mail at least 30 days, and not more than 60 days, prior to the date fixed for redemption to the Owner of the Series A Bond or Series A Bonds to be redeemed at the address shown on the Bond Registration Books or at such other address as is furnished in writing by such Owner to the Trustee; provided, that neither the failure to receive such notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the redemption of the Series A Bonds.

Effect of Redemption. If notice of redemption is given as required by the Indenture, the Series A Bonds or portions of Series A Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City defaults in the payment of the Redemption Price) such Series A Bonds or portions of Series A Bonds will cease to have interest accrue thereon. Upon surrender of such Series A Bonds for redemption in accordance with the redemption notice, such Series A Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest. Upon surrender for any partial redemption of any Series A Bond, there will be prepared for the Owner a new Series A Bond or Series A Bonds of the same maturity in the amount of the unpaid principal.

Neither the failure of any Series A Bond Owner to receive any notice so mailed nor any defect therein will affect the sufficiency of the proceedings for redemption of any Series A Bonds nor the cessation of accrual of interest thereon.

Selection of Series A Bonds for Redemption. Whenever any Series A Bonds are to be selected for redemption, the Trustee will determine, by lot, the amount in each maturity and the numbers of the Series A Bonds to be redeemed, and will notify the City thereof.

Book-Entry Only System

The Series A Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the Series A Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Series A Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Series A Bonds. Purchasers of the Series A Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC and the book-entry system.

SECURITY FOR THE SERIES A BONDS

The general fund of the City is not liable and neither the credit nor the taxing power of the City is pledged for the payment of the principal or Redemption Price of and interest on the Series A Bonds. The Owner of the Series A Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal of and interest on the Series A Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Water System.

This section provides summaries of the security for the Series A Bonds and certain provisions of the Indenture. See "APPENDIX A – Summary of the Indenture" for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Net Revenues

First and Exclusive Lien on Net Revenues. Under the Indenture, the City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and that portion of the Net Revenues is irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds.

Such portion of the Net Revenues may not be used for any other purpose during each Fiscal Year, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture, including Parity Bonds. (See "SECURITY FOR THE SERIES A BONDS – Parity Obligations.")

This pledge constitutes a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof.

Net Revenues. The Indenture defines "Net Revenues," for any period of computation, as the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during such period.

"Gross Revenues" are defined in the Indenture as, for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to (a) all Charges received by the City, (b) all receipts, income or realized gain derived from the investment of funds held by the City or the Trustee under the Indenture, and receipts from the Rate Stabilization Account (c) all moneys received by the City from other public entities whose inhabitants are served under contracts with the City and (d) moneys deposited in the Debt Service Fund or other fund to secure the Bonds or to provide for the payment of the principal of or interest on the Bonds.

"Maintenance and Operation Costs" are defined in the Indenture as the reasonable and necessary costs of maintaining and operating the Water System, calculated on sound accounting principles, including (among other things) the cost of purchased water, the reasonable expenses of management, personnel, services, equipment, repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and reasonable

amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Limited Obligation of the City

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Series A Bonds. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal or Redemption Price of and interest on the Series A Bonds. The Owner of the Series A Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property.

The principal or Redemption Price of and interest on the Series A Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues, except the Net Revenues of the Water System.

Allocation of Gross Revenues

Deposit Into Revenue Fund. The City will covenant and agree in the Indenture that all Gross Revenues, when and as received, will be received and held by the City in trust under the Indenture and will be deposited by the City in the Revenue Fund (which has previously been created and now exists in the City Treasury as the Water Fund) and will be accounted for through and held in trust in the Revenue Fund.

All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Allocation. All Gross Revenues will be held in trust by the City in the Revenue Fund and will be applied, transferred, used and withdrawn only for the purposes authorized in the Indenture, as set forth below, and in the following order of priority:

(i) ***Maintenance and Operation Costs.*** The City will first pay from the moneys in the Revenue Fund the Maintenance and Operation Costs as they become due and payable.

(ii) ***Debt Service Fund.*** On or before the 5th Business Day of the month preceding each Interest Payment Date and Principal Payment Date, the City will transfer from the Revenue Fund to the Trustee for deposit in the Debt Service Fund the following amounts:

(i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds (including any Parity Bonds) bearing interest at a Fixed Interest Rate, and an amount equal to interest due on any Parity Bonds bearing interest at a Variable Rate (if any) on the next occurring Interest Payment Date, plus

(ii) an amount equal to the aggregate amount of Principal Installments becoming due and payable on all Outstanding Serial Bonds on the next succeeding Principal Payment Date, plus

(iii) an amount equal to the aggregate amount of the Sinking Fund Installments payable on the next succeeding Principal Payment Date, if any, plus

(iv) an amount equal to the aggregate amount of Governmental Loan Payments becoming due and payable under any Governmental Loans.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Principal Installments due on all Outstanding Serial Bonds or such Principal Installments and interest to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Bonds.

(iii) *2004 Series A Sinking Fund Account.* On or before the 5th Business Day of the month preceding each Principal Payment Date, and after any moneys in the 2004 Series A Sinking Fund Account have been applied, the City will transfer from the Revenue Fund to the Trustee for deposit in the 2004 Series A Sinking Fund Account an amount equal to the aggregate amount of the Sinking Fund Installments payable on the next occurring Principal Payment Date, if any.

(iv) *Reserve Account.* After making the payments, allocations and transfers described in subsections (i), (ii), and (iii) above, if the balance in the Reserve Account is less than the Reserve Requirement, the deficiency will be restored by transfers from the first funds that become available in the Revenue Fund to the Trustee for deposit in the Reserve Account, such transfers to be made no later than the times provided in the section of the Indenture concerning valuation of investments.

All interest earnings and profits on the investment of amounts in the Reserve Account will, prior to the date of transfer of all amounts from the Project Fund, be transferred to the Project Fund and after the date of such transfer, to the Debt Service Fund. Such transfers will be made upon receipt of interest and profits but at least annually. Any investment losses will be charged to the Reserve Account.

(v) *Surplus.* As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsection (i) through (iv), moneys remaining in the Revenue Fund may at any time be treated as surplus and applied as provided in the Indenture.

Debt Service Fund

Establishment. The Indenture provides that the Trustee will establish and maintain a Debt Service Fund, within which the Trustee will establish and maintain a Redemption Account and a Reserve Account.

Application. The Trustee will apply the funds in the Debt Service Fund as follows:

(a) *Interest.* The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and apply that amount to the payment of interest on the Bonds when due as specified in the Indenture.

(b) *Principal.* The Trustee will withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount of the Outstanding Serial Bonds, if any, maturing on that Principal Payment Date, and apply that amount to the payment of the principal of Bonds when due as specified in the Indenture.

(c) *Governmental Loans.* The Trustee will withdraw from the Debt Service Fund, prior to each Governmental Loan Payment Date (if any), an amount equal to the Governmental Loan Payment then coming due, if any, and cause the same to be applied to pay the Governmental Loan Payment then due.

All withdrawals and transfers under the provisions of subsection (a), (b) and (c) above will be made not earlier than one day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Payment Date.

Rate Stabilization Account

Establishment and Deposits. The Indenture provides that the City will establish, hold and maintain a Rate Stabilization Account within the Water Fund.

From time to time the City may deposit in the Rate Stabilization Account from surplus Net Revenues such amounts as the City may determine, provided that deposits for each Fiscal Year may be made at any time during such Fiscal Year and until (but not after) 120 days following the end of such Fiscal Year.

Application. The City may withdraw amounts from the Rate Stabilization Account (i) for inclusion in Gross Revenues for any Fiscal Year at any time during such Fiscal Year or (ii) for any of the other purposes set forth in the Indenture for the use of surplus funds.

All interest or other earnings on deposits in the Rate Stabilization Account will be accounted for as Gross Revenues in the Revenue Fund.

Limitation on Deposits. Notwithstanding the foregoing, no deposit of surplus Net Revenues in the Rate Stabilization Account may be made to the extent such Net Revenues were included in an Independent Financial Advisor's report submitted in connection with satisfying the test for issuing Parity Bonds contained in the Indenture, and the withdrawal of Net Revenues for purposes of such deposit would cause noncompliance with the test for issuing Parity Bonds contained in the Indenture.

Reserve Account

Reserve Requirement. On the Closing Date the Trustee will deposit into the Reserve Account the reserve fund surety bond, which the Insurer has agreed to issue in an amount equal to the "Reserve Requirement," which is defined as an amount equal to "Maximum Annual Debt Service" (as defined in the Indenture), or such lower amount as may be required by the Tax Code.

An amount equal to the Reserve Requirement must be maintained in the Reserve Account at all times; any deficiency therein will be replenished from available Net Revenues. The Reserve Requirement may be increased by any Supplemental Indenture establishing any Parity Bonds.

Use of the Reserve Account. If at any time there are not sufficient amounts in the Debt Service Fund or any Sinking Fund Account therein to make payment of Principal Installments or Redemption Price of or interest on the Bonds, the Trustee will withdraw from the Reserve Account and pay into the appropriate account the amount of the deficiency.

Transfers of Excess Amounts. Any amounts in the Reserve Account in excess of the Reserve Requirement (whether derived from interest or gain on investments or otherwise) will,

on June 2 of each year prior to the transfer of all amounts from the Project Fund under the Indenture, be transferred to the Project Fund, and thereafter, on June 2 of each year, to the Debt Service Fund.

Use of Letter of Credit or Surety Bond. In lieu of making the Reserve Requirement deposit required under the Indenture, or in replacement of moneys then on deposit in the Reserve Account (which will be transferred by the Trustee to the City), the City may deliver to the Trustee a “Reserve Account Surety” (defined in the Indenture as a letter of credit or surety bond issued in an amount equal to all or part of the Reserve Requirement, and acceptable to the Insurer) in an amount, together with moneys and Federal Securities then on deposit in the Reserve Account, equal to the Reserve Requirement, all on the terms and conditions set forth in the Indenture.

If a drawing is made on the Reserve Account Surety, the City will make such payments as may be required by the terms of the Reserve Account Surety so that the Reserve Account Surety will be reinstated in the amount of such drawing within one year of the date of such drawing.

Cash on deposit in the Reserve Account must be used (or Permitted Investments purchased with such cash must be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Account Surety. If and to the extent that more than one Reserve Account Surety is deposited in the Reserve Account, drawings thereunder and repayments of costs associated therewith will be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

See “MUNICIPAL BOND INSURANCE AND RESERVE SURETY.”

Rate Covenant

The City will make the following covenants in the Indenture with respect to Charges for the Water System:

Sum Sufficient. The City will fix, prescribe, revise and collect Charges during each Fiscal Year which (together with transfers to the Revenue Fund from the Rate Stabilization Account, and other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

(a) all Maintenance and Operation Costs estimated by the City to become due and payable in such Fiscal Year;

(b) the Debt Service on the Outstanding Bonds and Governmental Loans (if any) becoming due and payable during such Fiscal Year, including the Redemption Price of Term Bonds (if any) subject to Sinking Fund Installment redemption during such Fiscal Year;

(c) all other payments required for compliance with the Indenture and the instruments under which any Parity Bonds are issued; and

(d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

Coverage Test. The City will fix, prescribe, revise and collect Charges during each Fiscal Year that are sufficient to yield Net Revenues at least equal to 125% of the Debt Service on the Outstanding Bonds and Governmental Loans (if any) becoming due and payable during such Fiscal Year.

Parity Obligations

Parity Bonds. Under the Indenture the City may, by Supplemental Indenture, issue or incur other loans, advances or indebtedness payable from Net Revenues on a parity with the Series A Bonds to provide financing for the Water System (and related operational expenses) in such principal amount as may be determined by the City.

The City may issue or incur any Parity Bonds subject to the conditions set forth in the Indenture, which include (among others) the following:

Coverage Tests. The Net Revenues, calculated on sound accounting principles, and excluding any balances in any fund (other than the Rate Stabilization Account) at the beginning of the period of computation, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Supplemental Indenture under which such Parity Bonds are issued, as shown by the books of the City, plus, at the option of the City, any or all of the items described in subsections (i) and (ii) below, must at least equal 125% of Maximum Annual Debt Service.

Maximum Annual Debt Service is calculated on all Bonds to be Outstanding immediately subsequent to the issuance of such Parity Bonds.

The items that may be added to such Net Revenues for the purpose of issuing or incurring Parity Bonds are the following:

(i) *Allowance for Additions or Improvements.* An allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be made with the proceeds of such Parity Bonds, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Financial Advisor engaged by the City.

(ii) *Allowance for Increases in Charges.* An allowance for earnings arising from any increase in the Charges that has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in Charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown in the written report of an Independent Financial Advisor engaged by the City.

Governmental Loans. The City may borrow money from the State, the United States of America or any federal agency (collectively, a Governmental Agency”) and incur Governmental Loans to finance improvements to the Water System. The Indenture defines “Governmental Loan” as a loan made by a Governmental Agency to the City which is secured by a pledge of Net Revenues and incurred by the City to finance improvements to the Water System.

A Governmental Loan may be treated as a Parity Bond for purposes of the Indenture, so long as the City complies with the conditions for issuing Parity Bonds contained in the Indenture (other than the requirements regarding interest and principal payment dates and the requirement that the Reserve Fund deposit be increased) before incurring the Governmental Loan.

The lender of any Governmental Loan will not be entitled to be paid from monies then on hand in the Reserve Account if the Net Revenues are ever insufficient to make a timely payment on the Governmental Loans.

The City may not make a payment on a Governmental Loan (except as expressly described in the next sentence) to the extent it would have the effect of causing the City to fail to make a timely payment on the Bonds. If the Net Revenues are ever insufficient to pay the full amount of payments on the Bonds then Outstanding and such Governmental Loans, the City will make payments on the Outstanding Bonds and such Governmental Loans on a pro rata basis.

No Senior Liens Permitted

The City will covenant in the Indenture that no additional bonds or other obligations will be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds. Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues which is subordinate to the lien established hereunder, upon such terms and in such principal amounts as the City may determine.

Subordinate Obligations

Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

Eminent Domain Proceeds

The City will covenant in the Indenture that any Net Proceeds received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either be used for the acquisition or construction of improvements and extensions of the Water System, or will be deposited with the Trustee in the Redemption Account and will be used to pay or redeem the Outstanding Bonds on a pro rata basis.

Casualty Insurance

Covenant to Maintain. The City will covenant in the Indenture that it will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and will be payable to the City, or may be in the form of self-insurance by the City.

Insurance Proceeds. If any useful part of the Water System is damaged or destroyed, the City agrees to restore such part to use (to the extent that such repair or rebuilding is determined by the City to be useful or of continuing value to the Water System). The Net

Proceeds of insurance against accident to or destruction of the physical Water System will be used for repairing or rebuilding the damaged or destroyed portions of the Water System (to the extent that such repair or rebuilding is determined by the City to be useful or of continuing value to the Water System), and to the extent not so applied, will be applied to the redemption of the Outstanding Bonds issued on a pro rata basis, and for such purpose will be paid into the Redemption Account.

MUNICIPAL BOND INSURANCE AND RESERVE SURETY

The following information has been furnished by MBIA Insurance Corporation ("MBIA" or the "Insurer") for use in this Official Statement. No representation is made by the City or the Financial Advisor as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX H for a specimen of the Insurer's municipal bond insurance policy and reserve fund surety bond.

The MBIA Insurance Corporation Insurance Policy

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

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

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

MBIA

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under this heading “MUNICIPAL BOND INSURANCE AND RESERVE SURETY.” Additionally, MBIA makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2004 MBIA had admitted assets of \$10.5 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

Fitch Ratings rates the financial strength of MBIA "AAA."

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

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

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

Debt Service Reserve Fund Surety Bond

Application has been made to the Insurer for a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Series A Bonds, the Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Series A Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Trustee; or (ii) the payment date of the Series A Bonds as specified in the Demand for Payment presented by the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits

by the Insurer with the Trustee which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement dated September 29, 2004 (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required payments of Maintenance and Operation Costs and deposits to the Debt Service Fund have been made.

Under the terms of the Agreement, the Trustee is required to reimburse the Insurer, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated. No optional redemption of Obligations may be made until the Insurer's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Trustee in the Reserve Account and is provided as an alternative to the City depositing funds equal to the Reserve Requirement for outstanding Bonds. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to the Reserve Requirement for the Series A Bonds and the premium therefor will be fully paid by the City at the time of delivery of the Bonds.

THE WATER SYSTEM

Background

The Water System is owned by the City and operated as a separate City enterprise. The City's current water supply consists primarily of purchased water from the Hetch Hetchy system owned and operated by the San Francisco Public Utilities Commission's water department ("San Francisco Water"). The City purchases additional water from the Santa Clara Valley Water District ("Santa Clara Valley Water"), and pumps groundwater from six City-owned wells. The Water System delivers water to residential, commercial and industrial customers within the City.

Management

General. The Water System is owned and operated by the City through its Public Works department, which is under the direction of Cathy Lazarus, the Public Works Director.

Water System Staff.

John Welbourn. John Welbourn, Environmental Engineering Manager, is responsible for operation of the city's water system in addition to other municipal operation and maintenance functions. Mr. Welbourn is a registered Civil Engineer in California and Arizona and holds degrees in Civil Engineering and Business Administration. He has worked in municipal government for over 32 years: 11 years as Deputy City Engineer for Flagstaff, Arizona, twelve years as Assistant Public Works Director in Lompoc, California and nine years with the City of Mountain View.

Dave Serge. Day-to-day water system operations as well as the wastewater system and street maintenance are the responsibility of Dave Serge, Utilities Services Manger. Mr. Serge has been in his current position for over five years. Before coming to Mountain View, Mr. Serge worked for the Buellton Community Services District for eight years as Utilities Superintendent and for the City of Solvang for 11 years as Public Works Director. Mr. Serge is highly certificated by the State of California in water operations as a Water Treatment Operator Grade III, Interim Water Distribution Operator Grade XV, Grade I Mechanical Technician and Grade I Lab Technician. Under Mr. Serge's leadership all of the City's water operators are certificated by the State of California.

Alison Turner. Alison Turner, Senior Civil Engineer, also supports Mr. Serge in day-to-day operations. Ms. Turner, a registered engineer, has worked for the City for 19 years with over 14 years of water utility system experience. She holds State of California certifications as a Water Treatment Plant Operator Grade 2 and an Interim Grade 4 Water Distribution Operator.

Service Area

The City is the primary provider of water service within the corporate limits of the City. The Water System's service area encompasses approximately 12 square miles and currently serves approximately 16,400 residential, industrial and commercial customers. The City provides water service to approximately 96% of the water customers in the City limits (with the remaining customers (approximately 4%) served by the California Water Service Company, a private company).

The Water System's service area is substantially built out, with a relatively stable customer base (see "– Customer Base" below), and no significant growth is currently anticipated during the foreseeable future.

For certain background and demographic information regarding the City, see “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY OF MOUNTAIN VIEW.”

Water Storage and Distribution System

The Water System’s storage and distribution system currently consists of two reservoirs, and approximately 184 miles of distribution lines supplying water to three pressure zones. Presently, the City does not mix the source waters in the pressure zones because San Francisco Water and Santa Clara Valley Water use different disinfection methods.

Capacity and Customer Demand

The Water System’s average day demand is 12.3 million gallons and the maximum day demand is 23 million gallons. The Water System’s current storage of 6.7 million gallons is located at the Whisman Reservoir and the Miramonte Reservoir. Current storage at these two reservoirs constitutes approximately 30% of maximum day demand or 50% of average day demand. Currently, the maximum daily supply capacity is 30.8 million gallons.

The Graham Reservoir is designed to increase the City’s water storage capacity by 8 million gallons, and the planned expansion of the Miramonte Reservoir is designed to increase the City’s water storage capacity by 2.3 million gallons, which would bring the City’s total storage capacity to approximately 17 million gallons, or 74% of maximum day demand (or 138% of average day demand) (based on current water demand). (See “– Capital Improvement Program” for a description of the Graham Reservoir and Miramonte Reservoir projects.)

See “APPENDIX G – Review of Capital Infrastructure” for a further discussion of present and projected water demand.

Sources of Water Supply

The City’s current water supply comes from three sources: purchased water from the Hetch Hetchy system (owned by San Francisco Water) and Santa Clara Valley Water, and from groundwater wells. During Fiscal Year 2003-04, these three sources were responsible for the following shares of the Water System’s supply:

San Francisco Water	88.4%
Santa Clara Valley Water	9.6
Groundwater	2.0

These sources of supply are further described below.

Hetch Hetchy System.

Background. San Francisco Water’s supply originates in the Hetch Hetchy reservoir and surrounding watershed located in and around Yosemite National Park. Water flows by gravity across the California central valley, where it is blended with water from local reservoirs, and is then pumped across the Hayward Fault and through the Irvington Tunnel, where San Francisco Water’s pipelines Number 3 and 4 carry water around and below the southern end of San Francisco Bay and feed the City’s 6 connections to the San Francisco Water system. The resulting blend of water represents approximately 85% Hetch Hetchy water and 15% local reservoir water.

Water Supply Agreements. The City has entered into two contractual arrangements with San Francisco Water, both of which expire in June 2009: (i) a “Master Water Sales Contract,” which the City co-signed in 1984 with 28 other suburban water purchasers, and (ii) an “Individual Contract,” which went into effect in 1984. The City plans to participate in the renegotiation and extension of the Master Water Sales Contract, and to renegotiate or extend the Individual Contract, prior to the expiration of each Contract in 2009.

Water Entitlement. The Master Water Sales Contract guarantees a maximum supply of 184 million gallons per day collectively to all of the suburban purchasers. Under the Individual Contract, San Francisco Water is required to deliver, and the City is required to pay for, a minimum of 9.4 million gallons per day (or approximately 4,586,955 CCF¹ per year). The City’s guaranteed water entitlement is 13.46 million gallons per day (or approximately 6,568,048 CCF per year), and if additional water is available to the wholesale water purchasers within the 184 million gallon per day limit, the City’s average annual water usage may increase, but in any case the City’s average annual usage may not exceed 24.0 million gallons per day (or approximately 11,711,230 CCF per year). (This maximum usage amount for all suburban purchasers may be increased if the 184 million gallon per day capacity of the San Francisco Water system is increased.)

In Fiscal Year 2003-04, San Francisco Water delivered an average of approximately 10.97 million gallons per day to the City (or approximately 14,671 CCF per day).

Permitted Reductions in Water Supply. The Master Water Sales Contract provides that the amount of water made available to the suburban purchasers is subject to reductions due to water shortage, drought, earthquakes, other acts of God, or rehabilitation or malfunctioning of San Francisco Water’s water delivery system. In the event of shortages, water will be allocated among the suburban purchasers either (i) in accordance with a water conservation plan developed and approved by San Francisco Water and the suburban purchasers, or (ii) pro rata among the suburban purchasers based on the amount of water delivered to each suburban purchaser in the prior calendar year.

San Francisco Water Capital Improvement Plan and Long-Range Financial Plan. San Francisco Water has adopted and begun to implement a long-range financial plan and capital improvement plan to identify capital improvement needs and priorities for its water enterprise, which are intended to replace old systems or upgrade systems to improve reliability and meet future customer needs. The capital improvement plan encompasses 77 water infrastructure projects divided into two programs, the local water system projects (which are designed to benefit the water system within the city of San Francisco) and the regional water system projects (which are designed to benefit the larger infrastructure carrying water from Hetch Hetchy to both San Francisco and the suburban purchasers, including the City).

The long-range financial plan recommends that capital improvement projects be funded from the issuance of revenue bonds by San Francisco. The total estimated cost of the regional water system component of the San Francisco Water capital improvement plan is approximately \$2.38 billion (in 2003 dollars), all of which is currently anticipated to be paid with revenue bonds. Under the Master Water Sales Contract, the costs of capital improvements to the regional water system will be allocated to each suburban water purchaser based its annual proportional usage of water.

Further information regarding the San Francisco Water capital improvement plan and long-range financial plan, including periodic updates and status reports, is available at www.sfwater.org.

¹ One CCF means one hundred cubic feet, or 748 gallons.

San Francisco Water has not finalized its financing plans for these future projects, or the time frame from issuing the voter-approved bonds. Therefore, it is not possible to predict what share of these infrastructure costs will be borne by the City and the 28 other suburban purchasers. However, the City anticipates that its cost of acquiring water from San Francisco Water will increase in the future as San Francisco Water continues to implement its capital improvement plan.

Santa Clara Valley Water.

Background. Santa Clara Valley Water supplies the City with imported water from the federal Central Valley Project (representing approximately 60% of its supply) and California's State Water Project (representing approximately 40% of its supply), which transport water from the San Francisco Bay Delta through canals to users in the Central Valley and other areas, including the City. San Francisco Bay Delta water is blended with local reservoir water and delivered and treated at the Rinconada Treatment Plant located in San Jose. Under its water supply contracts, Santa Clara Valley Water is entitled to approximately 100,000 acre-feet of water per year from the State Water Project, and 152,500 acre-feet per year from the federal Central Valley Project.

Water Supply Agreement. The City purchases water from Santa Clara Valley Water through a water supply contract that expires in 2054 (or until the repayment of all loans and bonds used to construct water treatment and distribution facilities for the Santa Clara Valley Water system, if longer). Under the water supply contract, every three years the City submits a proposed three-year water delivery schedule to Santa Clara Valley Water. The requested amount for each year of the proposed water delivery schedule may not be less than 95% of the maximum annual water deliveries under the prior water delivery schedule. Santa Clara Valley Water will review and approve the proposed water delivery schedule or make any reductions that are consistent with Santa Clara Valley Water's ability to deliver water to the City and to other entities contracting for water deliveries with Santa Clara Valley Water.

Water Entitlement. Under the Santa Clara Valley Water supply contract, the City is entitled to the amount of water set forth on the delivery schedule agreed to by the City and Santa Clara Valley Water each year. During any month, Santa Clara Valley Water will delivery to the City on demand at least 15% of the total amount of water the District previously agreed to deliver to the City under the approved delivery schedule.

Under the current delivery schedule, the City's Fiscal Year 2003-04 entitlement was 1,300 acre-feet (or 566,280 CCF). In Fiscal Year 2003-04, Santa Clara Valley Water delivered approximately 584,070 CCF to the City, the equivalent of 1.20 million gallons per day (or approximately 1,600 CCF per day). The City's Fiscal Year 2004-05 entitlement is 1,310 acre-feet (or 570,636 CCF).

Permitted Reductions in Water Supply. The Santa Clara Valley Water supply contract provides that the amount of water made available to the City and other water contractors may be reduced in any year in which a water shortage occurs by reason of drought or other temporary cause in the supply of water available for delivery to all users. If such a reduction is necessary, Santa Clara Valley Water will reduce deliveries of treated water to the City and the other Santa Clara Valley Water contractors in an amount that bears the same proportion to the total amount of such reduction that the amount included in such treated water user's approved delivery schedule (under the water supply contract) bears to the total of the amount included in the approved delivery schedule of the City and all other Santa Clara Valley Water contractors for that fiscal year, all as determined by Santa Clara Valley Water. However, Santa Clara Valley

Water may apportion water on some other basis if required to meet minimum demands for domestic supply, fire protection, or sanitation during the year.

Groundwater. The Water System currently pumps groundwater from six operating wells located within City limits. In Fiscal Year 2003-04, the estimated actual combined water production from the wells was 244,862 gallons per day (or approximately 327 CCF per day). The maximum capacity of the wells is 6.7 million gallons per day.

Anticipated Future Water Sources. The City is currently developing a plan with neighboring communities to use recycled wastewater from a joint water treatment plant as a potential source of non-potable water for landscape and irrigation uses.

Historical Water Production, Deliveries and Cost

Historical Water Production. The table below sets forth a five-year history of water production by source measured in CCF, which also represents deliveries to customers.

Table 1
WATER SUPPLY BY SOURCE AND DELIVERIES
(in CCF)

<u>Source</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>% Share</u> <u>2003-04</u>
San Francisco Water	4,973,180	5,496,540	5,351,367	5,203,808	5,354,953	88.4%
Santa Clara Valley Water	573,685	571,002	552,341	565,409	584,070	9.6
Ground Water	<u>727,666</u>	<u>121,580</u>	<u>79,715</u>	<u>48,657</u>	<u>119,476</u>	<u>2.0</u>
Total Deliveries	6,274,531	6,189,122	5,983,423	5,817,874	6,058,499	100.0%

Source: City of Mountain View.

Historical Water Cost Increases. The table below sets forth a history of wholesale water cost increases under the San Francisco Water contract and the Santa Clara Valley Water contract since Fiscal Year 1992-93. See Table 7 below for a history of the City's water rate increases since Fiscal Year 1992-93.

**Table 2
HISTORICAL WHOLESALE WATER COST INCREASES**

<u>Fiscal Year</u>	<u>San Francisco Water</u>	<u>Santa Clara Valley Water</u>
1992-93	19.2%	0.0%
1993-94	(33.3)	(6.6)
1994-95	19.0	0.0
1995-96	0.0	0.0
1996-97	0.0	0.0
1997-98	0.0	0.0
1998-99	(13.0)	6.5
1999-00	36.7	7.6
2000-01	4.9	7.0
2001-02	2.3	7.9
2002-03	0.0	2.4
2003-04	25.0	9.5
2004-05	2.7	7.6

Source: City of Mountain View.

Anticipated Future Water Cost Increases. The City anticipates that its cost of acquiring water from San Francisco Water will increase in the future as San Francisco Water continues to implement its capital improvement plan. See “- Sources of Water Supply - Hetch Hetchy System.”

Water Quality and Environmental Issues

The City is not aware of any environmental issues affecting the Water System or the quality of its purchased water or groundwater under current regulatory rules. The City annually tests over 1,500 water samples to monitor water distributed to customers. The City's water distribution system currently meets or exceeds all federal and state drinking water regulations.

San Francisco Water supplies water to the City from the Hetch Hetchy reservoir (which does not require filtration under current regulatory standards) and from its storage reservoirs, which require treatment with chloramine. Santa Clara Valley Water also treats its water before transmission to the City's Water System. The City does not treat its groundwater, which it pumps from an aquifer lying approximately 1,500 feet below the ground, and which is unaffected by surface contaminants.

Capital Improvement Program

Capital Improvement Program. The City's Capital Improvement Program consists of a 5-year plan that is updated annually. The process begins in November/December each year, when City departments are requested to review their capital improvement needs and submit their requests to the Public Works Department by January. The Public Works Department is responsible for reviewing, evaluating and compiling the information. The City Manager assesses the capital projects, which are presented to the City Council at a study session in March. The

Proposed Capital Improvement Plan is adopted by City Council generally in May, with the funding of the first year of capital improvement projects adopted with the annual fiscal year budget prior to the beginning of the fiscal year (July 1).

Review of Capital Infrastructure. At the request of the City, Infrastructure Engineering Corporation of Oceanside, California, has prepared a study entitled “Review of Capital Infrastructure” dated August 11, 2004, which describes, among other matters, the Water System, existing sources of supply and current water demand, and the City’s Capital Improvement Program and ongoing repair and replacement program. A copy of this study is attached as APPENDIX G to this Official Statement.

Current Capital Improvement Projects. Two major capital improvement projects commenced during the 2003-04 Fiscal Year include the following:

- The Graham Reservoir project, which is being partially financed with the proceeds of the Series A Bonds (see “FINANCING PLAN – The Project”).
- A 2.3 million gallon expansion of the existing Miramonte Reservoir.

See “APPENDIX G – Review of Capital Infrastructure.”

Projected Capital Improvement Expenditures. Many improvements to the water system are anticipated over the next few years, including installation of new wells and reservoirs, as well as treatment, disinfection and fluoridation of source water. The table below projects the capital improvements that will be funded by the City over the next five years, based on the City’s current capital improvement plan adopted in May 2004. See “APPENDIX G – Review of Capital Infrastructure.”

**Table 3
CAPITAL IMPROVEMENT PROGRAM SUMMARY
2004-05 through 2008-09
(\$000s)**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Total</u>
Annual Infrastructure Maintenance						
Water System Improvements	\$284	\$284	\$284	\$284	\$284	\$1,420
Developer Reimbursements [1]	26	26	26	26	26	130
Information Services Projects	<u>38</u>	<u>87</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>425</u>
Subtotal:	348	397	410	410	410	1,975
Capital Improvements						
Misc. Water Main/Service Line Replacements	1,318	1,383	1,754	1,084	1,084	6,623
Well No. 23 Construction [2]	1,270	-0-	-0-	-0-	-0-	1,270
Security Upgrades	125	-0-	-0-	-0-	-0-	125
Whisman Reservoir Seismic Upgrades	<u>-0-</u>	<u>-0-</u>	<u>300</u>	<u>-0-</u>	<u>-0-</u>	<u>300</u>
Subtotal:	<u>2,713</u>	<u>1,383</u>	<u>2,054</u>	<u>1,084</u>	<u>1,084</u>	<u>8,318</u>
Total	<u>\$3,061</u>	<u>\$1,780</u>	<u>\$2,464</u>	<u>\$1,494</u>	<u>\$1,494</u>	<u>\$10,293</u>

[1] Represents reimbursement to developers for publicly owned portions of water utility improvements in construction projects.

[2] This well will be located on the site of the Graham Reservoir, and will be financed with available Water System funds.

Source: City of Mountain View.

Repairs and Replacements. The City carries out maintenance, repairs and upgrades to the Water System according to five-year repair and replacement schedules that are incorporated into the City's Capital Improvement program. See "APPENDIX G – Review of Capital Infrastructure" for a further discussion of the City's repair and replacement program.

Customer Base

Water Accounts. The table below sets forth a five-year summary of the number of water accounts for the Water System by customer type. Over 85% of the City's water accounts represent residential customers.

**Table 4
NUMBER OF WATER ACCOUNTS BY USER TYPE
Fiscal Years 1999-00 through 2003-04**

<u>User Type</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Single Family Residential	11,282	11,403	11,467	11,585	11,603
Multifamily Residential	2,321	2,314	2,363	2,354	2,355
Hotel, Motel, Mobile Home	33	34	36	36	36
Commercial	1,151	1,147	1,148	1,132	1,134
Industrial	418	424	422	413	415
Irrigation	792	813	768	805	799
Construction	78	64	56	32	40
Total	16,075	16,199	16,260	16,357	16,382

Source: City of Mountain View.

The following table shows water revenue and consumption by type of customer for active water accounts during Fiscal Year 2003-04. Approximately 53% of the Water System's annual revenues are represented by residential customers.

**Table 5
SUMMARY OF WATER ACCOUNTS BY USER TYPE
Fiscal Year 2003-04**

<u>User Type</u>	<u>Revenue</u>	<u>Revenue as % of Total</u>	<u>Consumption (CCF)</u>	<u>Consumption as % of Total</u>
Single Family Residential	\$3,877,114	26.3%	1,497,935	26.0%
Multifamily Residential	4,144,506	28.1	1,579,518	27.4
Hotel, Motel, Mobile Home	393,145	2.7	139,446	2.4
Commercial	2,015,041	13.6	720,363	12.5
Industrial	794,731	5.4	258,432	4.5
Irrigation [1]	3,511,468	23.8	1,564,191	27.2
Buildings Under Construction	10,703	0.1	1,779	0.0
Total	\$14,746,708	100.0%	5,761,664	100.0%

[1] Represents landscape and golf course irrigation.

Source: City of Mountain View.

Largest Users. The following table shows the top ten water users in the City based on usage and charges during the prior Fiscal Year. For Fiscal Year 2003-04, the top ten customers accounted for \$1,955,274 in revenues, or approximately 13.3% based on total revenues of \$14,746,708.

**Table 6
TOP TEN CUSTOMERS BY
WATER VOLUME SOLD (CCF)
2003-04**

<u>Account Name</u>	<u>Land Use</u>	Total Usage (CCF)	% of Total [1]
City of Mountain View	Local Government/Municipality	446,027	7.7%
El Camino Hospital	Hospital	96,635	1.7
Alza Corporation	Commercial Complex	63,025	1.1
American Estates	Apartment Complex (544 units)	53,837	0.9
Shoreline Amphitheatre	Outdoor Amphitheatre	36,460	0.6
Mountain View-Whisman School Dist.	Elementary Schools	25,402	0.4
Legacy Partners Commercial	Commercial Complex	20,663	0.4
Grubb & Ellis/Microsoft	Commercial Complex	20,634	0.4
Sun Microsystems	Commercial Complex	19,835	0.4
Birch Creek Apartments	Apartment Complex (184 units)	<u>16,320</u>	<u>0.3</u>
Subtotal Top Ten:		798,838	13.9%

[1] Based on total usage of 5,761,664 CCF.
Source: City of Mountain View.

Water Rates and Charges

Water Revenue Components. The City sets five categories of water charges: (a) water rates determined by the amount of water consumed by the customer (which represents the largest share of Water System revenues), (b) fixed monthly water meter charges, which are determined by meter size, (c) fixed monthly charges for backflow prevention devices, which are determined by size of the device, (d) fixed monthly charges for fireline standby service and maintenance, and (e) fire service charges for water consumed during a fire. Water charges are structured based on incremental use to encourage conservation.

Water Rate Setting. The major factors that influence rate setting for the Water Fund are: (1) the cost of wholesale water; (2) water consumption level; (3) annual operating costs; and (4) the level of capital improvements.

The cost of water purchases from San Francisco Water and other water sources (approximately 51% of ongoing expenditures) has been subject to major fluctuations over the past 10 years and has caused the City's retail water rates to vary, as shown in Table 7 below.

Recent Water Rate Increases. Effective July 1, 2004, an average rate increase of 5.0% was implemented for Fiscal Year 2004-05. This rate increase was implemented primarily to offset an increase in wholesale water costs of 2.7% from San Francisco Water. Annual capital projects of \$2.2 million are included in the annual rate calculation for Fiscal Year 2004-05. Although the 2.7% wholesale water cost increase from San Francisco Water was lower than anticipated due to a one-time arbitration settlement with the SFPUC, a 5.0% City water rate increase was recommended because revenues for the current fiscal year are planned to provide funding for increased operating costs and for operating costs associated with the Graham Reservoir.

Projected Water Rate Increases. San Francisco Water and Santa Clara Valley Water have projected Fiscal Year 2005-06 increases of 12.4% and 8.0%, respectively, in their wholesale water charges to their contractors. The City currently anticipates that it will increase water rates 6.0% in 2005-06 in response to increases in its water costs, but the actual magnitude of the City's future rate increases will depend on the actual increases in wholesale water costs imposed by San Francisco Water and Santa Clara Valley Water. See "WATER SYSTEM FINANCIAL INFORMATION – Projected Debt Service Coverage."

History of Water Rate Increases. The table below is a history of water rate increases since Fiscal Year 1992-93.

**Table 7
WATER RATE INCREASES**

<u>Fiscal Year</u>	<u>Water Rate Increase</u>
1992-93	5.0%
1993-94	(15.0)
1994-95	12.0
1995-96	3.0
1996-97	5.0
1997-98	2.0
1998-99	3.0
1999-00	14.0
2000-01	3.0
2001-02	3.0
2002-03	3.0
2003-04	6.0
2004-05	5.0

Source: City of Mountain View.

Current Water Rate Structure. The following table sets forth the Water System rates for the current Fiscal Year.

**Table 8
WATER RATE STRUCTURE
2004-05**

Meter Size	Monthly Units Consumed [1]	Price Per CCF
5/8" & 3/4"	0-3	\$1.22
	3-10	2.49
	10-25	2.49
	20+	4.97
5/8" & 3/4" [2]	0-6	1.22
	6-20	2.49
	20-40	2.49
	40+	4.97
1" & 1-1/2"	0-3	2.49
	3-20	2.49
	20-200	2.69
	200+	4.97
2", 3" & 4" [3]	0-3	2.49
	3-20	2.49
	20-200	2.49
	200-500	2.49
	500-2000	2.69
	2000+	4.97
6", 8", 9" & 10"	0-3	2.49
	3-20	2.49
	20-200	2.49
	200-4000	2.49
	4000-10000	2.69
	10000+	4.97
Hydrant Meter Rate		6.51

[1] One Unit equals 1 CCF, or 748 gallons.

[2] Represents apartment buildings with 2-4 dwellings on a single meter.

[3] Generally represents Industrial with higher water usage.

Source: City of Mountain View.

Comparative Water Charges. The table below is a summary of water rate comparisons between the City and surrounding communities for a typical single family dwelling, based on rates as of June 30, 2002.

**Table 9
COMPARATIVE WATER RATES FOR CONSUMPTION
(Monthly Charges)**

<u>City</u>	<u>Water Provider</u>	<u>Service Charge</u>	<u>Commodity Charge [1]</u>	<u>Total</u>
Cupertino	San Jose Water Co.	\$9.18	\$25.61	\$34.79
Los Altos	Cal Water	8.72	24.29	33.01
Mountain View	Mountain View	3.60	29.22	32.82
Palo Alto	Palo Alto	5.00	40.45	45.45
Sunnyvale	Sunnyvale	2.93	20.52	23.45

[1] Based on monthly usage of 15 CCF.
Source: City of Mountain View.

Connection Fees

The City charges connection fees for new residential, commercial, industrial and agricultural construction and development. Connection fees currently represent less than 1% of annual revenues of the Water System. Because the Water System's service area is substantially built out, the City does not anticipate that connection fees will be a significant source of revenues in the future.

WATER SYSTEM FINANCIAL INFORMATION

Budgetary Process

The budget process begins in November of each year, when all City departments begin preparation of their budget proposals for the upcoming fiscal year. Departments submit budget requests to the Budget Review Team (consisting of the Assistant City Manager and the Finance and Administrative Services Director) in late December. The Budget Review Team reviews these requests and submits recommendations to the City Manager.

The City Manager assesses the Budget Review Team's recommendations, meets with department heads for further discussion and typically submits recommendations to the City Council in the form of the Narrative Budget Report in May. The City Council is then able to review and discuss the recommendations and consider the budget prior to the presentation of the Proposed Budget.

The Proposed Budget is presented to the City Council in early June and considered at public hearings. The City's annual budget must be adopted prior to the beginning of each fiscal year (July 1).

Billing and Collection Procedures

The City bills for water, sewer and garbage collection services provided to residential and commercial customers throughout the City on a single statement. The City is divided into eight geographic residential customer cycle zones that are billed on a bimonthly basis. An additional cycle zone represents commercial customer accounts throughout the City that are billed on a monthly basis.

The City's water meters are read on a bi-monthly schedule. The meter readings are transmitted to the Finance Department on a daily basis. Approximately 1 week after receiving all the meter readings for a particular billing cycle, utility bills are calculated, printed and mailed out by the City's Finance Department. Approximately 20% of the City's utility customers pay their bills using an auto-debit program. These utility payments are received 10 days after the original bill date. All bills are due and payable upon receipt but are not considered delinquent until 30 days after billing.

If a customer's account becomes delinquent the customer is given two late payment due notices. The first on the 30th day after the billing date and the second on the 45th day. If a payment has not been received within the given time frame a final 24-hour notice for payment is generated. If payment is still not received the customer's water service is discontinued.

The City's annual write off percentage over the last 4 years averaged 0.22%. The City sends uncollected accounts to a collection agency. Approximately 5% to 10% of these accounts are recovered.

Financial Statements

Attached as APPENDIX B are the audited financial statements of the City, including audited financial statements of the Water System (the "Financial Statements") for Fiscal Year 2002-03, prepared by the City and audited by Maze & Associates, Walnut Creek, California (the "Auditor").

The Financial Statements should be read in their entirety. *The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City or the Water System. In addition, the Auditor has not reviewed this Official Statement.*

The City currently anticipates that its financial statements for the fiscal year ended June 30, 2004 will be available by December 31, 2004. The City will file the Fiscal Year 2003-04 financial statements as part of its first annual report due on January 31, 2005, under the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" and "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Accounting Basis

The Financial Statements report "proprietary funds" (including the Water System funds) using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

See "APPENDIX B" for a more complete summary of the City's accounting policies.

No Outstanding Water System Obligations

The City does not currently have any debt payable from Gross Revenues of the Water System.

Historical Revenues and Expenses

A three-year summary of revenues and expenditures for the City's Water Utility Fund (which accounts for the Water System) is presented in the table below, based on audited financial results for Fiscal Years 2001-02 and 2002-03, and preliminary unaudited financial results for Fiscal Year 2003-04, all prepared in accordance with generally accepted accounting principles.

Table 10
WATER FUND
SUMMARY OF REVENUES AND EXPENSES
(\$000's)

	Audited <u>2001-02</u>	Audited <u>2002-03</u>	Unaudited <u>2003-04</u>
OPERATING REVENUES			
Charges for sales and services	\$13,260	\$13,286	\$15,015
Other	<u>419</u>	<u>421</u>	<u>411</u>
Total operating revenues	<u>13,679</u>	<u>13,707</u>	<u>15,426</u>
OPERATING EXPENSES			
Salaries and related expenses	3,202	3,104	3,089
Cost of sales and services	5,473	5,463	6,822
General and administrative	2,522	2,635	3,233
Depreciation	<u>618</u>	<u>752</u>	<u>786</u>
Total operating expenses	<u>11,815</u>	<u>11,954</u>	<u>13,930</u>
Operating income (loss)	<u>1,864</u>	<u>1,753</u>	<u>1,496</u>
NON-OPERATING REVENUE (EXPENSES)			
Interest income	297	341	17
Net nonoperating revenues	<u>297</u>	<u>341</u>	<u>17</u>
Income (loss) before transfers	<u>2,161</u>	<u>2,094</u>	<u>1,513</u>
TRANSFERS			
Contributions	-0-	275	75
Transfers in			
Interest	1,089	866	800
Other	773	435	434
Transfers (out)	<u>(303)</u>	<u>(658)</u>	<u>(161)</u>
Net transfers	<u>1,559</u>	<u>918</u>	<u>1,148</u>
Change in net assets	3,720	3,012	2,661
Beginning net assets	<u>44,827</u>	<u>48,547</u>	<u>51,559</u>
Ending net assets	<u>\$48,547</u>	<u>\$51,559</u>	<u>\$54,220</u>

Source: City of Mountain View.

Projected Debt Service Coverage

Pro Forma Cash Flow. The table below presents a summary of projected Water System revenues expenditures and coverage ratios for the current fiscal year and the next two fiscal years, together with a restatement of 2003-04 unaudited financial results in the same format as the pro forma projections, all in conformance with the terms and definitions of the Indenture. The assumptions underlying these projections are described below.

Table 11
PRO FORMA CASH FLOW
Fiscal Year 2003-04 (Unaudited Actual)
Fiscal Year 2004-05 through 2006-07 (Projected)
(\$ 000's)

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Gross Revenues:				
Charges for services	\$15,015	\$14,918	\$15,813	\$16,287
Interest earnings	817	909	1,023	1,277
Other	<u>920</u>	<u>523</u>	<u>487</u>	<u>489</u>
Total operating revenues	<u>16,752</u>	<u>16,350</u>	<u>17,323</u>	<u>18,053</u>
Maintenance and Operations:				
Operating expenses	6,483	6,813	7,238	7,482
Cost of Water	<u>6,822</u>	<u>6,849</u>	<u>7,642</u>	<u>7,950</u>
Total operating expenditures	<u>13,305</u>	<u>13,662</u>	<u>14,880</u>	<u>15,432</u>
Net Revenues Pledged	<u>\$3,447</u>	<u>\$2,688</u>	<u>\$2,443</u>	<u>\$2,621</u>
Series A Bonds Debt Service	N/A	627	629	627
Projected Debt Service Coverage Ratio	N/A	428%	388%	418%
Revenues Available for Other Enterprise Purposes	\$3,447	\$2,061	\$1,814	\$1,994

Source: City of Mountain View.

Assumptions. In preparing the projections set forth above the City assumed annual increases in water rates, wholesale water costs for purchasing water from San Francisco Water and Santa Clara Valley Water, investment earnings, inflationary costs, and health benefit costs.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the Series A Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Series A Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Series A Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Series A Bonds. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water sales, which can be affected by population factors, more stringent drinking water regulations. There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water could require an increase in rates or charges in order to comply with the rate covenant contained in the Indenture. The City's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Series A Bonds and any future Parity Bonds.

City Expenses

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could drive down demand for water and related services or otherwise increase the possibility of nonpayment of the Bonds.

Limitations on Remedies Available to Bond owners

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "Proposition 218" below. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the Bonds and the Indenture may be subject to the following: the United States 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 equity 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 serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds 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.

Seismic Considerations

The City is located in a seismically active area of California. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Water System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the Bonds.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Series A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series A Bonds were issued, as a result of future acts or omissions of the City in violation of its covenants in the Indenture. Should such an event of taxability occur, the Series A Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Proposition 218

Restrictions on Property-Related Fees or Charges. On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased "fee" or "charge," which is defined as "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" (and referred to herein as a "property-related fee or charge").

Specifically, Article XIID requires that, 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 property-related fee or charge.

Further, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Water Service Charges are not Incidents of Property Ownership. The City has concluded that Proposition 218 does not apply to its existing system of water service charges because the service charges are not imposed upon a parcel of land as an "incident of ownership," but instead are a commodity-based charge based upon the user's consumption of a measurable commodity. Accordingly, the City has not followed the procedures described in the previous paragraphs when increasing its water rates and charges.

The California Attorney General has similarly concluded that a water rate based upon the level of consumption is not governed by Proposition 218 (see 97 Cal. Op. Atty. Gen. No. 302 (July 14, 1997)).

Recent Court Decisions. In January 2004, the California Court of Appeal, Fourth Appellate District, considered whether a voter initiative can be used to reduce the rates and charges fixed by a public water agency in a case captioned *Bighorn-Desert View Water Agency v. Beringson* (114 Cal.App.4th 1213, (2004)). The Court of Appeal concluded that Proposition 218 does not apply to the rates, fees, and charges fixed by Bighorn for water services because Proposition 218 was intended to place limits only on property-related levies. The Court noted that Bighorn's water rates and charges were usage-based and were not "an incident of property ownership" or fees for "a property-related service," as defined in Article XIIIID.

However, the California Supreme Court subsequently rendered a decision in *Richmond v. Shasta Community Services District* (32 Cal.4th 409 (2004)) that addressed the applicability of the notice, hearing and protest provisions of Article XIIIID to certain water service related charges. In this case, the Court indicated in dicta (that is, language not necessary for the outcome of the case) that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a "property-related fee and charge," with the result that a local government imposing such a fee and charge would be required to comply with the notice, hearing and protest requirements of Article XIIIID.

In late April 2004 the Supreme Court vacated the decision of the Fourth Appellate District in the Bighorn case and directed reconsideration in light of the Richmond case. No assurance can be given as to the outcome of the Bighorn case on reconsideration.

Future Interpretation of Proposition 218. The provisions of Proposition 218 have not been fully interpreted by the courts. The City is unable to predict how Article XIIIIC and Article XIIIID will be interpreted by the courts and what, if any, further implementing legislation will be enacted, and there can be no assurance that Article XIIIIC and Article XIIIID will not be interpreted to limit the ability of the City to impose, levy, charge and collect increased fees and charges for the Water System in the future.

Environmental Regulation

The kind and degree of water treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Water System (either on purchased water or on groundwater), the City's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or state regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Series A Bonds or, if a secondary market exists, that any Series A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Future Parity Obligations

As described in "SECURITY FOR THE SERIES A BONDS – Parity Obligations" above, the Indenture permits the City to issue Parity Bonds, its obligations under which would be payable on a parity with the payment of debt service of the Series A Bonds. In the event of a decline in Net Revenues available to pay debt service on the Series A Bonds, the existence of Parity Bonds could adversely affect the City's ability to pay debt service on the Series A Bonds.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Series A Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series A Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series A Bonds to

determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series A Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series A Bonds who purchase the Series A Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series A Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Series A Bond (said term being the shorter of the Series A Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series A Bond is amortized each year over the term to maturity of the Series A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Series A Bond premium is not deductible for federal income tax purposes. Owners of Premium Series A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series A Bonds.

In the further opinion of Bond Counsel, interest on the Series A Bonds is exempt from California personal income taxes.

Owners of the Series A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series A Bonds other than as expressly described above.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the Series A Bonds, the form of which opinion is set forth in Appendix E. Certain legal matters will also be passed upon for the City by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

LITIGATION

To the best knowledge of the City, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to restrain or enjoin the authorization, execution or delivery of the Series A Bonds, or the pledge of the Net Revenues or the collection of the payments to be made pursuant to the Indenture, or in any way contesting or affecting validity of the Series A Bonds, the Indenture or the agreement for the sale of the Series A Bonds, or in any way contesting or affecting the transactions described in this Official Statement.

RATINGS

It is anticipated that Standard & Poor's Rating Services ("S&P") will assign its municipal bond rating of "AAA" to the Series A Bonds, and that Moody's Investors Service ("Moody's") will assign its municipal bond rating of "Aaa" to the Series A Bonds, in each case with the understanding that the Insurer will issue its municipal bond insurance policy with respect to the Series A Bonds at closing. In addition, S&P has assigned the Series A Bonds an underlying municipal bond rating of "AA."

These ratings reflect only the views of such rating agencies and any desired explanation of the significance of such rating should be obtained from the respective rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the Series A Bonds.

The City has undertaken no responsibility either to bring to the attention of the owners of the Series A Bonds any proposed change in or withdrawal of a rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the Series A Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Series A Bonds to provide certain financial information and operating data relating to the City and the Water System by not later than seven months after the end of the City's fiscal year (which is currently June 30), commencing January 31, 2005 with the report for the 2003-04 fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material.

The Annual Report will be filed by the City, as Dissemination Agent, with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board.

These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is set forth in "APPENDIX C — FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City has not previously defaulted on any obligation to provide an annual report in accordance with the Rule with respect to any bond issue of the City.

UNDERWRITING

Under the terms of a competitive bid held on September 14, 2004, Stone & Youngberg LLC (the "Underwriter") has agreed to purchase the Series A Bonds at a price of \$9,625,832.39 (which is equal to the aggregate principal amount of the Series A Bonds, plus an original issue premium of \$7,751.80, less an Underwriter's discount of \$81,919.41). The Underwriter will purchase all of the Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Series A Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Series A Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Series A Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; Stone & Youngberg LLC, as financial advisor to the City; and U.S. Bank National Association, as Trustee.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the City Council of the City.

CITY OF MOUNTAIN VIEW

By : _____ /s/ Robert F. Locke
Robert F. Locke,
Finance and Administrative Services
Director

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APPENDIX A

SUMMARY OF THE INDENTURE

The following statements are brief summaries of certain provisions of the Indenture. This summary does not purport to be complete, and reference is made to the Indenture for a full and complete statement of such provisions.

Certain Definitions:

“Authorized Investments” means any securities in which the City may legally invest funds subject to its control, pursuant to Article 1, commencing with Section 53600, of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code of the State, as now or hereafter amended.

“Average Annual Debt Service” means the total aggregate Debt Service for the entire period during which the Bonds are Outstanding, divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

“Bond Law” means the bond issuance and sale procedures adopted pursuant to Section 1 of Resolution No. 16914, as in effect on the Closing Date, or as amended from time to time.

“Bond Registration Books” means the books maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“Bonds” means, collectively, the Series A Bonds and any Parity Bonds issued and at any time Outstanding hereunder and under a Supplemental Indenture.

“Bond Year” means the twelve-month period beginning on the anniversary of the Closing Date in each year and ending on the day prior to the anniversary date of the Closing Date in the following year except that (i) the first Bond Year shall begin on the Closing Date, and (ii) the last Bond Year may end on a prior redemption date.

“Business Day” means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

“Certificate of the City” means a certificate in writing signed by the City Manager or Finance and Administrative Services Director of the City, or by any other officer of the City duly authorized by the Council for that purpose.

“Charges” means fees, tolls, rates and rentals prescribed by the Council for the services and facilities of the Enterprise furnished by the City, and includes water service charges, connection fees and any other capacity, demand or facility fees and charges.

“City Representative” means the Mayor, City Manager or Finance and Administrative Services Director of the City, or any other officer of the City duly authorized by the Council to be a City Representative.

“Closing Date” means the date upon which there is an exchange of any Series of Bonds for the proceeds representing the purchase of such Series by the Original Purchaser thereof.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the City and dated the date of original execution and delivery of the Series A Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including but not limited to compensation, fees and expenses of the City and the Trustee and their respective counsel, compensation to any financial consultants and underwriters, legal fees and expenses, municipal bond insurance premiums, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

“Costs of Issuance Fund” means the fund of that name created and held by the Trustee pursuant to the Indenture.

“Credit Facility” means a line of credit, insurance policy, guarantee, or other financial instrument or agreement which provides credit and/or liquidity support for any Series of Bonds.

“Credit Provider” means the bank, insurance company or other financial institution issuing or providing a Credit Facility.

“Credit Facility Supported Bonds” means Bonds, the principal of and interest on which are supported or secured by a Credit Facility.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts:

(a) The principal amount of all Outstanding Serial Bonds payable by their terms in such period;

(b) The principal amount of all Outstanding Term Bonds scheduled to be paid or redeemed by operation of mandatory Sinking Fund Installments in such period;

(c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are paid or redeemed as scheduled; and

(d) Loan payments to be made to a Governmental Agency under a Governmental Loan.

For purposes of this definition, it shall be assumed that any Parity Bonds which bear a Variable Rate bear interest at a fixed rate, calculated as follows:

(i) If the Parity Bonds are issued on a tax-exempt basis, the interest rate on such Parity Bonds shall be deemed to be equal to the greater of: (A) the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published); or (B) the average variable rate of interest borne by such Parity Bonds during the preceding 36 months;

(ii) If the Parity Bonds are issued on a taxable basis, the interest rate on such Parity Bonds shall be deemed to be the greater of: (A) the rate of interest

borne by U.S Treasury Bonds of a 30-year maturity, as published in a financial publication or electronically disseminated as of the date of calculation, plus 75 basis points; or (B) the average of the actual interest rate borne by such Parity Bonds over a 36-month period occurring immediately prior to the date of calculation;

(iii) If an interest rate “cap” (or similar instrument) has been purchased for such Parity Bonds, neither of the formulas set in (i) or (ii) above shall produce an interest rate in excess of said cap for the period that such interest rate cap is in effect; and

(iv) If the City has entered into a “Swap” agreement meeting the requirements of the Indenture (a “Swap Agreement”), the interest rate borne by the Bonds during the term of such Swap Agreement shall be considered to be the interest rate payable by the City under such Swap Agreement (as to those Parity Bonds equal in principal amount to the notional amount of such Swap Agreement).

“Debt Service Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Enterprise” means the existing water system of the City, comprising all facilities for obtaining, conserving, treating, distributing, storing and supplying water for domestic use, irrigation, sanitation, industrial use, fire protection, recreation, or any other public or private uses.

“Event of Default” means any of the events described in Section 8.01 of the Indenture.

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

(b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

“Fixed Interest Rate” means an interest rate or rates borne by any Series of Bonds, which fixed rates are known at the time of closing of such Series of Bonds.

“Governmental Agency” means the State, and the United States of America, acting through any of its agencies, to the extent that the State or such agency has loaned money to the City for the Enterprise.

“Governmental Loan” means a loan made by a Governmental Agency to the City which is secured by a pledge of Net Revenues and incurred by the City to finance improvements to the Enterprise pursuant to Section 3.07 of the Indenture.

“Governmental Loan Payment” means payments due from the City to a Governmental Agency to repay a Governmental Loan.

“Governmental Loan Payment Date” means the date on which any Governmental Loan Payment is due to a Governmental Agency to repay a Governmental Loan.

“Gross Revenues” means, for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Enterprise or otherwise arising from the Enterprise during such period, including but not limited to (a) all Charges received by the City, (b) all receipts, income or realized gain derived from the investment of funds held by the City or the Trustee under the Indenture, and receipts from the Rate Stabilization Account (c) all moneys received by the City from other public entities whose inhabitants are served pursuant to contracts with the City and (d) moneys deposited in the Debt Service Fund or other fund to secure the Bonds or to provide for the payment of the principal of or interest on the Bonds.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom --

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City;
and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Independent Financial Advisor” means any consultant with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the City, and who, or each of whom --

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City;
and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Information Services” means in accordance with then current guidelines of the Securities and Exchange Commission, such services providing information with respect to called bonds.

“Insurer” means MBIA Insurance Company, the insurer of the Series A Bonds, and its successors.

“Interest Payment Date” means, with respect to the Series A Bonds, December 1 and June 1 in each year, beginning June 1, 2005, and with respect to any Parity Bonds, any date on

which interest is due and payable thereon, and continuing so long as any Bonds or Parity Bonds remain Outstanding.

“Interest Requirement” means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount which will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on the Bonds on such next succeeding Interest Payment Date.

“Maintenance and Operation Costs” means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on sound accounting principles, including (among other things) the cost of purchased water, the reasonable expenses of management, personnel, services, equipment, repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

“Maximum Annual Debt Service” means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

“Municipal Bond Insurance Policy” means the municipal bond insurance policy issued by the Insurer simultaneously with the delivery of the Series A Bonds, insuring the payment of the principal of and interest on the Series A Bonds in accordance with the terms thereof.

“Net Revenues” means, for any period of computation, the amount of the Gross Revenues received during such period, less the amount of Maintenance and Operation Costs becoming payable during such period.

“Original Purchaser” means the first purchaser of any Series of Bonds from the City.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 7.03 of the Indenture) all Bonds therefore executed, issued and delivered by the City under the Indenture except --

(a) Bonds therefore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of Section 9.03 of the Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to the Indenture or any Supplemental Indenture.

“Owner” or “Bond Owner” or “Bondowner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Registration Books.

“Parity Bonds” means all bonds, notes or other obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred on a parity with the Series A Bonds pursuant to Section 3.06 or 3.07 of the Indenture.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means:

(a) Federal Securities;

(b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: (i) Export-Import Bank; (ii) Farm Credit System Financial Assistance Corporation, (iii) Farmers Home Administration; (iv) General Services Administration; (v) U.S. Maritime Administration; (vi) Small Business Administration; (vii) Government National Mortgage Association (GNMA); (viii) U.S. Department of Housing & Urban Development (PHA's); (ix) Federal Housing Administration and (x) Federal Financing Bank;

(c) senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, senior debt obligations of other government-sponsored agencies approved by the Insurer, obligations of the Resolution Funding Corporation (RFFCORP) and senior debt obligations of other government sponsored agencies;

(d) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (including the Trustee and its affiliates) 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 no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

(e) 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 days after the date of purchase;

(f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including any such money market fund from which the Trustee or its affiliates receive fees for services to such fund;

(g) 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 (i) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) 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) 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 (B) 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 thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) general obligations of States with a rating of at least "A2/A" or higher by both Moody's and S&P;

(i) investment agreements approved by the Insurer;

(j) other forms of investments (including repurchase agreements) approved in writing by the Insurer; and

(k) the Local Agency Investment Fund maintained by the State.

"Principal Installment" means with respect to any particular Principal Installment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Installment Date as determined by the applicable Supplemental Indenture (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Installment Date as determined by the applicable Supplemental Indenture.

"Project" means, the Graham Reservoir, which is designed as an 8 million gallon reservoir to be located under a newly reconstructed Graham Middle School playfield under a lease and related agreements with the Mountain View-Whisman School District. The reservoir and related improvements (such as a pump station, off-site piping, yard piping and appurtenances, sports fields and landscaping, and restroom and storage improvements) are anticipated to be funded through a combination of the proceeds of the Bonds deposited in the Project Fund, a contribution from the Mountain View-Whisman School District, and a contribution from the Shoreline Regional Park Community Fund (because the Graham Reservoir is anticipated to serve the future water needs of the North Bayshore Area of the Mountain View Shoreline Regional Park Community), or any other capital project integral to the Enterprise.

"Project Costs" means all costs of payment of, or reimbursement for, acquisition, construction, installation and equipping of the Project, including but not limited to, architect and engineering fees, appraisal costs, inspection costs, performance bond premiums, permit fees.

"Project Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.05 of the Indenture.

"Rate Stabilization Account" means the Fund by that name established and held by the City pursuant to Section 4.09 of the Indenture.

"Rating Agency" means, as of any date, each of the following rating agencies which then maintains a rating on any of the Bonds: (a) Moody's Investors Service, Inc., its successors and assigns; and (b) Standard & Poor's Corporation, its successors and assigns.

"Record Date" means, with respect to the Series A Bonds, the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date or, with respect to any Parity Bonds, any other date established in the applicable Supplemental Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture and the Supplemental Indenture pursuant to which the same was issued.

"Request of the City" means a request in writing signed by the City Manager or Finance Director of the City, or by any other officer of the City duly authorized by the Council for that purpose.

“Reserve Account” means the Account by that name established and held by the Trustee pursuant to Section 4.03 of the Indenture.

“Reserve Account Surety” means, for the Series A Bonds, the Series A Bonds Reserve Account Surety, and for any other Series, a letter of credit or surety bond issued in an amount equal to all or part of the Reserve Requirement for such Series, and acceptable to the financial institution insuring such Series.

“Reserve Requirement” means an amount equal to Maximum Annual Debt Service, or such lower amount as may be required by the Tax Code.

“Revenue Fund” means the Water Fund heretofore established and held by the City.

“Serial Bonds” means all Bonds other than Term Bonds.

“Series” when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Indenture.

“Series A Bonds” means the City of Mountain View Water Revenue Bonds (Graham Reservoir Project) 2004 Series A, issued and at any time Outstanding hereunder.

“Series A Bonds Reserve Account Surety” means the reserve account surety bond issued by the Insurer in an amount equal to the Reserve Requirement for the Series A Bonds.

“Sinking Fund Installment” means, with respect to any particular date, the amount of money required by or pursuant to the Indenture or a Supplemental Indenture to be paid by the City on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

“Supplemental Indenture” means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed by the City in accordance with the provisions of the Indenture.

“Tax Code” means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Tax Code shall include the applicable Tax Regulations with respect to such provision.

“Tax Regulations” means temporary and permanent regulations promulgated under the Tax Code.

“Trust Office” means the principal corporate trust office of the Trustee in St. Paul, Minnesota, or at such other or additional offices as may be specified to the City by the Trustee in writing.

“Trustee” means U.S. Bank National Association, appointed by the City to act as trustee hereunder pursuant to the Indenture, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

“Variable Rate” means a rate of interest to be borne by a Series of Bonds where the interest rate or rates for the full term of such Series of Bonds is or are not known at the closing of such Series of Bonds.

“Variable Rate Bonds” means any Series of Bonds that bear interest at a Variable Rate in accordance with the terms of the applicable Supplemental Indenture.

Funds and Accounts

The Indenture establishes the following funds and accounts:

1. The Reserve Account (within the Debt Service Fund). The Series A Bonds Reserve Account Surety will be deposited into the Reserve Account on the Closing Date. The Series A Bonds Reserve Account Surety cannot be cancelled by the Insurer for any reason so long as any Bonds are Outstanding. Any draw on the Series A Bonds Reserve Account Surety shall be repaid from the first available Net Revenues.

2. The Revenue Fund. All Gross Revenues are deposited into the Revenue Fund. The moneys in the Revenue Fund shall be used to pay the Maintenance and Operation Costs, to make transfers to the Debt Service Fund and the Rate Stabilization Account; and thereafter to serve any lawful purpose of the Enterprise.

3. Debt Service Fund. Moneys deposited in the Debt Service Fund shall be used to make, when due, the payments of the principal of and interest on the Bonds and the State Loans, including sinking fund payments on term Bonds to be deposited in the Sinking Fund Account created within the Debt Service Fund.

4. Redemption Account (within the Debt Service Fund). Moneys in the Redemption Account shall be used to redeem any outstanding Bonds called for redemption subject to the term and conditions of the Indenture.

Reserve Account

In lieu of making the Reserve Requirement deposit or in replacement of moneys then on deposit in the Reserve Account, the City will deliver to the Trustee on the Closing Date the Series A Bonds Reserve Account Surety, in an amount equal to the Reserve Requirement.

All amounts in the Reserve Account resulting from a draw on the Series A Bonds Reserve Account Surety shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Debt Service Fund or the Sinking Fund Account.

Rate Stabilization Account

The City shall maintain and hold a separate fund to be known as the "Rate Stabilization Account." From time to time the City may deposit in the Rate Stabilization Account from Gross Revenues remaining, after making the allocation provided in the section entitled "Security for the Bonds" under the caption "Application of Revenues," such amounts as the City shall determine, provided that deposits with respect to any Fiscal Year may be made at any time during such Fiscal Year and until (but not after) the end of the following Fiscal Year. The City may withdraw amounts from the Rate Stabilization Account (i) for inclusion in Gross Revenues for any Fiscal Year, such withdrawals to be made at any time during such Fiscal Year and until (but not after) the end of the following Fiscal Year, or (ii) for any of the other purposes set forth in the Indenture, at any time. All interest or other earnings upon deposits in the Rate Stabilization Account may be withdrawn therefrom and accounted for as Gross Revenues. Notwithstanding the foregoing, no deposit of Gross Revenues to the Rate Stabilization Account may be made to the extent such Gross Revenues were included in an independent financial advisor's report submitted in accordance with the Indenture and withdrawal of the Gross

Revenues to be deposited in the Rate Stabilization Account from the Gross Revenues employed in rendering said independent financial advisor's report would cause noncompliance with provisions of the Indenture.

Transfer and Exchange of Bonds

Any Bond may, in accordance with its terms, be transferred upon the Bond Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond shall be surrendered for transfer, the City shall execute and the Trustee shall thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount.

Bonds may be exchanged at the corporate trust office of the Trustee for Bonds of the same tenor and maturity and of other authorized denominations. No Bonds the notice of redemption of which has been mailed shall be subject to such exchange.

Lost and Mutilated Bonds

If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the City. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the City, at the expense of the Bond Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been cancelled for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee).

Investment and Security of Funds

All moneys held by the City or the Trustee in the funds established pursuant to the Indenture are required to be invested as provided for in the Indenture. Authorized Investments shall be valued by the Trustee as frequently as deemed necessary by the Insurer, but not less often than annually, at the market value thereof, exclusive of accrued interest.

The Indenture obligates the City to calculate and rebate certain excess investment earnings to the federal government, in compliance with Section 148 of the Internal Revenue Code of 1986.

Insurance

The City covenants that it shall at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise shall be damaged or destroyed, such part shall be restored to use. The net proceeds of insurance shall be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied, shall be applied to the redemption of the

outstanding Bonds on a pro rata basis, and for such purpose, paid into the Redemption Account.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City or the Trustee, or may be in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The City shall file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a Certificate of the City (a) setting forth a description in reasonable detail of the insurance then in effect, including any self-insurance fund, maintained pursuant to the requirements of this paragraph, and (b) stating that the City is then in compliance with the requirements of this paragraph, and (c) stating whether during the preceding Fiscal Year any loss has been incurred with respect to the Enterprise and, if so, the amount of net proceeds of insurance, including the net proceeds of any self-insurance fund, covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

Against Sale, Eminent Domain

Except as provided in the Indenture, the City covenants that the property, facilities and improvements of the Enterprise shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City shall cause to be filed with the Trustee written evidence from the rating agency that such sale or other disposition will not cause a reduction or withdrawal of the rating then assigned to the Bonds by the rating agency; (b) such sale or other disposition shall be so arranged as to provide for a continuance of payments into the Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and premiums, if any, due upon the call and redemption thereof, of the outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of the Indenture and any Supplemental Indenture; and (c) the City shall have filed with the Trustee an opinion of a nationally-recognized bond counsel to the effect that such sale or other disposition will not adversely affect the exemption from federal income taxation of interest on the Bonds. The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal of and interest on the outstanding Bonds shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal of and interest of the Bonds or which otherwise would impair the rights of the Bond owners with respect to the Net Revenues. If any substantial part of the Enterprise is sold the net proceeds thereof shall either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or shall be deposited with the Trustee in the Redemption Account and shall be used to redeem the outstanding Bonds on a pro rata basis.

The City covenants that any net proceeds received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, shall either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or shall be deposited with the Trustee in the Redemption Account and shall be used to pay or redeem the outstanding Bonds on a pro rata basis.

Other Covenants by the City

For the protection and security of the Bonds, the City makes the following additional covenants with the Bondowners in the Indenture:

1. It will commence the acquisition, construction and completion of the Graham Reservoir Project and continue the same with all practical dispatch and in a sound and economical manner.
2. It will operate the Enterprise in an efficient and economical manner and it will operate, maintain, preserve and keep the Enterprise and every part thereof in good repair, working order and condition.
3. It will pay and cause to be paid punctually the principal and the interest on the Bonds on the date or dates and at the place or places and in the manner mentioned in the Bonds and in accordance with the Indenture.
4. It will pay and discharge any and all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon the Net Revenues of the

Enterprise and which might impair the security of the Bonds. The City shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon the Enterprise.

5. It will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon reasonable request, be subject to the inspection of the owners of not less than ten percent (10%) of the outstanding Bonds or their representatives authorized in writing.

6. It will cause the books and accounts of the Enterprise to be audited annually by an independent accountant and will make available for inspection by the Bond owners at the principal trust office of the Trustee, upon reasonable request, a copy of the report of such independent accountant.

7. It will cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail, and a general statement of the financial and physical condition of the Enterprise. The City shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond owner.

Modification and Amendment of the Indenture

The City may, without the consent of the Bondowners, adopt at any time a Supplemental Indenture for any one or more of the following purposes; provided, however, that no such modification shall (a) extend the maturity of the Bonds or reduce the interest rate on any Bond, (b) reduce the percentage of Bonds required for written consent of the owner of such Bond or (c) without written consent modify any rights of the Trustee:

1. to add additional covenants and agreements of the City to further secure the payment of the Bonds, provided they are not contrary to or inconsistent with covenants and agreements of the City contained in the Indenture and do not adversely effect the interest of the Bondowners;
2. to surrender any right, power or privilege reserved to or conferred on the City by the Indenture;
3. to provide for the issuance of Parity Bonds.

Supplemental Indentures with Bondowners' Consent

The Indenture may be modified at any time by a supplemental indenture with the prior written consent, or the prior consent of the owners of a majority of the aggregate principal amount of the Bonds then outstanding. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or will reduce the percentage of Bonds the consent of the owners of which is required to effect any such modification or amendment.

No amendment, modification or waiver of any provision of the Indenture or the Bonds may be made which relates to the acceleration of the payment of the principal of or interest on the Bonds before the stated maturity thereof.

Events of Default

The Indenture defines each of the following as an event of default:

1. default in the due and punctual payment of the principal of any Bond when and as the same becomes due and payable, whether at maturity, by proceedings for redemption, by declaration, or otherwise, and such default has continued for a period of thirty days; or
2. default in the due and punctual payment of interest on any Bond when and as such interest installment becomes due and payable, and such default has continued for a period of thirty days; or
3. default in the observation of any covenants, agreements or conditions on the part of the City contained in the Indenture or in the Bonds, and such default has continued for a period of thirty days after the City is given notice in writing of such default by the Trustee; or
4. if the City files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or other applicable laws or statutes of the United States of America, or if a court of competent jurisdiction approves a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable laws or statutes of the United States of America, or if, under the federal bankruptcy laws or the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the City or of the whole or any substantial part of its property.

Upon the occurrence and during the continuance of any event of default, the Trustee may, and upon written notice from the owners of a majority in aggregate principal amount of the Bonds at the time outstanding shall, declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Acceleration

In an event of default as described above, all amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the costs and expenses of the Trustee and of Bond owners in declaring such event of default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the Article VIII, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the net effective rate of interest then borne by the outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then

to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Remedies

The Bondowners are entitled to exercise the remedies set forth in the Indenture, at law or in equity, to enforce the payment of the principal of and premium, if any, and interest on the Bonds and to enforce any rights of the Trustee under or with respect to the Indenture.

Defeasance

If the City shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with the Trustee, in trust, Federal Securities in such amount as the Trustee shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the City, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other pecuniary obligations of the City under the Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the City to pay or cause to be paid to the owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the City.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2003**

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INDEPENDENT AUDITORS' REPORT
ON BASIC FINANCIAL STATEMENTS

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

Honorable Mayor and City Council
City of Mountain View, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mountain View, California (City) as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

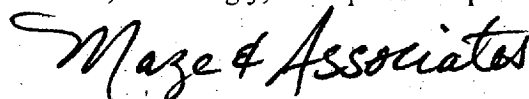
We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mountain View, California as of June 30, 2003 and the respective changes in the financial position and cash flow, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



September 4, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Mountain View's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

The City is currently facing significant, and quite possibly unprecedented, financial challenges. The General Operating Fund Budget, the primary provider of City services, has experienced a significant decline in General Operating Fund revenues over the past two years. While the current financial challenges facing the City are substantial, it is fortunate the potential for a serious economic adjustment was identified in previous years. Techniques such as creation of the Economic Stabilization Contingency and a Budget Transition Reserve have allowed the City's adjustment to financial challenges to be less traumatic than would otherwise be the case and will continue to provide flexibility into the future.

The following are some of the key financial highlights for the fiscal year:

- The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2003 by \$713.9 million (net assets). Of this amount, \$168.0 million (unrestricted net assets) may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$30.0 million during the fiscal year.
- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$195.0 million. Approximately 73.7 percent of this amount, \$143.7 million, is unreserved fund balance and is available to meet the City's current and future needs.
- At the end of the fiscal year, the unreserved fund balance for the General Fund is \$64.8 million or 98.3 percent of total General Fund expenditures.
- The City's total long-term debt decreased by \$3.2 million compared with the prior year as debt was retired during the normal course of business.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community development, and culture and recreation. The business-type activities of the City include water, wastewater and solid waste operations.

The government-wide financial statements include not only the City itself (known as the primary government) but also three legally separate entities for which the City is financially accountable: (1) Mountain View Shoreline Regional Park Community (Community or SRPC); (2) Mountain View Revitalization Authority (Authority); and (3) City of Mountain View Capital Improvements Financing Authority (Financing Authority). Although legally separate from the City, these component units are blended with the primary government because of their relationship to the City. In addition, separate financial information for the Community and Authority component units are included within the City's CAFR.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service and capital projects funds). Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Revitalization Authority, Shoreline Regional Park Community and Capital Projects Funds, all of which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its major funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with budgets.

Proprietary funds are generally used to account for services for which the City charges customers—either external customers or internal customers or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, wastewater and solid waste operations, all of which are considered to be major funds of the City.

Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet maintenance and equipment replacement and various other self-insurance liability programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of employees of the City and parties outside the City. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements, and Management's Discussion and Analysis (MD&A) for State and Local Governments. Because this reporting model changed significantly both the recording and presentation of financial data, the City's financial statements for Fiscal Year 2002 did not provide comparative information in its MD&A. This year, two years of financial information is available in the GASB Statement No. 34 format and a comparative analysis of government-wide data is included in this report. In addition, adjustments have been made to some prior year balances to conform to current year presentation formats.

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$713.9 million at the end of the fiscal year. The following is a condensed summary of the City's net assets for governmental and business-type activities:

Statement of Net Assets (Dollars in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Assets:						
Current and other assets	\$243,584	222,942	54,802	53,960	298,386	276,902
Capital assets	<u>502,222</u>	<u>501,131</u>	<u>37,671</u>	<u>34,636</u>	<u>539,893</u>	<u>535,767</u>
Total assets	<u>745,806</u>	<u>724,073</u>	<u>92,473</u>	<u>88,596</u>	<u>838,279</u>	<u>812,669</u>
Liabilities:						
Current and other liabilities	12,277	15,154	1,544	1,419	13,821	16,573
Noncurrent liabilities	<u>109,778</u>	<u>114,428</u>	<u>738</u>	<u>693</u>	<u>110,516</u>	<u>115,121</u>
Total liabilities	<u>122,055</u>	<u>129,582</u>	<u>2,282</u>	<u>2,112</u>	<u>124,337</u>	<u>131,694</u>
Net assets:						
Invested in capital assets, net of related debt	446,282	425,650	37,671	34,636	483,953	460,286
Restricted	61,753	56,229	247	-0-	62,000	56,229
Unrestricted	<u>115,716</u>	<u>112,612</u>	<u>52,273</u>	<u>51,848</u>	<u>167,989</u>	<u>164,460</u>
Total net assets	<u>\$623,751</u>	<u>594,491</u>	<u>90,191</u>	<u>86,484</u>	<u>713,942</u>	<u>680,975</u>

The largest portion of the City's net assets at \$484.0 million, or 67.8 percent, reflects its investment in capital assets (e.g., land, buildings, other improvements, etc.) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

Another significant portion of the City's net assets, \$168.0 million or 23.5 percent, represents unrestricted net assets, which may be used to meet the City's ongoing obligations. For governmental activities, the City reported a positive balance of \$115.7 million of unrestricted net assets, and for business-type activities, the City reported a positive balance of \$52.3 million of unrestricted net assets.

An additional portion of the City's net assets of \$62.0 million represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the governmental and the business-type activities.

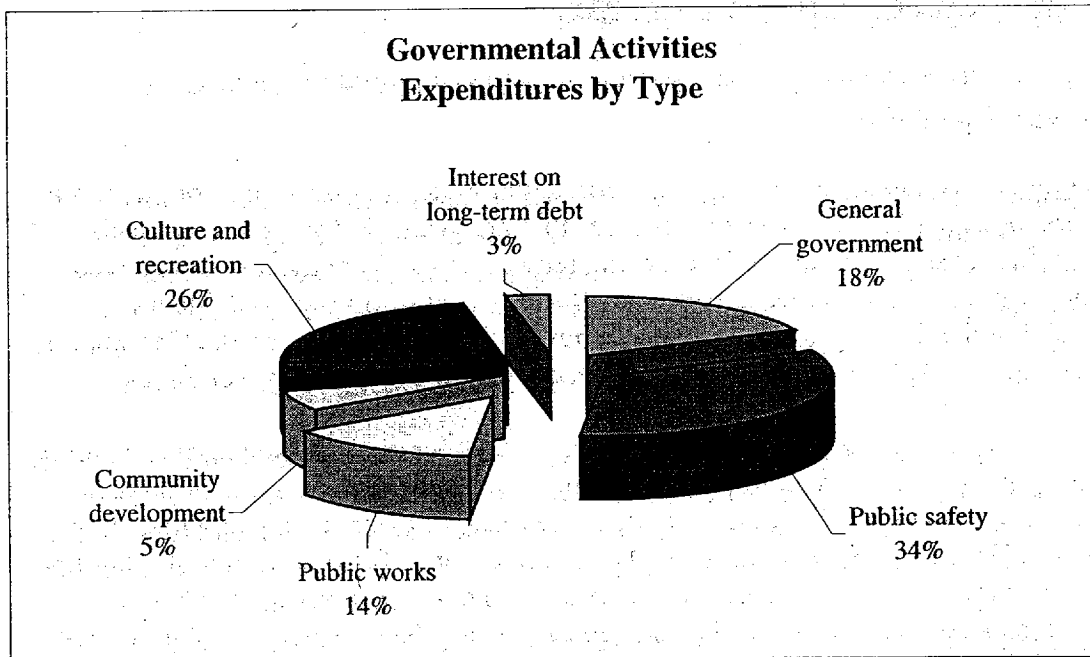
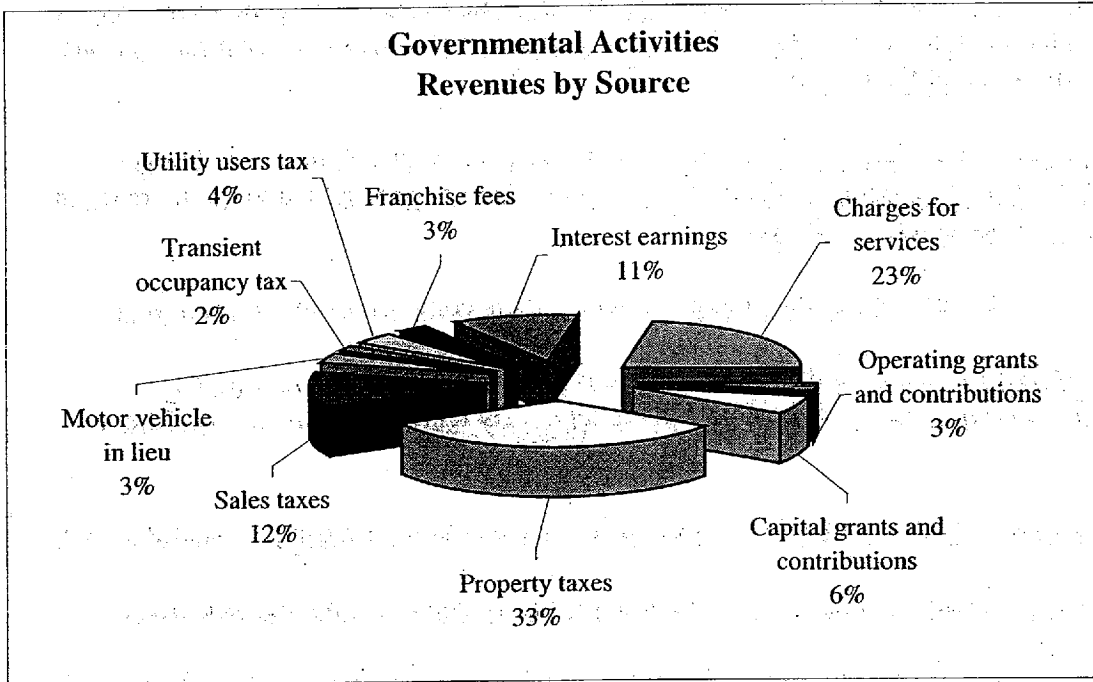
Analysis of Statement of Activities

The following table indicates the changes in net assets for governmental and business-type activities:

Statement of Activities
(Dollars in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues						
Program revenues:						
Charges for services	\$ 28,132	28,673	30,003	31,013	58,135	59,686
Operating grants and contributions	3,230	5,930	100	-0-	3,330	5,930
Capital grants and contributions	7,878	5,031	671	-0-	8,549	5,031
General revenues:						
Property taxes	39,922	39,943	-0-	-0-	39,922	39,943
Sales taxes	14,878	17,259	-0-	-0-	14,878	17,259
Motor vehicle in lieu	4,245	3,971	-0-	-0-	4,245	3,971
Transient occupancy tax	2,367	2,874	-0-	-0-	2,367	2,874
Utility users tax	4,638	4,713	-0-	-0-	4,638	4,713
Franchise and business	3,603	4,002	-0-	-0-	3,603	4,002
Interest earnings	13,878	15,089	2,183	1,681	16,061	16,770
Gain (loss) on sale of capital assets	-0-	-0-	-0-	(5)	-0-	(5)
Bond issuance premium	-0-	349	-0-	-0-	-0-	349
Total revenues	<u>122,771</u>	<u>127,834</u>	<u>32,957</u>	<u>32,689</u>	<u>155,728</u>	<u>160,523</u>
Expenses						
General government	17,268	16,754	-0-	-0-	17,268	16,754
Public safety	32,485	32,089	-0-	-0-	32,485	32,089
Public works	13,387	15,711	-0-	-0-	13,387	15,711
Community development	5,199	5,265	-0-	-0-	5,199	5,265
Culture and recreation	25,109	20,745	-0-	-0-	25,109	20,745
Interest on long-term debt	2,836	7,791	-0-	-0-	2,836	7,791
Water	-0-	-0-	11,954	11,815	11,954	11,815
Wastewater	-0-	-0-	9,600	9,862	9,600	9,862
Solid Waste	-0-	-0-	7,930	6,968	7,930	6,968
Total expenses	<u>96,284</u>	<u>98,355</u>	<u>29,484</u>	<u>28,645</u>	<u>125,768</u>	<u>127,000</u>
Increase in net assets						
before transfers	26,487	29,479	3,473	4,044	29,960	33,523
Transfers	(234)	(1,400)	234	1,400	-0-	-0-
Change in net assets	26,253	28,079	3,707	5,444	29,960	33,523
Beginning net assets	594,491	566,412	86,484	81,040	680,975	647,452
Retroactive adjustment	3,007	-0-	-0-	-0-	3,007	-0-
Ending net assets	<u>\$623,751</u>	<u>594,491</u>	<u>90,191</u>	<u>86,484</u>	<u>713,942</u>	<u>680,975</u>

The City's net assets overall increased by \$30.0 million during the current fiscal year. This increase is explained in the governmental and business-type activities discussion below and is primarily a result of revenues exceeding expenses.



Governmental activities increased the City's net assets by \$26.3 million, accounting for 87.6 percent of the total increase in the City's net assets. Key factors of this increase are as follows:

- Revenues exceeded expenditures, as explained below.
- Sales taxes continued to decline as the economy remained weak during the year. Interest earnings also declined as interest yields fell as a result of short-term interest rate actions taken by the Federal Reserve Board.
- Overall expenditures declined \$2.1 million from the prior year due in part to budget reductions made in response to declining revenues. This decline added to the increase in governmental net assets for the year.

Based on the above, the governmental change in net assets is comparable to the prior year.

Business-type activities increased the City's net assets by \$3.7 million, accounting for 12.4 percent of the total increase in the City's net assets. Key factors for this increase are as follows:

- Water net assets increased by \$3.0 million, primarily due to the funding of capital assets.
- Wastewater net assets increased by \$592,000, primarily due to capital contributions.
- Solid Waste net assets increased by \$103,000 as revenues generated matched the cost of services provided.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds—The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$195.0 million, an increase of \$18.1 million in comparison to the prior year. The significant component for the increase is related to revenues exceeding expenditures in the SRPC, General and General Capital Projects Funds. Approximately \$143.7 million of total fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: (1) restricted cash and investments

(\$1.7 million); (2) to pay debt service (\$1.1 million); (3) to reflect loans, receivables, advances and other assets that are long-term in nature and, thus, do not represent available spendable resources (\$36.1 million); and (4) to liquidate existing contracts and purchase orders (\$12.4 million).

Revenues for governmental functions overall totaled approximately \$118.1 million in the fiscal year ended June 30, 2003, which represents a decrease of \$7.8 million from the fiscal year ended June 30, 2002. Expenditures for governmental functions, totaling \$98.2 million, decreased \$4.9 million or 4.7 percent from the prior fiscal year. In the fiscal year ended June 30, 2003, revenues for governmental functions exceeded expenses by approximately \$19.9 million or 20.2 percent.

The General Fund is used to account for all revenues and expenditures necessary to carry out basic government activity of the City that is not accounted for through other funds. At the end of the current fiscal year, unreserved fund balance is \$64.8 million while total fund balance is \$82.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 98.3 percent of total fund expenditures of \$65.9 million, while total fund balance represents 125.2 percent of that same amount.

The fund balance of the City's General Fund increased by \$3.0 million during the current fiscal year. Although total General Fund revenues declined from the prior year, revenues exceeded expenditures by \$3.0 million.

The Revitalization Authority Fund accounts for the activities of the Authority, which was created to prepare and carry out redevelopment plans for a designated area of the City.

The Authority Fund's revenues are \$2.7 million in Fiscal Year 2003, a decrease of \$49,000. Although use of money and property revenues are down \$148,000, property tax increment revenues are \$2.6 million in Fiscal Year 2003, up \$99,000 from Fiscal Year 2002. Fund expenditures are \$420,000 in Fiscal Year 2003, up \$188,000 from the prior year, primarily related to a \$74,000 shift of property taxes to the State for payment to the Educational Revenue Augmentation Fund (ERAF). The balance of expenditures were for community development.

The Authority's Fund balance of \$3.6 million, as of the end of the fiscal year, may be used only for redevelopment purposes. Of this amount, \$3.7 million was reserved for loans receivable, outstanding encumbrances and land held for resale, and was not available for expenditure, while a negative \$178,000 was unreserved fund balance. The negative unreserved fund balance will be eliminated by future tax increment revenue.

The Shoreline Regional Park Community Fund receives property tax increment revenues on property within the Community. The Fund accounts for the revenues and expenditures of the Community.

Revenues are \$24.2 million in Fiscal Year 2003, a decrease of \$778,000. Property tax increment revenues decreased to \$22.0 million in Fiscal Year 2003, down \$1.1 million from Fiscal

Year 2002, due to commercial vacancy rates of approximately 25.0 percent causing a decrease in unsecured property taxes. Expenditures are \$5.2 million in Fiscal Year 2003, slightly more than the prior year. Of this amount, \$3.1 million was expended on general government and \$1.6 million on culture and recreation.

There are net transfers to other funds of \$10.0 million in Fiscal Year 2003. Of this amount, \$1.4 million was transferred to the General Fund for debt service payments, \$4.5 million was transferred to the General Capital Projects Fund for capital projects, and \$5.1 million was transferred to various Debt Service Funds for payments of principal and interest on outstanding debt, offsetting \$1.0 million of transfers from the General Capital Projects Fund related to capital projects refunds and interest earnings.

The Fiscal Year 2003 year-end fund balance of \$35.0 million may be used only for expenditures in the Community project area. Of this amount, \$95,000 was reserved for outstanding encumbrances and \$7.0 million for advances to other funds and are not available for expenditure. The remaining \$27.9 million was unreserved.

The General Capital Projects Fund accounts for all general capital improvements on a pay-as-you-go basis for projects not funded from proprietary funds.

Revenues are \$10.1 million in Fiscal Year 2003, an increase of \$3.2 million from the prior year. Revenue from use of money and property declined \$892,000 due to declines in interest rates. Intergovernmental revenues increased to \$5.2 million in Fiscal Year 2003, up \$4.1 million from Fiscal Year 2002, primarily due to Caltrans and Measure A and B grants. Expenditures are \$14.1 million in Fiscal Year 2003, \$2.0 million less than the prior year. All of the \$14.1 million was expended on capital outlay.

Net transfers from other funds are \$13.3 million in Fiscal Year 2003.

The Fund's Fiscal Year 2003 year-end fund balance of \$51.5 million may be used for capital projects. Of this amount, \$11.0 million was reserved for restricted cash and investments and outstanding encumbrances, and is not available for expenditure. The balance of \$40.5 million was designated primarily for capital projects.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

At the end of the fiscal year, the unrestricted net assets for the Water, Wastewater and Solid Waste Funds are \$24.5 million, \$17.9 million and \$9.9 million, respectively. The internal service funds which are used to account for certain governmental activities have unrestricted net assets of \$32.0 million. The total growth in net assets for the Enterprise Funds is \$3.7 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

Fiduciary Funds: The City maintains fiduciary funds for the assets held in trust to benefit agencies outside of the City or employees. As of June 30, 2003, the assets of these funds totaled

\$2.4 million, representing an increase of \$404,000 in total assets since June 30, 2002. The increase is primarily related to the timing of payments made in the Payroll Fund and the increase in funding of the Santa Clara County Communications Joint Funding Agreement Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund differences between the original Fiscal Year 2003 budget and the final amended budget resulted in a \$65,000 increase in budgeted revenues and a \$2.7 million increase in expenditure appropriations. Approximately \$1.6 million of the adjustment is related to prior-year encumbrances that carry forward at the beginning of the year as specified in the City's Charter. An additional \$861,000 appropriation was established for the payment of compensated absences as provided by Council resolution. The balance of adjustments were made mid-year for various operational needs not anticipated during budget adoption and grants or reimbursements received during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2003 amount to \$539.9 million (net of accumulated depreciation). Capital assets include land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the City's capital assets for Fiscal Year 2003 was \$1.1 million or 0.2 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

Capital Assets
(Dollars in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 69,852	69,852	220	220	70,072	70,072
Construction in progress	67,230	66,358	11,019	9,075	78,249	75,433
Buildings	97,623	96,169	8,927	8,927	106,550	105,096
Improvements other than bldgs.	55,573	48,079	44,376	42,075	99,949	90,154
Machinery and equipment	17,487	16,665	1,616	1,574	19,103	18,239
Parking facility	4,140	4,140	-0-	-0-	4,140	4,140
Traffic signals	5,258	5,255	-0-	-0-	5,258	5,255
Streetlights	7,471	7,445	-0-	-0-	7,471	7,445
Bridges and culverts	7,925	7,925	-0-	-0-	7,925	7,925
Sidewalks, curbs and gutters	103,280	102,155	-0-	-0-	103,280	102,155
Streets and roads	231,676	229,902	-0-	-0-	231,676	229,902
Less accumulated depreciation	<u>(165,293)</u>	<u>(149,807)</u>	<u>(28,487)</u>	<u>(27,235)</u>	<u>(193,780)</u>	<u>(177,042)</u>
	<u>\$502,222</u>	<u>504,138</u>	<u>37,671</u>	<u>34,636</u>	<u>539,893</u>	<u>538,774</u>

Major capital asset events during the current fiscal year included the following:

- Governmental activities capital assets increased a total of \$13.6 million with a net \$15.5 million increase in accumulated depreciation.
- Total construction in progress (CIP) increased by \$2.8 million as more capital projects were funded than completed and capitalized during the year.
- Improvements, other than buildings, increased by \$9.8 million. Some of the major assets capitalized from CIP were: Crittenden Park landscaping; Adobe Building renovation; Vista Slope landscaping; Evelyn Avenue improvements design; Cuesta Park playground renovation; and Stevens Creek pedestrian/wildlife, Reach 4.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34.

Additional information about the City's capital assets can be found in Note 6 to the financial statements.

Debt Administration

As of June 30, 2003, the City had \$109.8 million of outstanding long-term debt related to governmental activities and \$738,000 related to business-type activities, for a total of \$110.5 million. Debt outstanding as of June 30, 2003 with a comparison to prior year and the net change follows:

Debt Outstanding
(Dollars in thousands)

	<u>As of</u> <u>June 30, 2003</u>	<u>As of</u> <u>June 30, 2002</u>	<u>Net Change</u>
Tax allocation bonds	\$ 52,928	54,962	(2,034)
Certificates of participation	15,432	16,208	(776)
Special assessment debt	2,319	2,713	(394)
Compensated absences	5,772	5,680	92
Landfill containment	<u>33,327</u>	<u>34,865</u>	<u>(1,538)</u>
Total government activity debt	109,778	114,428	(4,650)
Business-type activity	<u>738</u>	<u>693</u>	<u>45</u>
Total	<u>\$110,516</u>	<u>115,121</u>	<u>(4,605)</u>

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The City has no general obligation debt outstanding as of June 30, 2003.

Standard & Poor's reconfirmed the City's underlying "AAA" credit rating in August 2003.

Additional information regarding the City's long-term obligations can be found in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The City continues to face a less favorable economic environment from the market decline in the technology industry. The unemployment rate in the City has declined from 6.0 percent to 5.5 percent as of August 2002 and 2003. This is lower than the County and State unemployment rates of 8.6 percent and 6.6 percent, respectively, for August 2002, and 7.9 percent and 6.5 percent, respectively, for August 2003.
- Overall, property taxes for the City are expected to increase for the upcoming fiscal year as new development is completed and comes onto the tax roll.
- Sales tax revenue is expected to slightly decline and then stabilize as the economy also stabilizes.
- Other taxes comprised of Transient Occupancy Tax (TOT) and Utility Users Tax (UUT) are anticipated to remain at the same level for Fiscal Year 2004.
- The State budget deficit continues to be a major concern as the City worked to adjust to its own budget challenges. How the State will continue to deal with its budget issues and how local government revenues will be negatively impacted will be an ongoing concern of the City. However, the City remains committed to taking the necessary actions to adopt a balanced budget annually.
- Increases in water, wastewater and solid waste rates of 6 percent, 8 percent and 2 percent, respectively, have been adopted for Fiscal Year 2004.

All of these factors were considered in preparing the City's budget for Fiscal Year 2004.

REQUEST FOR INFORMATION

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance and Administrative Services Department, 500 Castro Street, Mountain View, California, 94039-7540.

PJK/6/FIN/546-09-09-03R^

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Statement of Net Assets
June 30, 2003 (Dollars in Thousands)**

	Governmental Activities	Business - Type Activities	Total
Assets:			
Cash and investments (Note 3)	\$ 239,297	28,953	268,250
Restricted cash and investments (Note 3)	2,782	0	2,782
Receivables:			
Accounts (net of allowances)	414	4,824	5,238
Special assessments	1,895	0	1,895
Interest	2,575	614	3,189
Loans (Note 4)	9,984	0	9,984
Taxes	3,321	0	3,321
Due from other governments	680	0	680
Internal balances (Note 5C)	(20,411)	20,411	0
Inventory	406	0	406
Deposits and prepaid costs	4	0	4
Land held for redevelopment (Note 1H)	2,637	0	2,637
Capital assets, net of depreciation (Note 6)	502,222	37,671	539,893
Total assets	745,806	92,473	838,279
Liabilities:			
Accounts payable and accrued costs	7,740	1,400	9,140
Accrued self-insurance claims (Note 10)	3,833	0	3,833
Refundable deposits	479	144	623
Deferred revenue	225	0	225
Noncurrent liabilities (Note 7)			
Due within one year	4,313	0	4,313
Due in more than one year	105,465	738	106,203
Total liabilities	122,055	2,282	124,337
Net assets (Note 11):			
Invested in capital assets, net of related debt	446,282	37,671	483,953
Restricted for:			
Financial assurance mechanism	0	247	247
Capital projects	13,300	0	13,300
Debt service	3,626	0	3,626
Low and moderate income housing	3,590	0	3,590
Shoreline Regional Park Community	33,940	0	33,940
Revitalization Authority	(28)	0	(28)
Other purposes	7,325	0	7,325
Unrestricted	115,716	52,273	167,989
Total net assets	\$ 623,751	90,191	713,942

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business-type Activities
Governmental Activities:							
General government	\$ 17,268	18,559	270	0	1,561	1,561	
Public safety	32,485	979	417	0	(31,089)	(31,089)	
Public works	13,387	260	1,404	7,658	(4,065)	(4,065)	
Community development	5,199	3,252	1,075	0	(872)	(872)	
Culture and recreation	25,109	5,082	64	220	(19,743)	(19,743)	
Interest on long term debt	2,836	0	0	0	(2,836)	(2,836)	
Total governmental activities	96,284	28,132	3,230	7,878	(57,044)	(57,044)	
Business-type Activities:							
Water	11,954	13,286	0	275	0	1,607	
Wastewater	9,600	9,207	0	396	0	3	
Solid Waste	7,930	7,510	100	0	0	(320)	
Total business-type activities	29,484	30,003	100	671	0	1,290	
Total	\$ 125,768	58,135	3,330	8,549	(57,044)	(55,754)	
General revenues:							
Taxes:							
Property taxes					39,922	0	39,922
Sales taxes					14,878	0	14,878
Motor vehicle in lieu					4,245	0	4,245
Transient occupancy tax					2,367	0	2,367
Utility users tax					4,638	0	4,638
Nonregulatory franchise & business					3,603	0	3,603
Interest earnings					13,878	2,183	16,061
Transfers					(234)	234	0
Total general revenues and transfers					83,297	2,417	85,714
Change in net assets					26,253	3,707	29,960
Beginning net assets					594,491	86,484	680,975
Add: retroactive additions of infrastructures (Note 6)					3,007	0	3,007
Ending net assets					\$ 623,751	90,191	713,942

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Governmental Funds
Balance Sheet
June 30, 2003 (Dollars in Thousands)**

	General	Revitalization Authority	Shoreline Regional Park Community	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 69,100	3,769	40,801	73,736	17,298	204,704
Restricted cash and investments	0	0	0	218	1,518	1,736
Receivables:						
Accounts (net of allowances)	233	75	1	1	104	414
Special assessments:						
Delinquent	0	0	0	0	9	9
Deferred	0	0	0	0	1,886	1,886
Interest	1,101	82	587	0	393	2,163
Loans	212	1,003	0	0	8,769	9,984
Taxes	3,321	0	0	0	0	3,321
Due from other governments	680	0	0	0	0	680
Inventory	276	0	0	0	130	406
Deposits and prepaid costs	4	0	0	0	0	4
Land for redevelopment	0	2,637	0	0	0	2,637
Advances to other funds	15,419	0	7,010	0	0	22,429
Total assets	\$ 90,346	7,566	48,399	73,955	30,107	250,373
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued costs	\$ 3,664	8	66	2,021	346	6,105
Accrued compensated absences	619	0	0	0	0	619
Refundable deposits	342	0	3	51	83	479
Deferred revenue	3,169	0	0	0	2,115	5,284
Advances from other funds	0	3,996	13,333	20,411	5,100	42,840
Total liabilities	7,794	4,004	13,402	22,483	7,644	55,327
Fund balances:						
Reserved for:						
Restricted cash and investments	0	0	0	218	1,518	1,736
Debt service	0	0	0	0	1,074	1,074
Loans receivable	212	1,003	0	0	8,765	9,980
Due from other governments	680	0	0	0	0	680
Inventory	276	0	0	0	130	406
Deposits and prepaid costs	4	0	0	0	0	4
Advances to other funds	15,419	0	7,010	0	0	22,429
Encumbrances	1,153	100	95	10,777	272	12,397
Land held for redevelopment	0	2,637	0	0	0	2,637
Unreserved:						
Designated for:						
Capital improvement program	5,669	0	0	36,555	0	42,224
Contingency operating	3,616	0	0	0	0	3,616
Emergencies	7,250	0	0	0	0	7,250
Revenue stabilization	5,696	0	0	0	0	5,696
Budget transition	9,543	0	0	0	0	9,543
Property management	1,600	0	0	0	0	1,600
Strategic land acquisition	4,575	0	0	0	0	4,575
Unrealized gain on investments	2,971	0	1,316	3,922	0	8,209
Compensated absences	5,455	0	0	0	0	5,455
General fund	18,433	0	0	0	0	18,433
Undesignated:						
Reported in:						
Special revenue funds	0	(178)	26,576	0	7,112	33,510
Capital projects funds	0	0	0	0	3,592	3,592
Total fund balances	82,552	3,562	34,997	51,472	22,463	195,046
Total liabilities and fund balances	\$ 90,346	7,566	48,399	73,955	30,107	250,373

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Reconciliation of Governmental Fund Balance with
Governmental Activities Net Assets
For the Year Ended June 30, 2003 (Dollars in Thousands)**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS

Amounts reported for Governmental Activities in the Statement of Net Assets
are different from those reported in the Governmental Funds above because of the following: \$ 195,046

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources
and therefore are not reported in the Governmental Funds. 502,222

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain
activities, such as insurance and central services and maintenance, to individual governmental funds. The net current
assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the
Statement of Net Assets.

Cash and investments	34,593
Restricted cash and investments	1,046
Interest receivable	412
Accounts payable	(109)
Accrued compensated absences	(132)
Accrued self-insurance claims	(3,833)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues in the statement of activities that do not provide current financial resources
are not reported as revenues in the funds. 5,059

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Long-term debt and other obligations	(104,006)
Interest payable	(1,526)
Non-current portion of compensated absences	(5,021)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 623,751

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	General	Revitalization Authority	Shoreline Regional Park Community	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 37,205	2,552	22,028	0	2,631	64,416
Licenses, permits and fees	4,433	0	0	0	818	5,251
Fines and forfeitures	630	0	0	0	0	630
Use of money and property	9,446	187	1,995	4,834	1,058	17,520
Intergovernmental revenues	4,941	0	0	5,201	2,685	12,827
Charges for services	9,524	0	0	0	4,705	14,229
Other	2,714	0	158	106	225	3,203
Total revenues	68,893	2,739	24,181	10,141	12,122	118,076
Expenditures:						
Current:						
General government	11,909	0	3,128	0	454	15,491
Public safety	30,583	0	107	0	277	30,967
Public works	6,879	0	211	0	21	7,111
Community development	3,244	420	117	0	966	4,747
Culture and recreation	12,855	0	1,604	0	3,320	17,779
Capital outlay	458	0	12	14,137	51	14,658
Debt service:						
Principal repayment	0	0	0	0	3,519	3,519
Interest and fiscal charges	0	0	0	0	3,953	3,953
Total expenditures	65,928	420	5,179	14,137	12,561	98,225
Excess (deficiency) of revenues over (under) expenditures	2,965	2,319	19,002	(3,996)	(439)	19,851
Other financing sources (uses):						
Transfers in	4,616	148	992	18,237	8,581	32,574
Transfers (out)	(4,547)	(3,883)	(11,021)	(4,952)	(9,930)	(34,333)
Total other financing sources (uses)	69	(3,735)	(10,029)	13,285	(1,349)	(1,759)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,034	(1,416)	8,973	9,289	(1,788)	18,092
Beginning fund balances	79,518	4,978	26,024	42,183	24,251	176,954
Ending fund balance	\$ 82,552	3,562	34,997	51,472	22,463	195,046

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Reconciliation of the
Net Change in Fund Balances
Total Governmental Funds with the
Statement of Activities
For the Year Ended June 30, 2003 (Dollars in Thousands)

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$18,092

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. The capital outlay and other capitalized expenditures are therefore added back to fund balance

16,674

Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$15 thousand which has already been allocated to serviced funds.)
Loss on retirements of capital assets, net of accumulated depreciation

(16,534)
(2,041)

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance
Amortization of loss on refunding is deducted from fund balance

3,519
(315)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Long-Term compensated absences
Long-Term landfill containment
Interest payable
Deferred revenue

(36)
1,370
62
2,745

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds

2,717

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$26,253

CITY OF MOUNTAIN VIEW, CALIFORNIA

**General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 39,750	39,750	37,205	(2,545)
Licenses, permits and fees	4,191	4,191	4,433	242
Fines and forfeitures	517	517	630	113
Use of money and property	9,407	9,407	9,446	39
Intergovernmental revenues	4,778	4,792	4,941	149
Charges for services	9,471	9,471	9,524	53
Other	908	959	2,714	1,755
	<u>69,022</u>	<u>69,087</u>	<u>68,893</u>	<u>(194)</u>
Amounts available for appropriation				
Expenditures:				
Current:				
General government:				
City Council	219	234	146	88
City Clerk	544	546	451	95
City Attorney	1,169	1,430	1,173	257
City Manager	1,402	1,561	1,316	245
Employee services	2,231	3,110	2,572	538
Finance and administrative services	6,652	6,950	6,251	699
Public safety:				
Fire	14,338	14,394	13,947	447
Police	17,359	17,538	16,636	902
Public works	7,690	7,878	6,879	999
Community development	3,667	3,806	3,244	562
Culture and recreation:				
Community services	9,733	9,906	8,962	944
Library services	4,075	4,143	3,893	250
Capital outlay	402	669	458	211
	<u>69,481</u>	<u>72,165</u>	<u>65,928</u>	<u>6,237</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(459)</u>	<u>(3,078)</u>	<u>2,965</u>	<u>6,043</u>
Other financing sources (uses):				
Transfers in	3,825	3,825	4,616	791
Transfers (out)	<u>(4,564)</u>	<u>(4,564)</u>	<u>(4,547)</u>	<u>17</u>
Total other financing sources (uses)	<u>(739)</u>	<u>(739)</u>	<u>69</u>	<u>808</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,198)</u>	<u>(3,817)</u>	<u>3,034</u>	<u>6,851</u>
Beginning fund balances	<u>79,518</u>	<u>79,518</u>	<u>79,518</u>	<u>0</u>
Ending fund balances	<u>\$ 78,320</u>	<u>75,701</u>	<u>82,552</u>	<u>6,851</u>

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Revitalization Authority Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 2,666	2,666	2,552	(114)
Use of money and property	246	246	187	(59)
Amounts available for appropriation	<u>2,912</u>	<u>2,912</u>	<u>2,739</u>	<u>(173)</u>
Expenditures:				
Current:				
Community development	464	574	420	154
Total expenditures	<u>464</u>	<u>574</u>	<u>420</u>	<u>154</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,448</u>	<u>2,338</u>	<u>2,319</u>	<u>(19)</u>
Other financing sources (uses):				
Transfers in	0	0	148	148
Transfers (out)	(3,979)	(3,979)	(3,883)	96
Total other financing sources (uses)	<u>(3,979)</u>	<u>(3,979)</u>	<u>(3,735)</u>	<u>244</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,531)</u>	<u>(1,641)</u>	<u>(1,416)</u>	<u>225</u>
Beginning fund balances	<u>4,978</u>	<u>4,978</u>	<u>4,978</u>	<u>0</u>
Ending fund balances	<u>\$ 3,447</u>	<u>3,337</u>	<u>3,562</u>	<u>225</u>

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Shoreline Regional Park Community Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 19,671	19,671	22,028	2,357
Use of money and property	1,755	1,755	1,995	240
Other	15	16	158	142
Amounts available for appropriation	<u>21,441</u>	<u>21,442</u>	<u>24,181</u>	<u>2,739</u>
Expenditures:				
Current:				
General government:				
City Attorney	10	44	13	31
City Manager	80	80	79	1
Finance and administrative services	3,050	3,059	3,036	23
Public safety:				
Fire	94	100	83	17
Police	26	26	24	2
Public works	274	302	211	91
Community development	159	159	117	42
Culture and recreation:				
Community services	1,824	1,898	1,604	294
Capital outlay	0	12	12	0
Total expenditures	<u>5,517</u>	<u>5,680</u>	<u>5,179</u>	<u>501</u>
Excess of revenues over expenditures	<u>15,924</u>	<u>15,762</u>	<u>19,002</u>	<u>3,240</u>
Other financing sources (uses):				
Transfers in	0	0	992	992
Transfers (out)	(11,465)	(11,571)	(11,021)	550
Total other financing sources (uses)	<u>(11,465)</u>	<u>(11,571)</u>	<u>(10,029)</u>	<u>1,542</u>
Excess of revenues and other financing sources over expenditures and other financing uses	4,459	4,191	8,973	4,782
Beginning fund balances	<u>26,024</u>	<u>26,024</u>	<u>26,024</u>	<u>0</u>
Ending fund balances	<u>\$ 30,483</u>	<u>30,215</u>	<u>34,997</u>	<u>4,782</u>

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Proprietary Funds
Statement of Net Assets
June 30, 2003 (Dollars in Thousands)**

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water	Wastewater	Solid Waste	Totals	
Current Assets:					
Cash and investments	\$ 7,848	12,235	8,870	28,953	34,593
Restricted cash and investments	0	0	0	0	1,046
Receivables:					
Accounts (net of allowances)	1,795	1,422	1,607	4,824	0
Interest	304	203	107	614	412
Total current assets	9,947	13,860	10,584	34,391	36,051
Long-Term Assets:					
Advances to other funds	15,829	4,347	235	20,411	0
Land, buildings, and equipment	29,898	24,888	353	55,139	264
Construction in progress	9,069	1,599	351	11,019	0
Accumulated depreciation	(11,919)	(16,313)	(255)	(28,487)	(194)
Total long-term assets	42,877	14,521	684	58,082	70
Total assets	52,824	28,381	11,268	92,473	36,121
Current Liabilities:					
Accounts payable and accrued costs	755	60	585	1,400	109
Accrued compensated absences	366	238	134	738	132
Accrued self-insurance costs	0	0	0	0	3,833
Refundable deposits	144	0	0	144	0
Total liabilities	1,265	298	719	2,282	4,074
Net Assets:					
Invested in capital assets	27,048	10,174	449	37,671	70
Restricted for financial assurance mechanism	0	0	247	247	0
Unrestricted	24,511	17,909	9,853	52,273	31,977
Total net assets	\$ 51,559	28,083	10,549	90,191	32,047

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
For the Year Ended June 30, 2003 (Dollars in Thousands)**

	<u>Business-type Activities-Enterprise Funds</u>				<u>All</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
Operating revenues:					
Charges for sales and services	\$ 13,286	9,207	7,510	30,003	2,530
Other	421	152	233	806	2,378
Total operating revenues	<u>13,707</u>	<u>9,359</u>	<u>7,743</u>	<u>30,809</u>	<u>4,908</u>
Operating expenses:					
Salaries and related expenses	3,104	1,754	1,517	6,375	1,009
Self-funded insurance	0	0	0	0	1,861
Cost of sales and services	5,463	5,181	4,724	15,368	0
General and administrative	2,635	2,169	1,680	6,484	2,781
Depreciation	752	496	9	1,257	15
Total operating expenses	<u>11,954</u>	<u>9,600</u>	<u>7,930</u>	<u>29,484</u>	<u>5,666</u>
Operating income (loss)	<u>1,753</u>	<u>(241)</u>	<u>(187)</u>	<u>1,325</u>	<u>(758)</u>
Nonoperating revenues (expenses):					
Interest income	341	628	508	1,477	1,950
Net nonoperating revenues	<u>341</u>	<u>628</u>	<u>508</u>	<u>1,477</u>	<u>1,950</u>
Income before transfers	<u>2,094</u>	<u>387</u>	<u>321</u>	<u>2,802</u>	<u>1,192</u>
Contributions	275	396	0	671	0
Transfers in	1,301	307	14	1,622	1,599
Transfers (out)	(658)	(498)	(232)	(1,388)	(74)
Net transfers	<u>918</u>	<u>205</u>	<u>(218)</u>	<u>905</u>	<u>1,525</u>
Change in net assets	3,012	592	103	3,707	2,717
Beginning net assets	<u>48,547</u>	<u>27,491</u>	<u>10,446</u>	<u>86,484</u>	<u>29,330</u>
Ending net assets	<u>\$ 51,559</u>	<u>28,083</u>	<u>10,549</u>	<u>90,191</u>	<u>32,047</u>

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

Proprietary Funds
 Statement of Cash Flows
 For the Year Ended June 30, 2003 (Dollars in Thousands)

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water	Wastewater	Solid Waste	Totals	
Cash flows from operating activities:					
Receipts from customers	\$ 13,463	9,138	7,617	30,218	4,908
Payments to suppliers	(6,580)	(6,024)	(5,659)	(18,263)	(2,844)
Payments to employees	(3,097)	(1,737)	(1,496)	(6,330)	(997)
Internal activity - payments to other funds	(1,400)	(1,299)	(770)	(3,469)	(18)
Claims paid	0	0	0	0	(1,997)
Other receipts (payments)	421	152	233	806	0
Net cash provided (used) by operating activities	2,807	230	(75)	2,962	(948)
Cash flows from non-capital financing activities:					
Due from other governments	0	0	1,099	1,099	0
Transfers in	1,301	307	14	1,622	1,599
Transfers (out)	(658)	(498)	(232)	(1,388)	(74)
Net cash provided (used) by noncapital financing activities	643	(191)	881	1,333	1,525
Cash flows from capital and related financing activities:					
Acquisition and construction of fixed assets, net	(2,364)	(1,188)	(69)	(3,621)	0
Advances to other funds for construction in progress	(509)	175	(78)	(412)	0
Net cash flows provided (used) by capital and related financing activities	(2,873)	(1,013)	(147)	(4,033)	0
Cash from investing activities:					
Interest received	371	664	506	1,541	1,998
Net increase (decrease) in cash and cash equivalents	948	(310)	1,165	1,803	2,575
Cash and cash equivalents at beginning of period	6,900	12,545	7,705	27,150	33,064
Cash and cash equivalents at end of period	\$ 7,848	12,235	8,870	28,953	35,639
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 1,753	(241)	(187)	1,325	(758)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	752	496	9	1,257	15
Change in assets and liabilities:					
Receivables, net	172	(69)	107	210	0
Accounts and other payables	130	44	(4)	170	(205)
Net cash provided (used) by operating activities	\$ 2,807	230	(75)	2,962	(948)
Noncash investing, capital, and financing activities:					
Contributions of capital assets, net	\$ 275	396	0	671	

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA

**Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2003 (Dollars in Thousands)**

	<u>Agency Funds</u>
Assets:	
Cash and investments (Note 3)	\$ 2,211
Restricted cash (Note 3)	<u>148</u>
Total assets	<u>\$ 2,359</u>
Liabilities:	
Accrued payroll	\$ 1,709
Sports Pavilion maintenance	25
Collections payable	<u>625</u>
Total liabilities	<u>\$ 2,359</u>

See accompanying notes to financial statements.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mountain View, California (City) was incorporated in 1902 and is a charter city, having had its first charter granted by the State of California in 1952. The City operates under the Council-Manager form of government and provides the following services: public safety (police, fire, and paramedic), public works and utilities, community development, community and leisure services, and administration and support services.

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units, which are described below, are all blended.

The Mountain View Shoreline Regional Park Community (Community) - is a separate government entity created for the purpose of developing approximately 1,550 acres of bayfront lands. The Community is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Community. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements in the Shoreline Regional Community Park Special Revenue and the Tax Allocation Bond Debt Service Funds. Separate financial statements for the Community are also included in the City's Comprehensive Annual Financial Report.

The Mountain View Revitalization Authority (Authority) - is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of an area within the City. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements in the Revitalization Authority Special Revenue Fund and the Police/Fire Building Refunding 1995 Certificates of Participation Debt Service Fund. Separate financial statements for the Authority are also included in the City's Comprehensive Annual Financial Report.

The City of Mountain View Capital Improvement Financing Authority (Financing Authority) - is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Financing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Financing Authority. All outstanding indebtedness was retired in fiscal year 2002, the Financing Authority is currently inactive. Separate financial statements for the Financing Authority are not required and therefore, not issued.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City and its component units). These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (c) development fees and permits, which are capital grants under California law. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

Major funds are defined as funds which have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total of governmental and enterprise funds. Major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. The General Fund is always a major fund, and the City may select other funds it believes should be presented as major funds. The City selected the Mountain View Revitalization Authority for presentation as a major fund because of its importance.

The City reports the following major governmental funds in the accompanying financial statements:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Revitalization Authority Fund – This fund accounts for the activities of the Authority which was created to prepare and carry out redevelopment plans for a designated area of the City.

Shoreline Regional Park Community Fund – This fund receives tax increment revenues on property within the Community. The fund accounts for the revenues and expenditures of the Community.

General Capital Projects Fund – This fund accounts for all general capital improvements on a pay-as-you-go basis for projects not funded from proprietary funds.

The City reports all its enterprise funds as major funds in the accompanying financial statements:

Water Fund – This fund accounts for the expenses related to the operation, maintenance and capital outlay required to supply, distribute and meter water, which are paid from revenues derived from user fees.

Wastewater Fund – This fund accounts for the expenses related to the operation, maintenance and capital outlays required to provide wastewater services, which are paid from revenues derived from user fees. The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Solid Waste Fund – This fund accounts for disposal services, recycling operations, other solid waste operations and certain costs related to maintenance of the closed landfill sites. Collection operations are provided by an outside private contractor. The City has an agreement with the Cities of Palo Alto and Sunnyvale for disposal transfer capacity at the Sunnyvale Materials and Recovery Transfer (SMaRT) Station.

The City also reports the following fund types:

Internal Service funds. These funds account for equipment maintenance and replacement; retirees' health and employee benefits plans; and for workers' compensation, unemployment self-insurance, general liability self-insurance, and property insurance coverage; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary funds. These Agency funds account for assets held by the City as an agent for individual, private organizations, and other governments.

D. *Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, landfill containment costs and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Those revenues susceptible to accrual are property taxes, sales taxes, utility user taxes, transient occupancy taxes, earned grant entitlements, special assessments due within the current year, certain intergovernmental revenues, and interest revenue. All other revenue items are considered to be measurable and available only when cash is received.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's business-type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. *Inventory of Materials and Supplies*

Inventories are valued at cost (first in, first out). Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Inventories of the Shoreline Golf Links Special Revenue Fund consist of merchandise held for resale to consumers. The cost is recorded as an expenditure at the time individual inventory items are sold. Reported General and Special Revenue Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. *Property Tax*

Santa Clara County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. *Compensated Absences*

Compensated absences representing vacation, sick leave pay and related costs of Governmental Fund Types that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay them.

Amounts not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets in addition to the balance reported in the Governmental Funds Balance Sheet. General, Revitalization Authority, Shoreline Regional Park Community, and Shoreline Golf Links funds are used to liquidate compensated absences. The entire vacation, sick leave pay and related costs in Proprietary Fund Types are accrued when incurred and reported as a fund liability. The City uses the termination payment method for the calculation of compensated absences.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Land Held for Redevelopment

At June 30, 2003 the Authority had two parcels held for redevelopment; one purchased in fiscal year 2000 and one purchased in fiscal year 2003, which are being held for future development projects. The parcels are accounted for at the lower of cost or net realizable value.

I. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual and/or accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The City adopts an annual budget on or before June 30 for the ensuing fiscal year for the General Fund and all Special Revenue Funds except the Deferred Assessments Fund, Grants Fund and Police Asset Forfeitures Fund.

No annual budgets are adopted for the Debt Service Funds. Repayment of the debt is authorized by the adoption of the indenture provisions for the life of the debt.

The Storm Drain Construction and Park Land Dedication Capital Projects Funds are budgeted annually. All other Capital Projects Funds are budgeted on a project basis. Such budgets are based on a project time frame, rather than a fiscal year "operating" time frame, whereby unused appropriations continue until project completion.

Budget appropriations become effective each July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund and department level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

All Governmental Fund Type annual budgets are presented on a basis consistent with the basic financial statements prepared in accordance with generally accepted accounting principles.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year and reappropriated amounts for prior-year encumbrances. City Council must approve appropriation increases to departmental budgets; however, management may transfer Council-approved budgeted amounts within fund and departmental expenditure classifications. Judgments, settlements and accrual entries are not subject to budgetary control and expenditures exceeding budget due to these items do not constitute a violation of budget policy or control. Supplemental appropriations were approved during the course of the year as needed.

B. *Encumbrance Accounting*

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are automatically reappropriated for inclusion in the following year's budget.

NOTE 3 – CASH & INVESTMENTS

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The City pools cash from all sources and all funds, except Restricted Cash and Investments with Fiscal Agents, so the pool of funds can be invested consistent with goals for safety and liquidity, while maximizing yield. Cash is pooled so individual funds can make expenditures at any time.

Investment income is allocated among funds on the basis of average daily cash and investment balances in each fund, unless there are specific legal or contractual requirements to do otherwise.

A. *Categorization of Credit Risk of Securities Instruments*

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk.

The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - The City is the registered owner of securities held in book entry form by the Bank's Trust Department. Securities instruments in this category are in the City's name and are in the possession of the Trust Department of the Bank employed by the City solely for this purpose.

Category 2 - Securities instruments and book entry form securities in this category are in the Bank's name but are held by the Bank's Trust Department in a separate account in the City's name.

Category 3 - Includes only City-owned securities instruments or book entry form securities which are not in the City's name and not held by the Bank's Trust Department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value and are categorized as follows at June 30, 2003 (dollars in thousands):

	Cash and Investments		
	Available for Operations	Restricted	Total
Category 1 Investments:			
U.S. Treasury obligations	\$ 123,580	0	123,580
U.S. Agency obligations	104,014	0	104,014
Municipal Bonds	134	0	134
Pooled Investments (non Categorized):			
Local Agency Investment Fund	42,343	1,517	43,860
Mutual funds (government securities)	0	1	1
Total investments	270,071	1,518	271,589
Cash in banks and on hand	390	1,412	1,802
Total cash and investments	<u>\$ 270,461</u>	<u>2,930</u>	<u>273,391</u>

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All these funds have been invested as permitted under the Code.

Investments in municipal bonds shown above represent the City's investment in its 2000 Yardis Court Special Assessment Debt. The balance as of June 30, 2003 is stated at amortized cost, which approximates fair value.

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements (dollars in thousands):

Cash and investments	\$268,250
Restricted cash and investments	2,782
Cash and investments of the City	271,032
Cash and investments in Fiduciary Funds (separate statement)	2,359
Total cash and investments	\$ 273,391

B. Cash Deposits

Cash in banks is classified insured (Category 1) or collateralized by the trust department or agent of the institution holding the deposit with collateral held in the City's name (Category 2), or as uncollateralized (Category 3).

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the City's cash on deposit as collateral for these deposits. Under California Law collateral is held in the City's name and places the City ahead of general creditors of the institution. At June 30, 2003, the total market value of securities held by Bank of America in the pool collateralizing all government deposits, including the City's deposits was \$1.5 billion. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The carrying amount of the City's cash deposits was \$1.8 million at June 30, 2003. At that date bank balances before reconciling items were \$2.9 million, of which \$247,000 was insured (Category 1), \$1.7 million was collateralized as discussed above (Category 2), and \$984,000 was uninsured and not collateralized (Category 3) at June 30, 2003.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Authorized City Investments*

The City's investment policy and the California Government Code allow the City to invest in the following:

- Securities of the U.S. Government or its agencies
- Mortgage-backed Securities
- Commercial Paper
- Banker's Acceptances
- Medium-term Notes issued by U.S. corporations
- Mutual Funds invested in U.S. Government securities
- Certificates of Deposit
- Municipal Bonds issued by the City or any of its component units
- California Local Agency Investment Fund

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 City reports its investment in LAIF at the fair value amount provided by LAIF. 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.

Cash and investments with an original maturity of three months or less are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE

At June 30, 2003, the City's notes and loans receivable, by loan type, was comprised of the following (dollars in thousands):

CDBG Rehabilitation	\$ 374
CDBG Blimp	21
Support Network for Women	55
Ginzton Terrace	517
Latham Street Apartments	1,941
Project Match	132
Shorebreeze Apartments	977
Central Park Apartments	1,949
Stoney Pine Charities	124
HomeSafe	100
Pacific Autism Center for Education	20
Charities Housing Development Corporation Land Lease	3,558
Employee Housing	212
Deferred Assessments	4
Total	\$ 9,984

A. Housing Loans

The City engages in programs designed to encourage construction or improvement of housing for persons with low- to moderate-income or other such projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. Since the City does not expect to collect these loans in the near term, they have been offset by reserved fund balance in the fund financial statements.

CDBG Rehabilitation

The City administers a housing rehabilitation loan program initially funded with Community Development Block Grants (CDBG) funds. Under this program, individuals with incomes below a stated level are eligible to receive low interest loans for rehabilitation work on their home. These loans are secured by deeds of trust, which may be subordinated with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred to maturity or a combination of both. There are thirteen such loans totaling \$374,000 as of June 30, 2003.

CDBG Blimp

Blimp loans are rehabilitation loans which require monthly payments. There is one Blimp loan outstanding totaling \$21,000 as of June 30, 2003.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE (Continued)

B. *Support Network for Women*

On December 23, 1980 the City loaned \$55,000 to Mid-Peninsula Support Network for the acquisition and rehabilitation of a residential structure for the purpose of providing temporary shelter for battered parents and their children. The loan was funded by CDBG funds. The loan becomes payable upon demand by the City upon failure to comply with the terms of the loan agreement. The loan carries a 12 percent annual interest rate and shall accrue beginning 30 days following the date of demand. The loan is collateralized by a first deed of trust.

C. *Ginzton Terrace*

On December 11, 1991 the City loaned \$380,000 to the Mid-Peninsula Housing Coalition for predevelopment and land acquisition costs related to the development of a 107 unit affordable senior housing complex located at 375 Oaktree Drive. On May 1, 1993 the City amended the loan agreement and loaned Mid-Peninsula Housing Coalition an additional \$215,000 for the purpose of paying park and recreation fees required prior to occupancy of the land. On February 12, 1996 excess funds not used were returned to the City in the amount of \$78,000. The loan balance of \$517,000 was funded by CDBG funds. The loan is deferred until June 1, 2013, at which time the loan balance and accrued interest will become due and payable, at six percent simple interest. The loan is collateralized by a first deed of trust.

D. *Latham Street Apartments*

On August 30, 1995 the City and the Authority loaned \$2.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 75 unit apartment complex at 2230 Latham Street to provide affordable housing for very low- to moderate-income families. The loan was funded by \$992,000 of Authority Housing Set-Aside Funds, \$688,000 of CDBG funds and \$387,000 of Home Investment Partnership Act (HOME) grant funds. The various components of the loan are to be repaid over a 20 to 24 year period at three percent annual simple interest. The loan is collateralized by a first deed of trust.

E. *Project Match*

On May 1, 1997 the City loaned \$132,000 to Project Match for the acquisition of the house located at 1675 South Wolfe Road, Sunnyvale, to provide affordable housing for low-income seniors. The loan was funded by HOME grant funds. The loan is to be repaid over a 30 year period at three percent annual simple interest. The loan is collateralized by a second deed of trust.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE (Continued)

F. *Shorebreeze Apartments*

On June 1, 1997 the City loaned \$1.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 120 unit apartment complex at 460 Shoreline Boulevard to provide affordable housing for very low- to moderate income families. The loan was funded by \$320,000 of HOME grant funds and \$748,000 of CDBG funds. The various components of the loan are to be repaid over a 30 year period at three percent simple interest. The loan is collateralized by a second deed of trust.

G. *Central Park Apartments*

On July 1, 1998 the City and the Authority loaned \$2.2 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 149 unit apartment complex known as Central Park Apartments at 90 Sierra Vista Avenue to be used to provide housing for seniors of very low to low income. The entire project was funded by 3 loans: \$388,000 from Authority Housing Set-Aside funds to be repaid over 9 years, commencing in fiscal year 1999 and bearing three percent annual interest; \$1.2 million of CDBG funds to be repaid over 36 years commencing in fiscal year 2013 and bearing three percent annual interest; and \$612,000 from HOME grant funds to be repaid over 21 years commencing in fiscal year 2005 and bearing three percent annual interest.

H. *Stoney Pine Charities*

On August 16, 2000 the City loaned \$124,000 to the Stoney Pine Charities Housing Corporation for the construction of a 23 unit apartment complex at 212 North Mathilda Avenue and 271-283 West California Avenue, Sunnyvale, to provide affordable housing for very low-income persons with developmental disabilities. The loan was funded by \$9,000 of CDBG funds and \$115,000 of HOME grant funds. The loans bear simple interest at three percent, but repayment of interest and principal is deferred for 40 years. The loans and accumulated interest remain deferred unless during the term of the loan, or after 40 years, the apartments no longer meet the affordability test for very low-income persons with developmental disabilities, or if the property is sold or transferred. The loan is collateralized by a second deed of trust.

I. *HomeSafe*

On February 21, 2001 the City loaned \$100,000 to the HomeSafe Santa Clara L.P. for the construction of a 25-unit apartment complex at 611 El Camino Real, Santa Clara, to provide affordable housing for women and children who are victims of domestic violence. The loan was funded by \$100,000 of HOME grant funds. The loan bears simple interest at three percent, but repayment of interest and principal is deferred for 55 years. The loan and accumulated interest are deferred for 55 years unless during the term of the loan, the apartments no longer meet the affordability test for low and very low-income victims of domestic violence, or if the property is sold or transferred. The loan is collateralized by a first deed of trust.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE (Continued)

J. Pacific Autism Center for Education

On October 15, 2001, the City loaned \$20,000 to the Pacific Autism Center for Education for the purchase of a single family residence located at 854 Gary Avenue, Sunnyvale, to provide a home for very low- to low-income developmentally disabled persons. The loan was funded by \$20,000 of CDBG funds. The loan bears interest at six percent, but repayment of interest and principal is deferred unless the residence no longer meets the affordability test for very low- to low-income developmentally disabled persons, or if the property is sold or transferred. The loan is secured by a fourth deed of trust.

K. Charities Housing Development Corporation Land Lease

On April 25, 2002 the City approved loaning up to \$3.2 million of CDBG funds and HOME funds to Charities Housing Development Corporation for the prepayment of a 65 year lease of approximately 1.688 acres of unimproved land. The City approved loaning up to \$4.5 million of CDBG funds and HOME grant funds to Charities Housing Development Corporation for predevelopment costs. The land must be used to provide affordable housing for low and very-low income persons. The loan is provided at zero percent interest with repayment deferred until the project is constructed and at least 90 percent occupied. As of June 30, 2003 the balance loaned is \$3.6 million, of which \$2.5 million consists of CDBG funds and \$1.1 million consists of HOME grant funds.

L. Employee Housing

On August 14, 2002, the City approved loaning \$216,000 to one of its employees. The loan is secured by a first deed of trust and has a term of 30 years with interest at approximate three percent. Principal and interest payments are due semimonthly. The employee must repay any outstanding balance of the loan within one year of ending employment with the City. As of June 30, 2003 the loan balance was \$212,000.

M. Deferred Assessments

Deferred assessments are loans for special assessment improvements made to property owners who qualify under the City's deferred assessment program. As of June 30, 2003, \$4,000 was owed the City under this program.

NOTE 5 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund. Less often, transfers may be made to open or close a fund.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2003 were as follows (dollars in thousands):

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
General Fund	Revitalization Authority	\$ 110 A
	Shoreline Regional Park Community	1,384 B
	General Capital Projects	1,394 C
	Non-Major Governmental	1,652 F
	Water	75 D
Revitalization Authority	General Capital Projects	148 C
	General Capital Projects	992 C
Shoreline Regional Park Community	General Fund	2,494 F
	Revitalization Authority	3,048 F
General Capital Projects	Shoreline Regional Park Community	4,481 F
	Non-Major Governmental	7,565 F
Non-Major Governmental	Water	450 F
	Wastewater	200 F
	General Fund	1,013 F
	Revitalization Authority	724 F
	Shoreline Regional Park Community	5,096 F
Water	General Capital Projects	1,200 C
	Non-Major Governmental	548 C
	General Capital Projects	897 C
	Wastewater	204 E
	Solid Waste	126 E
Wastewater	Internal Service	74 F
	General Capital Projects	307 C
Solid Waste	General Capital Projects	14 C
	General Fund	1,040 F
Internal Service	Revitalization Authority	1 F
	Shoreline Regional Park Community	60 F
	Non-Major Governmental	165 F
	Water	133 F
	Wastewater	94 F
	Solid Waste	106 F
		<u>\$ 35,795</u>
Total Interfund Transfers		

The reasons for these transfers are set forth below:

- A To fund development activities.
- B To fund debt service payments.
- C To refund remaining balances on completed capital improvement projects.
- D Contribution to Geographic Information System and environmental management programs.
- E Contribution to utility billing and management activities paid for by the Water fund.
- F Recurring transfers

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advances

The Funds below had made advances, which were not expected to be repaid within the next year. These long-term interfund advances are expected to be repaid out of future revenues. The balances outstanding as of June 30, 2003 were as follows (dollars in thousands):

Fund Making Advance	Fund Receiving Advance	Amount of Advance
General Fund	Revitalization Authority Special Revenue Fund	\$ 2,086
	Shoreline Regional Park Community Special Revenue Fund	13,333
Special Revenue Fund:		
Shoreline Regional Park Community	Shoreline Golf Links Special Revenue Fund	5,100
Shoreline Regional Park Community	Revitalization Authority Special Revenue Fund	1,910
Enterprise Funds:	Capital Projects Fund:	
Water Enterprise Fund	General Capital Projects	15,829
Wastewater Enterprise Fund	General Capital Projects	4,347
Solid Waste Enterprise Fund	General Capital Projects	235
		<u>\$ 42,840</u>

Revitalization Authority advance of \$1.7 million from the General Fund will be repaid at a reamortized interest rate of six percent over the sixteen-year remaining life of the Authority. A payment of \$61,000 was made in fiscal year 2003. The remaining advance of \$413,000 will be paid in full upon the sale of the property located at 253-255 Franklin Street.

The advance of \$1.9 million from the Community is an interest-deferred advance for the purchase of property. The advance, plus interest at a rate of six percent, will be repaid from future revenues realized when the property is developed or sold.

Shoreline Regional Park Community advance of \$13.3 million is being repaid over a period of 28 years at ten percent interest in equal annual installments, which began in fiscal 1989. During fiscal year 2003 a payment of \$510,000 was made.

Shoreline Golf Links advance of \$5.1 million for the acquisition of the golf course will be repaid as resources become available in the fund. Interest terms have not been determined.

General Capital Projects advances totaling \$20.4 million are part of the City's capital projects budgeting and funding process, whereby resources from Enterprise Funds are advanced to the General Capital Projects Fund where the project will be completed and the costs incurred.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

C. Internal Balances

Internal balances are presented only in the government-wide financial statements. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 6 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of two years.

Depreciation is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings	25 to 50 years
Improvements	5 to 50 years
Machinery and equipment	3 to 10 years
Parking facilities	40 years
Traffic signals	20 years
Street lights	50 years
Bridges and culverts	60 years
Sidewalks, curbs and gutters	40 years
Streets and roads	40 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 6 – CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital assets at June 30, 2003 comprise (dollars in thousands):

	Balance at June 30, 2002 (including retroactive additions)	Additions	Retirements	Transfers	Balance at June 30, 2003
<i>Governmental activities</i>					
Capital assets not being depreciated:					
Land	\$ 69,852	0	0	0	69,852
Construction in progress	66,358	15,198	0	(14,326)	67,230
Total capital assets not being depreciated	<u>136,210</u>	<u>15,198</u>	<u>0</u>	<u>(14,326)</u>	<u>137,082</u>
Capital assets being depreciated:					
Buildings	96,169	0	(511)	1,965	97,623
Improvements other than buildings	48,079	0	(1,577)	9,071	55,573
Machinery and equipment	16,665	1,225	(1,016)	613	17,487
Parking facilities	4,140	0	0	0	4,140
Traffic signals	5,255	3	0	0	5,258
Street lights	7,445	26	0	0	7,471
Bridges and culverts	7,925	0	0	0	7,925
Sidewalks, curbs and gutters	102,155	107	0	1,018	103,280
Streets and roads	229,902	115	0	1,659	231,676
Total capital assets being depreciated	<u>517,735</u>	<u>1,476</u>	<u>(3,104)</u>	<u>14,326</u>	<u>530,433</u>
Less accumulated depreciation for:					
Buildings	(27,074)	(2,572)	206	0	(29,440)
Improvements other than buildings	(13,223)	(3,763)	0	0	(16,986)
Machinery and equipment	(11,754)	(1,682)	857	0	(12,579)
Parking facilities	(1,133)	(99)	0	0	(1,232)
Traffic signals	(1,832)	(125)	0	0	(1,957)
Street lights	(4,565)	(178)	0	0	(4,743)
Bridges and culverts	(1,636)	(189)	0	0	(1,825)
Sidewalks, curbs and gutters	(27,827)	(2,446)	0	0	(30,273)
Streets and roads	(60,763)	(5,495)	0	0	(66,258)
Total accumulated depreciation	<u>(149,807)</u>	<u>(16,549)</u>	<u>1,063</u>	<u>0</u>	<u>(165,293)</u>
Net capital assets being depreciated	<u>367,928</u>	<u>(15,073)</u>	<u>(2,041)</u>	<u>14,326</u>	<u>365,140</u>
Governmental activity capital assets, net	<u>\$ 504,138</u>	<u>125</u>	<u>(2,041)</u>	<u>0</u>	<u>502,222</u>

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at June 30, 2002	Additions	Retirements	Transfers	Balance at June 30, 2003
<i>Business-type activities</i>					
Capital assets, not being depreciated:					
Land	\$ 220	0	0	0	220
Construction in progress	9,075	3,574	0	(1,630)	11,019
Total capital assets not being depreciated	9,295	3,574	0	(1,630)	11,239
Capital assets, being depreciated:					
Buildings	8,927	0	0	0	8,927
Improvements other than buildings	42,075	671	0	1,630	44,376
Machinery and equipment	1,574	47	(5)	0	1,616
Total capital assets being depreciated	52,576	718	(5)	1,630	54,919
Less accumulated depreciation for:					
Buildings	(7,610)	(171)	0	0	(7,781)
Improvements other than buildings	(18,262)	(1,036)	0	0	(19,298)
Machinery and equipment	(1,363)	(50)	5	0	(1,408)
Total accumulated depreciation	(27,235)	(1,257)	5	0	(28,487)
Net capital assets being depreciated	25,341	(539)	0	1,630	26,432
Business-type activity capital assets, net	\$ 34,636	3,035	0	0	37,671

Under GASB Statement No. 34 the City is allowed four years to record its infrastructure. During fiscal year 2003 the City continued to inventory its infrastructure capital assets and determined that its parking facilities network with a net book value of \$3.0 million should be added to the City's Capital Assets.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 6 – CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function were as follows (dollars in thousands):

<i>Governmental Activities:</i>	
General government	\$ 1,708
Public safety	1,208
Public works	7,924
Community development	452
Culture and recreation	5,257
	<u>\$ 16,549</u>
 <i>Business-type Activities:</i>	
Water	\$ 752
Wastewater	496
Solid Waste	9
	<u>\$ 1,257</u>

C. Construction Commitments

The City has active construction projects at June 30, 2003. The projects include buildings and building improvements, improvements to parks, trails and other facilities, street, sidewalks and traffic signal improvements, and water system improvements. Commitments with contractors for construction at June 30 are as follows (dollars in thousands):

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Buildings and building improvements	\$ 353	1,602
Improvements to other facilities	8,206	445
Streets, sidewalks, and traffic signal improvements	3,309	3,929
Water system improvements	1,316	620
Wastewater system improvements	378	563
Total	<u>\$ 13,562</u>	<u>7,159</u>

All commitments are funded from general, special revenue fund, and enterprise fund revenues transferred to the various projects in the capital projects fund.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS

A. Governmental Long-Term Obligations

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions are summarized below and discussed in detail thereafter.

Long-term obligations as of June 30, 2003 follow (dollars in thousands):

	Original Issue Amount	Balance June 30, 2002	Retirements	Balance June 30, 2003	Due Within One Year
Governmental Activity Debt:					
Tax Allocation Bonds:					
Shoreline Regional Park Community					
1993 Tax Allocation Bonds					
3.1% to 5.75%, due 2018	\$ 25,465	20,415	(760)	19,655	795
1996 Tax Allocation Bonds					
4.0% to 5.6%, due 2021	21,750	19,285	(565)	18,720	590
2001 Tax Allocation Bonds					
3.5% to 5.25%, due 2016	17,520	17,520	(870)	16,650	915
Less deferred amount on refunding	(2,419)	(2,258)	161	(2,097)	0
Total Tax Allocation Bonds	62,316	54,962	(2,034)	52,928	2,300
Certificates of Participation:					
Revitalization Authority					
1995 Refunding					
4.0% to 6.0%, due 2016	9,175	7,485	(340)	7,145	355
City					
2001 Refunding					
3.5% to 4.75%, due 2015	10,720	10,720	(590)	10,130	620
Less deferred amount on refunding	(2,151)	(1,997)	154	(1,843)	0
Total Certificates of Participation	17,744	16,208	(776)	15,432	975

(Continued)

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

	Original Issue Amount	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003	Due Within One Year
Special Assessment Debt with City Commitment:						
1986 California Street Underground 5.25%-8.2%, due 09/01/06	592	245	0	(45)	200	40
1986 Plymouth 5.25%-8.2%, due 09/01/06	1,133	480	0	(80)	400	90
1986 Charleston-Joaquin-Huff Improvements 6.0%-8.2%, due 09/02/07	2,690	1,080	0	(185)	895	200
1990 Alta Avenue 6.5%-8.0%, due 09/02/06	845	405	0	(70)	335	75
1996 Centre-Church-El Ranchito-Bay 4.10%-6.375%, due 09/02/22	561	365	0	(10)	355	10
2000 Yardis Court 7.0%, due 09/02/20	195	138	0	(4)	134	4
Total Special Assessment Debt with City Commitment	<u>6,016</u>	<u>2,713</u>	<u>0</u>	<u>(394)</u>	<u>2,319</u>	<u>419</u>
Compensated Absences		<u>5,680</u>	<u>901</u>	<u>(809)</u>	<u>5,772</u>	<u>619</u>
Landfill Containment		<u>34,865</u>	<u>0</u>	<u>(1,538)</u>	<u>33,327</u>	
Total Governmental Activity Debt	<u>\$ 86,076</u>	<u>114,428</u>	<u>901</u>	<u>(5,551)</u>	<u>109,778</u>	<u>4,313</u>
Business-Type Activities:						
Compensated Absences		<u>\$ 693</u>	<u>64</u>	<u>(19)</u>	<u>738</u>	<u>0</u>

B. Descriptions of Long-Term Obligations

1993 Tax Allocation Bonds Shoreline Regional Park Community – On September 8, 1993 the Community issued bonds in the amount of \$25.5 million to provide financing for certain landfill closure projects. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

1995 Refunding Bonds Revitalization Authority Certificates of Participation – In fiscal 1996, the City transferred ownership of the Police/Fire Building to the Authority and then entered into a 20-year lease for such property with the Authority. Simultaneously, the Authority entered into an indebtedness agreement, whereby the Authority pledges tax increment revenue in amounts equal to the lease payments. The City has assigned the indebtedness payments to a trustee for the benefit of the owners of the 1995 Certificates of Participation (COPs). The indebtedness payments are scheduled to be sufficient in both time and amount, to pay the principal and interest on the 1995 COPs when due. To the extent the indebtedness payments are not sufficient to pay the principal and interest on the 1995 COPs, the City is obligated to make lease payments sufficient to satisfy the principal and interest payments on the 1995 COPs when due. When the 1995 COPs are repaid and the lease expires, ownership of the property will revert back to the City.

1996 Tax Allocation Bonds Shoreline Regional Park Community – On August 15, 1996 the Community issued bonds in the amount of \$21.8 million to provide financing for land purchases, including road, water, sewer, and other public improvements within the Community. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

2001 Tax Allocation Bonds Shoreline Regional Park Community - On July 24, 2001, the Community issued \$17.5 million of Tax Allocation Refunding Bonds, 2001 Series A, to refund a portion of the Community's 1992 Tax Allocation Bonds. At June 30, 2003 the 1992 Tax Allocation Bonds outstanding with a final maturity value of \$5,060,000 are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 Bonds by \$2.4 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded Bonds. The net present value of the savings, less the City's cash payment resulted in an economic gain of \$1.9 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

2001 Refunding Certificates of Participation - On July 24, 2001, the City issued \$10.7 million of 2001 Refunding Certificates of Participation to refund a portion of the City's obligations under a 1992 Lease Agreement. The Financing Authority's 1992 Revenue Bonds were used to purchase the obligations of the City under the 1992 Lease Agreement. At June 30, 2003 the 1992 Revenue Bonds outstanding with a final maturity value of \$5.3 million are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 COPs by \$2.2 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded COPs. The 2001 Refunding COPs are collateralized by revenue received from the City by the Trustee under the City Hall/Community Theater complex lease agreement. The net present value of the savings, less the City's cash payment resulted in an economic gain of \$1.8 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from general revenues of the City.

Special Assessment Debt with City Commitment - Special assessment districts exist in the City to provide improvements to properties located within those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and a deferred revenue at the time the related debt is issued, and is reduced as assessments are collected.

The City is committed to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any property owners of these districts. The City accounts for resources available to pay special assessment debt in its Special Assessment Debt Service Fund.

These Special Assessment Bonds were issued at various times to provide financing for electrical and community service facilities, street and utility improvements, water and sewer connections, storm drain improvements, and other related projects.

Principal payments are payable annually, and interest payments semiannually.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

C. Debt Service Requirements (dollars in thousands):

Annual debt service requirements to maturity follows (dollars in thousands):

<u>For the Year Ending June 30</u>	Governmental Activities	
	Principal	Interest
2004	\$ 3,694	3,770
2005	3,869	3,594
2006	4,060	3,398
2007	4,255	3,196
2008	3,915	2,998
2009-2013	22,617	11,862
2014-2018	24,673	5,231
2019-2022	7,536	697
Total	\$ 74,619	34,746

Reconciliation of long-term debt principal:

Principal requirement as reported above	\$ 74,619
Less: deferred amount on refunding	(3,940)
Total long-term debt principal	\$ 70,679

There are a number of limitations, covenants and restrictions contained in the various bond indentures. The City is in compliance with all material limitations, covenants and restrictions.

D. Landfill Containment

The City is responsible for managing and controlling methane gas and containment of leachate at three former City-operated landfill sites.

As of June 30, 2003, City engineers and professional engineering consultants have estimated that the maximum total cost for potential pollution containment and control at such landfill sites, excluding post-closure care costs, is approximately \$24.1 million. As the landfill-related projects were funded by the Community in fiscal 1994, the liability has been transferred to the City's General Capital Projects Fund. As of June 30, 2003, the entire \$24.1 million obligation has been spent on landfill closure.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

Pursuant to a Postclosure Maintenance Plan filed with the State, the City is obligated for additional postclosure care costs for two of its landfill sites in the amount of \$1.4 million annually for a period of thirty (30) years. The remaining amount of this obligation as of June 30, 2003 is approximately \$33.3 million. Annual revenues from the Solid Waste Enterprise Fund will fund the postclosure care costs. In accordance with a State-mandated Financial Assurance Mechanism (FAM), the City has pledged future Solid Waste Enterprise Fund revenues in the amount of \$1.4 million per year for postclosure care costs on these two landfill sites. The third landfill site does not require a FAM to be established for the closure of the site, and, therefore, is excluded from the obligation. The estimated costs of postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

E. Debt without City Commitment

As part of the City's program to provide affordable rental housing for low and moderate income households, it assisted the developer of the Villa-Mariposa housing project in the issuance of multifamily housing revenue bonds. These bonds are secured by a First Deed of Trust on the project and by municipal insurance, and are payable solely out of revenues from the project. Neither the faith and credit nor the taxing power of the City, the State, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. The outstanding balance due on these bonds at June 30, 2003 was \$18.3 million.

NOTE 8 – EMPLOYEE RETIREMENT PLAN

A. Plan Description

All permanent employees are required to participate in the Public Employees' Retirement Fund (Fund) of the State's Public Employees Retirement System (PERS). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state government agencies within California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age, and highest year of compensation. Employees vest after five years of service and normally receive retirement benefits at age 50 for public safety employees and age 55 for miscellaneous employees (nonsafety employees).

Benefit provisions and all other requirements are established by State statute and City resolution. Copies of PERS' annual financial report may be obtained from their Executive Office-400 P Street, Sacramento, California, 95814.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 8 – EMPLOYEE RETIREMENT PLAN (Continued)

B. Funding Policy

Participants are required to contribute nine percent of covered payroll for public safety personnel and seven percent for miscellaneous employees. The City is required to contribute at an actuarially determined rate. The contribution requirements of the plan members and the City are established and may be amended by PERS.

C. Actuarially Determined Contribution Requirements and Contributions

For fiscal year 2003, the City's annual pension costs for PERS was equal to the City's required and actual contributions. The required contributions were determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 8.25 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility of the market value of investments over a four-year period (smoothed market value). Investment gains and losses are accumulated as they are realized and 10 percent of the net balance is amortized annually. The PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends on June 30, 2016.

D. Trend Information

Three-year historical trend information is presented below (dollars in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	\$ 512	100%	---
2002	2,420	100%	---
2003	2,722	100%	---

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 8 – EMPLOYEE RETIREMENT PLAN (Continued)

E. Funding Progress

The following schedule of funding progress is presented for the most recent actuarial valuations as of June 30, 2001 (dollars in thousands):

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1999	\$ 171,139	199,085	(27,946)	116.3%	37,204	(75.116%)
2000	202,491	224,390	(21,899)	110.8%	39,739	(55.107%)
2001	220,183	231,421	(11,238)	105.1%	41,427	(27.127%)

NOTE 9 – POST-EMPLOYMENT BENEFITS

By Council resolution, the City provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. Employees who have worked for the City for a minimum of 5 to 10 years (depending on the labor group) if hired prior to July 1, 1989 and 5 to 15 years (depending on the labor group) if hired subsequent to July 1, 1989, are eligible for this benefit. As of June 30, 2003, approximately 211 participants were eligible to receive benefits. Expenses are recognized as insurance claims or premiums are paid. For fiscal 2003, expenses totaled \$733,000.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of \$500,000 for general liability claims, \$500,000 for workers' compensation claims with statutory excess insurance and actual costs incurred for unemployment benefits.

For general liability claims, the City has excess liability coverage through the Authority for California Cities Excess Liabilities (ACCEL) to cover the risk of loss for claims in excess of \$500,000 per incident. ACCEL is a joint powers authority of medium-sized California municipalities which pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL coverage consists of an excess insurance policy purchased for a limit of \$19.5 million per occurrence, with an aggregate limit of \$19.5 million.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 10 – RISK MANAGEMENT (Continued)

Charges to the General Fund and other insured funds are determined from an analysis of self-insured claims costs and reserve requirements and are recorded as operating expenditures or expenses of such funds and operating revenues of the various Internal Service Funds.

Estimated liabilities are recorded for claims in cases where such amounts are reasonably determinable and where the liability is likely for claims which are incurred through the end of the fiscal year but not reported until after that date. The estimated liability is determined based upon historical claims data and independently determined estimates of the amounts needed to pay prior and current year claims.

Changes in accrued self-insurance claims for the fiscal year ended June 30 were as follows (dollars in thousands):

	2003	2002
Beginning Balance	\$ 3,969	3,551
Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR)	965	1,492
Claims paid	(1,101)	(1,074)
Ending Balance	\$ 3,833	3,969

The City has not significantly reduced its insurance coverage from prior year. Furthermore, settlements have not exceeded insurance coverage for the past three fiscal years.

NOTE 11 - NET ASSETS AND FUND BALANCES

A. Net Assets

Net assets is the excess of all the City’s assets over all its liabilities, regardless of fund. Net assets are divided into three captions on the Statement of Net Assets. These captions apply only to net assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of net assets which is represented by the current net book value of the City’s capital assets, less the outstanding balance of any debt issued to finance these assets.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 11 - NET ASSETS AND FUND BALANCES (Continued)

Restricted describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of net assets which is not restricted as to use.

B. *Fund Balances, Reserves and Designations*

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Fund balances/retained earnings consist of reserved and unreserved amounts. Reserved fund balances/retained earnings represent that portion of fund balance/retained earnings which are not available for appropriation or are legally segregated for a specific future use. The remaining portion is unreserved fund balance/retained earnings.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change.

Accumulated retained earnings of the Internal Service Funds are in accordance with City reserve policies.

C. *Fund Equity Deficit*

The Shoreline Golf Links Special Revenue Fund had deficit of \$3.0 million, which is expected to be eliminated from future revenues.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. *Litigation*

The City is a defendant in several lawsuits and other matters arising in the normal course of operations. The City's management and legal counsel are of the opinion that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial position of the City.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

B. Grant Programs

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2003 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

C. City of Palo Alto Regional Water Quality Control Plant

The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant. The agreement provides that the City will purchase capacity for 50 years. The agreement also provides for Palo Alto to set service charges annually with quarterly billings based on estimated use. A reconciliation of actual to estimated charges is completed annually. For fiscal 2003, these costs totaled \$5.2 million.

D. Sunnyvale Material Recovery and Transfer (SMaRT) Station

During fiscal 1993, the City entered into a Memorandum of Understanding (MOU) with the City of Sunnyvale to obtain solid waste and recycling services at the Sunnyvale Materials Recovery and Transfer (SMaRT) Station. The MOU provides that the City has capacity share of 23.45 percent of this facility for 30 years. Annual service charges are determined based on actual per-ton charges. For fiscal 2003, these costs totaled \$4.7 million.

NOTE 13 – LEASING ARRANGEMENTS

A. Shoreline Amphitheatre Partners

In fiscal 1986, the City and the Community, as lessors, entered into a 35-year operating lease with the Shoreline Amphitheatre Partners (SAP), an entity not affiliated with the City or the Community. This lease provides for the rental of City land underneath the Shoreline Amphitheatre. The lease payments include a minimum lease payment and a portion equal to a percentage of gross receipts, including concession revenues, of Shoreline Amphitheatre operations. A substantial portion of the future minimum lease payments was paid in advance by SAP in fiscal 1997 as permitted in the lease agreement.

The lease payments based on gross receipts totaled approximately \$957,000 in fiscal 2003.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 13 – LEASING ARRANGEMENTS (Continued)

B. Goldman Sachs, Inc.

In fiscal 2001, SGI assigned the two lease agreements described below to Goldman Sachs, Inc., an entity not affiliated with SGI or the City.

In fiscal 1995, the City, as lessor, entered into a 55-year lease with Silicon Graphics, Inc. (SGI), an entity not affiliated with the City. This lease provides for the rental of City land located within the Community upon which SGI has constructed a 500,000 square foot corporate campus.

In fiscal 1997, the City, as lessor, entered into another 55-year lease with SGI. This lease provides for the rental of City land located within the Community upon which SGI has constructed a second 556,000 square foot facility.

The future minimum lease payments due to the City under the aforementioned leases follow (dollars in thousands):

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2004	\$ 4,091
2005	4,065
2006	3,658
2007	3,450
2008	3,233
Thereafter	<u>155,784</u>
Total	<u>\$ 174,282</u>

NOTE 14 – SUBSEQUENT EVENT

In September 2003 the City caused to be issued the 2003 Certificates of Participation (Refunding and Capital Projects) in an aggregate principal amount of \$16.9 million to refund the 1995 Refunding Certificates of Participation and to finance the construction of a new parking facility. Simultaneously, the Authority entered into an Indebtedness Agreement with the City, whereby in exchange for the bond proceeds to finance the construction of the new parking facility in the redevelopment area, the Authority pledged tax increment revenue in amounts equal to the debt service payments on the 2003 COPs.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

**CITY OF MOUNTAIN VIEW
Water Revenue Bonds
(Graham Reservoir Project)
2004 Series A**

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF MOUNTAIN VIEW (the "City") in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered under an Indenture of Trust, dated as of September 1, 2004 (the "Indenture") by and between the City and U.S. Bank National Association, as trustee for the Bonds (the "Trustee"). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" means the City or any entity selected and retained by the City as Dissemination Agent, and which has filed with the City and the Trustee a written acceptance of such designation. The initial Dissemination Agent is the City.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available from the Securities and Exchange Commission on the Internet at www.sec.gov.

"*Official Statement*" means the Official Statement relating to the Bonds.

"*Participating Underwriter*" means Stone & Youngberg LLC, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" means seven months after the end of the City's fiscal year, (currently January 31 of each year based on the City's June 30 fiscal year end).

"*Repository*" means each National Repository and each State Repository.

“*Rule*” means 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*” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Report Date, beginning on January 31, 2005, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee. Not later than 15 business days before the Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. The audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report Date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City under this Disclosure Certificate.

(b) If the City is unable to provide to the Repositories an Annual Report by the Report Date, the City shall, by written direction, cause the Dissemination Agent to provide to each Repository and to the Municipal Securities Rulemaking Board and each State Repository (with a copy to the Trustee and the Bond Insurer) a notice, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

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

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

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

(a) Audited Financial Statements of the City, which shall include financial statements of the City’s municipal water system (the “Water System”) prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Report Date, 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) Unless otherwise provided in the audited financial statements filed on or prior to the Report Date, financial information and operating data with respect to the City and the Water System for the preceding fiscal year, in the form of updates to the following tables contained in the Official Statement:

- (i) Table 2, entitled “Historical Wholesale Water Cost Increases.”
- (ii) Table 5, entitled “Summary of Water Accounts by User Type.”
- (iii) Table 6, entitled “Top Ten Customers by Water Volume Sold.”
- (iv) Table 7, entitled “Water Rate Increases.”

(v) A summary of the debt service coverage ratio for the Bonds consisting of a statement of Gross Revenues, Maintenance and Operation Costs and resulting Net Revenues, debt service on the Bonds and any Parity Bonds, and the resulting debt service coverage ratio.

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

(d) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of Bond holders.
- (viii) Contingent or uncheduled redemption of Bonds.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, by written direction, cause the Dissemination Agent to promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee, together with written direction to the Trustee whether or not to notify the Bond holders of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Bond holders. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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 Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions of this Section, the first annual financial information filed pursuant to this Disclosure Certificate containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which

the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

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

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective 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 all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, but shall terminate upon the termination of the City's obligations under this Certificate pursuant to Section 6 of this Certificate.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City: City of Mountain View, California
500 Castro Street
Mountain View, California 94039-7540
Attention: Finance and Administrative Services
Director

To the Dissemination Agent: City of Mountain View, California
500 Castro Street
Mountain View, California 94039-7540
Attention: Finance and Administrative Services
Director

To the Trustee: U.S. Bank National Association
One California Street, Suite 2550
San Francisco, California 94111
Attention: Corporate Trust Department
Fax: (415) 273-4590

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: September 29, 2004

CITY OF MOUNTAIN VIEW

By _____
Finance and Administrative Services
Director

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Mountain View

Name of Issue: \$9,700,000 City of Mountain View Water Revenue Bonds (Graham Reservoir Project) 2004 Series A

Date of Issuance: September 29, 2004

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated as of September 29, 2004, executed by the City of Mountain View. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF MOUNTAIN VIEW

By: _____

Title: _____

cc: Trustee

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APPENDIX D

GENERAL INFORMATION REGARDING THE CITY OF MOUNTAIN VIEW

The information in this section of the Official Statement is presented as general background data. The Bonds are payable solely from the revenues of the City's Water Fund and other sources as described in the Official Statement. The taxing power of the City, the State of California, or any political subdivision thereof is not pledged to the payment of the Bonds.

Introduction

The City of Mountain View (the "City"), which occupies about 12 square miles, is located approximately 36 miles southeast of the City of San Francisco and 15 miles northwest of the City of San Jose. The climate is mild, with averages temperatures during the summer months in the mid-seventies and during the winter months in the high fifties.

Government

The City was incorporated as a general law city in 1902 and became a chartered city in 1952. The City is governed by a seven-member elected City Council and is administered under the Council-Manager form of government. Members of the of the City Council serve terms of four years. Each year, the Mayor is elected by the seven councilmembers.

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

Population

The following chart indicates the change in population of the City, the County of Santa Clara (the "County") and the State of California during the past five calendar years.

CITY OF MOUNTAIN VIEW 2000 through 2004 Population Estimates

Calendar Year	City of Mountain View	County of Santa Clara	State of California
2000	71,369	1,698,800	33,753,000
2001	71,242	1,697,800	34,385,000
2002	71,610	1,719,600	35,037,000
2003	71,600	1,719,500	35,612,000
2004	71,600	1,731,400	36,144,000

Source: State of California, Department of Finance, as of January 1.

Industry and Employment

The City is included in the San Jose Metropolitan Statistical Area (MSA), which is comprised of Santa Clara County. The unemployment rate in Santa Clara County was 6.2 percent in June 2004, up from a revised 6.0 percent in May 2004, but below the year-ago estimate of 8.7 percent. This compares with an unadjusted unemployment rate of 6.3 percent for California and 5.8 percent for the nation during the same period.

The County civilian labor force figures are shown in the following table. These figures are County-wide and may not necessarily accurately reflect employment trends in the City.

SAN JOSE METROPOLITAN STATISTICAL AREA Annual Average Labor Force and Industry Employment

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Civilian Labor Force ⁽¹⁾	956,100	1,000,600	997,900	943,600	895,100
Employment	927,100	980,800	952,400	863,800	821,600
Unemployment	29,000	19,800	45,500	79,800	73,500
Civilian Unemployment Rate	3.0%	2.0%	4.6%	8.5%	8.2%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	5,300	5,000	4,600	4,500	4,200
Natural Resources and Mining	200	200	200	200	200
Construction	44,600	47,400	47,800	42,300	38,800
Manufacturing	234,900	251,700	240,600	201,200	177,000
Wholesale Trade	42,300	42,200	40,700	35,700	33,500
Retail Trade	86,600	90,600	88,200	83,600	81,000
Transportation, Warehousing and Utilities	17,300	17,500	16,300	15,000	14,200
Information	32,500	42,700	41,900	34,200	31,000
Finance and Insurance	18,900	18,800	19,600	19,800	19,800
Real Estate and Rental and Leasing	15,300	15,200	15,600	15,100	15,000
Professional and Business Services	207,100	225,800	210,000	173,200	164,300
Educational and Health Services	85,500	85,200	89,800	91,100	92,700
Leisure and Hospitality	68,600	71,400	72,000	67,400	67,500
Other Services	26,100	26,700	26,300	25,900	24,700
Federal Government	11,400	11,700	10,400	10,300	10,100
State Government	7,600	7,700	7,800	8,100	7,900
Local Government	<u>72,400</u>	<u>75,200</u>	<u>76,500</u>	<u>79,600</u>	<u>76,800</u>
Total All Industries	976,600	1,035,000	1,008,100	907,300	858,400

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

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

Source: State of California Employment Development Department.

The major employers within the Mountain View area and the number of persons employed by each company are shown below.

**Major Employers
(in alphabetical order)
Fiscal Year 2002-03**

Company	Type of Business
Acuson Company	Diagnostic Imaging Systems
El Camino Hospital	Health Services
General Dynamics Electronics Systems	Electronics
Google	Software
Intuit Corporation	Financial Software
Johnson & Johnson Alza Corporation	Pharmaceutical
KPMG	Consulting & Tax Services
Microsoft Corporation	Software
Silicon Graphics, Inc.	Graphic Workstations
Synopsis, Inc.	Chip Development Software and Services
Veritas Software Global Corporation	Computer Software

Source: City of Mountain View.

Commercial Activity

Total taxable transactions reported in the City during the first two quarters of calendar year 2003 amounted to \$536,603,000, a 16.9% decrease over the total taxable transactions of \$645,736,000 that were reported during the first two quarters of calendar year 2002. A summary of historic taxable sales within the City is shown in the following table.

**CITY OF MOUNTAIN VIEW
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)**

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
1998	790	\$ 786,659	2,670	\$1,691,209
1999	894	863,201	2,610	1,768,767
2000	942	1,006,374	2,484	2,347,397
2001	922	889,671	2,371	1,742,754
2002	993	823,978	2,401	1,290,964

Source: State Board of Equalization.

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.”

EFFECTIVE BUYING INCOME As of January 1, 1998 through 2002

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1998	City of Mountain View	\$ 1,783,168	\$49,185
	Santa Clara County	36,500,763	54,407
	California	524,439,600	36,483
	United States	4,399,998,410	34,618
1999	City of Mountain View	\$ 1,956,338	\$51,586
	Santa Clara County	39,640,732	57,144
	California	551,999,317	37,091
	United States	4,621,491,730	35,377
2000	City of Mountain View	\$ 2,106,666	\$54,628
	Santa Clara County	42,267,784	61,122
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2001	City of Mountain View	\$ 2,350,553	\$62,433
	Santa Clara County	47,134,074	67,504
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	City of Mountain View	\$ 2,328,610	\$59,372
	Santa Clara County	46,138,910	62,725
	California	647,879,427	42,484
	United States	5,340,682,818	38,035

Source: Sales & Marketing Management Survey of Buying Power.

Building Permit Activity

The following table shows the number and value of building permits issued in the City during calendar years 1999 through 2003.

City of Mountain View Building Permit Valuation For Calendar Years 1999 through 2003 (Dollars in Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Permit Valuation</u>					
New Single-family	\$19,612.7	\$23,280.2	\$22,655.3	\$6,447.3	\$14,160.2
New Multi-family	16,166.8	0.0	30,912.3	0.0	378.3
Res. Alterations/Additions	<u>13,886.8</u>	<u>15,370.7</u>	<u>8,742.2</u>	<u>8,803.2</u>	<u>13,885.8</u>
Total Residential	49,666.3	38,650.9	62,309.7	15,250.5	28,424.3
New Commercial	32,556.4	69,819.8	50,000.6	10,623.5	2,536.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	5,028.2	584.6	722.6	966.7	3,380.4
Comm'l Alterations/Additions	<u>154,119.3</u>	<u>155,337.1</u>	<u>57,814.7</u>	<u>47,583.2</u>	<u>73,151.8</u>
Total Nonresidential	191,703.9	225,741.5	108,537.9	59,173.4	79,068.2
<u>New Dwelling Units</u>					
Single Family	119	120	118	30	90
Multiple Family	<u>188</u>	<u>0</u>	<u>231</u>	<u>0</u>	<u>2</u>
TOTAL	307	120	349	30	92

Source: Construction Industry Research Board, Building Permit Summary.

Utilities

Water and sewer services are provided by the City. Sewage treatment is provided by a joint treatment facility. Natural gas and electricity are supplied by Pacific Gas & Electric and telephone services are supplied by Pacific Bell and other providers.

Transportation

The City is connected by U.S. 101 to San Francisco to the north and San Jose to the south. Interstate 280, which runs parallel to U.S. 101 is within a few miles of the City boundary. State Routes 82, 237 and 85 provide interconnections between Interstate 280 and U.S. 101. The Peninsula Corridor Joint Powers Board provides commuter rail service and Southern Pacific Transportation Company provides freight transport through the City, along the peninsula. Air transport is available from San Francisco International Airport (25 miles to the north) or San Jose Airport (15 miles to the south). Bus services are provided by Greyhound and the Santa Clara Valley Transportation Authority. Deep water port facilities are available at the Port of Redwood City, 10 miles north or at the San Francisco and Oakland ports.

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APPENDIX E
PROPOSED FORM OF BOND COUNSEL OPINION
[LETTERHEAD OF JONES HALL]

September 29, 2004

City Council of the
City of Mountain View
500 Castro Street
Mountain View, California 94041

OPINION: \$9,700,000 City of Mountain View Water Revenue Bonds (Graham Reservoir Project), 2004 Series A

Members of the Council:

We have acted as bond counsel in connection with the issuance by the City of Mountain View, California (the "City"), of \$9,700,000 City of Mountain View Water Revenue Bonds (Graham Reservoir Project), Series 2004 A, dated September 29, 2004 (the "Bonds"), pursuant to the provisions of the Charter of the City, Resolution No. 16914, adopted by the City Council of the City on August 17, 2004, and an Indenture of Trust, dated as of September 1, 2004 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The Bonds constitute valid and binding special obligations of the City, payable

solely from the Net Revenues (as defined in the Indenture) and other amounts held by the Trustee, as provided in the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the City, and is valid, binding and enforceable against the City in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code"), that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

4. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the issuer of the Bonds (the "Issuer") nor the trustee or fiscal agent appointed with respect to the Bonds (the "Trustee") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 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 transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, 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, (respectively, "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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Book-Entry Only System. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Discontinuance of DTC Services. In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Issuer determines that DTC will no longer so act and delivers a written certificate to the Trustee to that effect, then the Issuer will discontinue the Book-Entry Only System with DTC for the Bonds. If the Issuer determines to replace DTC with another qualified securities depository, the Issuer will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the Bonds. If the Issuer fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Trustee, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds received by the Trustee on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the Bonds.

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APPENDIX G

REVIEW OF CAPITAL INFRASTRUCTURE

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CITY OF MOUNTAIN VIEW
REVIEW OF CAPITAL INFRASTRUCTURE



Date: August 11, 2004 – FINAL
Subject: REVIEW OF CAPITAL INFRASTRUCTURE
Prepared By: Scott Humphrey, P.E.

EXECUTIVE SUMMARY

The City of Mountain View adopted a capital improvement program (CIP) called the “Water Master Plan” that focused on capital expenditures to improve the backbone infrastructure of the water distribution system. The City focused on these high priority, major infrastructure improvements while continuing to maintain existing water system assets and replace aging infrastructure. The current replacement rate is approximately 2 miles of water mains and appurtenances per year.

The Water Master Plan CIP resulted in over \$18 million in capital expenditures over the past 6 years. In addition, during that same time frame, the City devoted over \$8 million to repair, rehabilitate and replace existing water infrastructure.

Recent significant capital improvements include:

- The complete rehabilitation of the Whisman Pump Station
- The complete rehabilitation of the Miramonte Pump Station
- The construction of Well No. 21, which replaced Well No. 18
- The replacement and upgrade of the Miramonte Water Main
- The installation and implementation of a SCADA system
- Miramonte Reservoir Expansion
- A focus on improving Emergency Storage supplies, including the study and design of the proposed Graham Reservoir/pump station/well sites
- Installation and implementation of a water fluoridation system.

- Removal of Bryant tank.
- New well 22
- New well 23 (in design phase)

The City recently started construction of the Graham Reservoir project, which includes an 8.0 MG reservoir, a pump station, and a new well. The total project cost, including design and construction is estimated at \$13.3 million and should be operational by 2006.

The Graham reservoir project will more than double the City's existing reservoir storage, which gives the City increased storage to meet peak demands. The reservoir and associated pump station give the City increased flexibility in the operation of the water system as well as increased reliability of the City's water system in the event of emergency or loss of supply. The proposed well that is part of this project will give the City increased water supply from one of its existing supply sources.

BACKGROUND

The City of Mountain View is located between the Santa Cruz Mountains and San Francisco Bay, approximately 10 miles north of San Jose and 35 miles south of San Francisco. The town was incorporated in 1902 with a population of fewer than 1,000 people. The City is currently home to approximately 72,200 residents and to numerous businesses. Mountain View covers 12 square miles, with an average elevation of 97 feet.

The Public Services Division of the Public Works Department operates and maintains the City's potable water system for the City of Mountain View.

Currently the City provides water service to its population of 72,200 through approximately 15,804 residential, commercial and industrial connections. Table 1 shows a breakdown of existing City services by customer class.

Table 1 – Service Connections by Customer Class

Customer Class	Number of Connections
Single-Family Residential	11,024
Multi-Family Residential	2,360
Commercial/Institutional	1,189
Industrial	420
Landscape Irrigation	778
Other	33
Totals	15,804

WATER SUPPLY

The City of Mountain View has three water supply sources. Approximately 90 percent of the City's annual 13,412 acre-feet water demand is obtained under contract from the San Francisco Public Utilities Commission (SFPUC). Approximately 10 percent of the current demand is obtained under contract from the Santa Clara Valley Water District (SCVWD). Additional water as needed is provided by one or more of City's six existing groundwater wells.

San Francisco Public Utilities Commission

The SFPUC water comes primarily from the Hetch Hetchy System in Yosemite National Park, which receives snowmelt and runoff from the surrounding Sierras watershed, and thus provides extremely high quality water. The SFPUC provides water to the City and County of San Francisco and 33 suburban customers on the San Francisco Peninsula, in the South Bay, and in the East Bay. The City of Mountain View is one of the suburban customers.

The SFPUC has a contractual obligation to provide the City with up to 12 million gallons per day (mgd) average annual use, 24 mgd maximum day use, and 28.8 mgd peak hour use. The contractual deliveries include the combination of all connections and there is no limit on use per connection, as long as the total delivery to the City does not exceed the contractual

amounts listed above. The terms of the current supply contract were negotiated in 1984 and expire in 2009. Current average purchase cost of water from the SFPUC is \$480 per acre-foot.

Santa Clara Valley Water District

The City began receiving treated water from the SCVWD in March 1991.

The City's contract with the SCVWD was initiated in 1984 and has a term of 70 years. The contract includes provisions for modifications to the delivery schedule once every three years.

The current contract provides the City with up to 1.2 mgd average annual use, with a maximum day use of 205 percent of the average annual daily use (2.46 mgd). Current average purchase cost of SCVWD treated water is \$460 per acre-foot.

Groundwater Wells

Additional water supply, when needed, is provided through local groundwater wells. The City currently has six (6) groundwater wells. They are named Wells 9, 10, 17, 19, 20 and 21 and are exercised on a regular basis. Water from all wells currently meets all drinking water standards and does not require treatment. Recently, the City constructed a new Well 22 and Well 23 is under design.

A summary of existing water supplies to the City is provided in Table 2.

Table 2 – Existing Water Supply

Supply Source	Average Day Supply (mgd)	Maximum Day Supply (mgd)
SFPUC	12.0	24.0
SCVWD	1.2	2.4
City Wells ¹	2.7	4.6
Total	15.9	31.0

¹Supplemental Supply

Based upon the Water System Study, prepared by CDM, dated May 1992, the City has adequate existing water supply from its existing supply sources to meet future projected water demands for year 2015. The Water System Study concluded that it was not necessary for the

City to develop additional water supply sources to meet future demand conditions. Table 3 shows a comparison of existing supply versus existing and future demands.

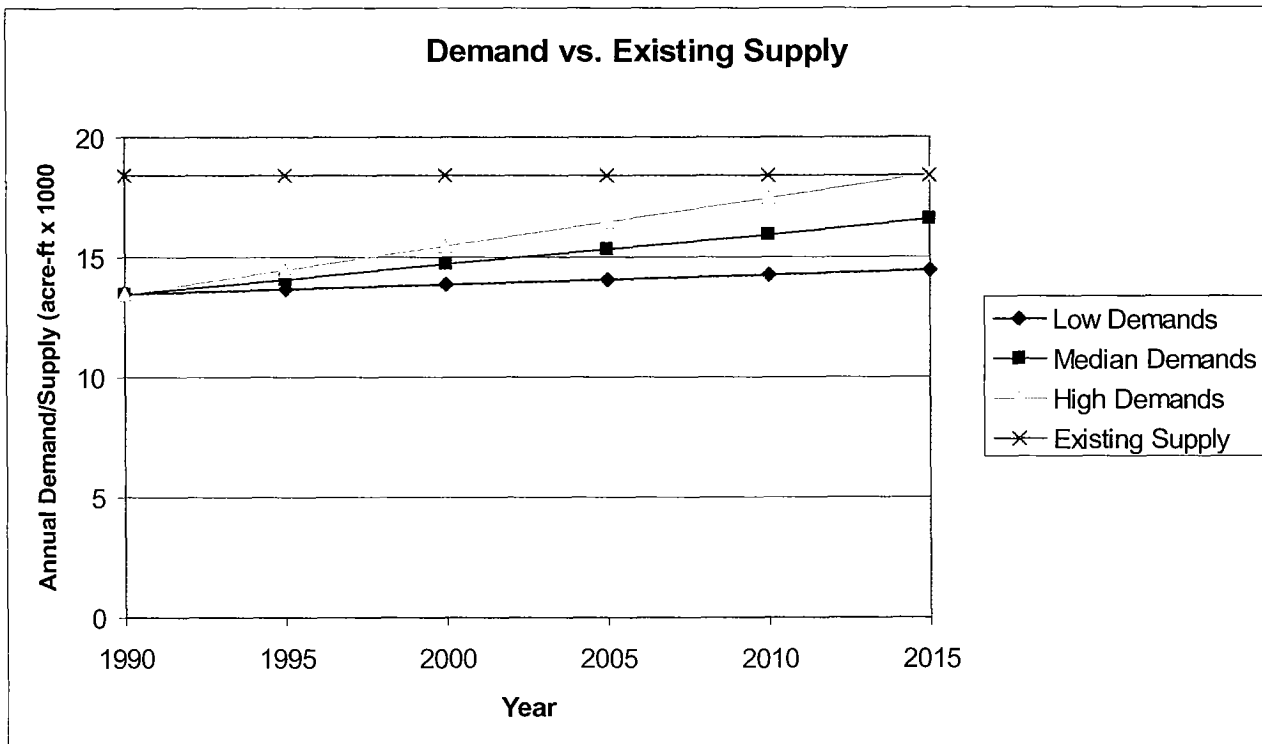
Table 3 – Comparison of Existing Supply Versus Estimated Demand

Demand Condition	Existing Supply ¹ (mgd)	Existing Demand (mgd)	Future Demand		
			Low Scenario (mgd)	Median Scenario (mgd)	High Scenario (mgd)
Average Day	15.9	12.0	12.9	14.8	16.5
Maximum Day	31.0	22.7	23.2	26.6	29.7

¹Includes supply from Well No. 9

Figure 1 shows a comparison of annual demand versus supply.

Figure 1 – Projected Annual Demand versus Existing Supply



WATER DEMANDS

Water Demand projections were developed for the 1992 CDM study through the year 2015 (ultimate development). The existing annual water demand is 13,412 acre-feet, which is equivalent to an average day demand of 12 mgd. This was based on City water production records for imported supply and groundwater wells. Due to the uncertainty of future conditions, several water demand scenarios were considered to determine the possible range of future water demands. The low demand scenario assumes continued significant conservation savings and more extensive use of treated effluent water. The median demand scenario assumes a continuation of current demand patterns and is used as the basis for the hydraulic analysis. The high demand scenario assumes an easing of water conservation efforts and less use of treated effluent water.

The City is approximately 97 percent built-out. Vacant land includes small infill parcels scattered throughout the City, a few small agricultural parcels, and some larger parcels in the north area near San Francisco Bay. Since the City is essentially built-out, there is not a large difference between existing and future demands.

EXISTING WATER SYSTEM

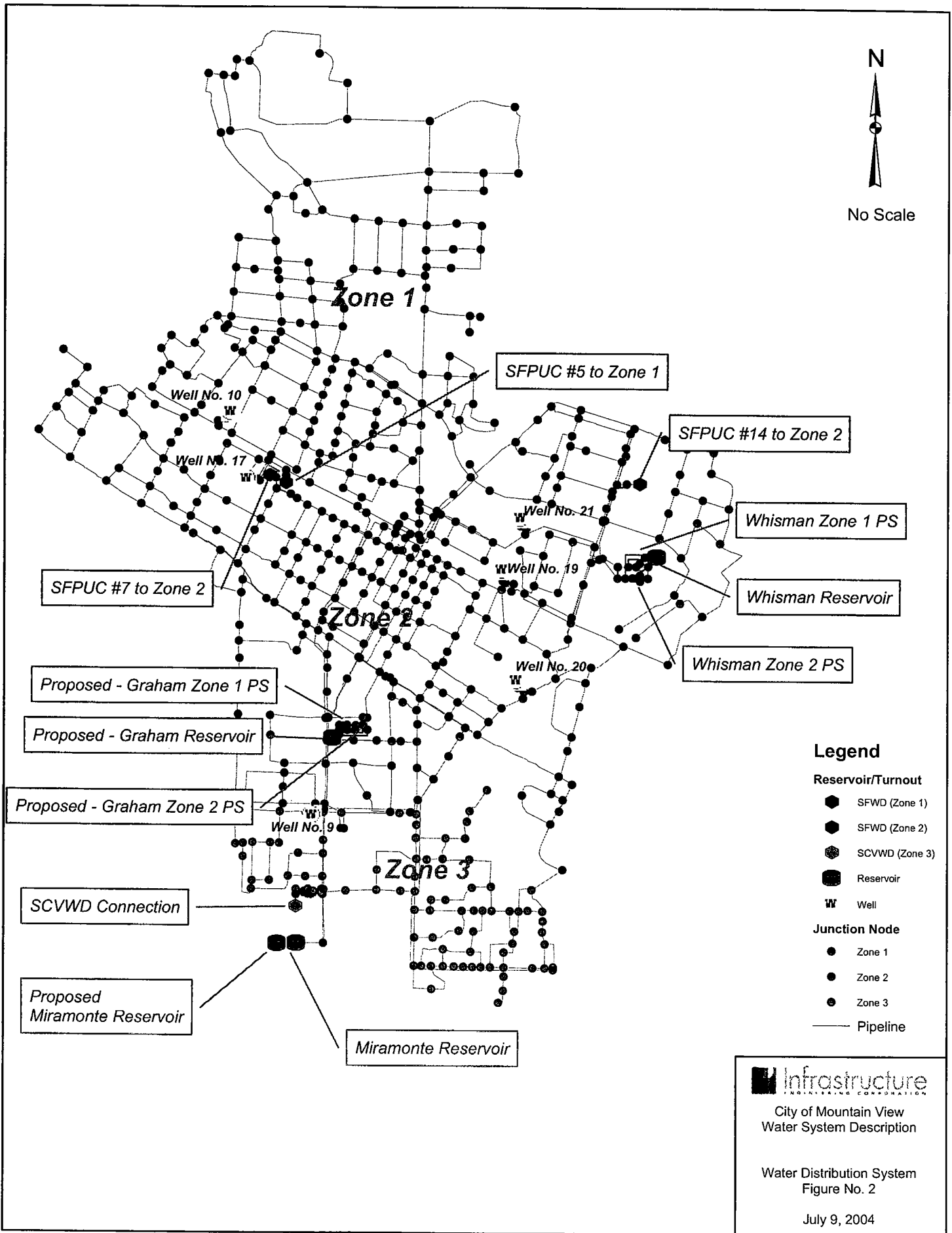
An overview of the City's existing water distribution system is shown in Figure No. 2. A schematic of the City's water distribution system is shown in Figure No. 3. The City water service area is divided into three pressure zones served by two reservoirs, two pumping stations and 6 wells. The City's water system includes approximately 184 miles of distribution pipeline ranging in diameter from 4" to 24".

Distribution Pipelines

Current water pipeline materials include Asbestos Cement, Cast Iron, Ductile Iron pipe (DIP), Steel, Poly-vinyl Chloride (PVC), Concrete Cylinder pipe (CCP) and Welded Steel pipe (WSP). Copper, PVC, and ductile iron are used for water service.



No Scale



Legend

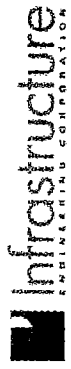
- Reservoir/Turnout**
 - SFWD (Zone 1)
 - SFWD (Zone 2)
 - SCVWD (Zone 3)
 - Reservoir
 - Well
- Junction Node**
 - Zone 1
 - Zone 2
 - Zone 3
- Pipeline**
 -



City of Mountain View
Water System Description

Water Distribution System
Figure No. 2

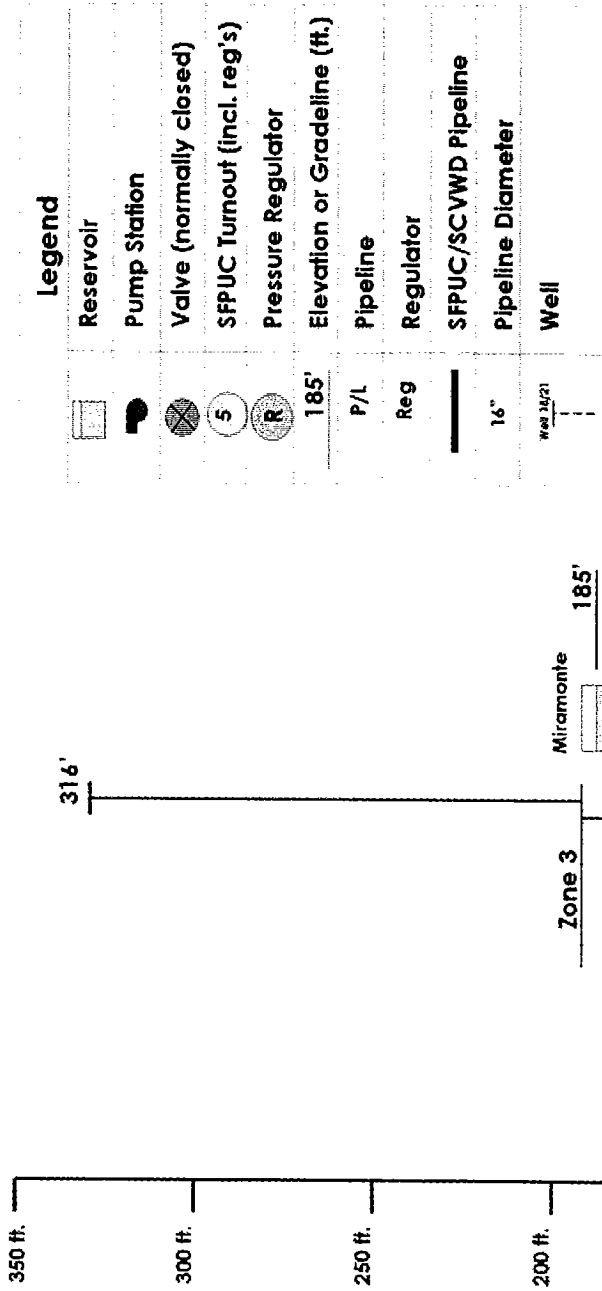
July 9, 2004



City of Mountain View
Water System Description

Schematic Diagram
Figure No. 3

July 9, 2004



Legend

	Reservoir
	Pump Station
	Valve (normally closed)
	SFPUC Turnout (incl. reg's)
	Pressure Regulator
185'	Elevation or Gradeline (ft.)
P/L	Pipeline
Reg	Regulator
	SFPU/SCVWD Pipeline
16"	Pipeline Diameter
	Well

Table 4 summarizes the length of water pipeline per diameter.

Table 4 – Pipeline Length by Diameter

Pipe Diameter	Length (Miles)
4"	12.9
6"	21.3
8"	88.8
10"	5.3
12"	35.4
14"	1.5
16"	4.9
18"	0.8
20"	0.3
21"	1.9
24"	4.7
Not defined	7.5

In general 50% of pipeline material is cast iron, 30% asbestos cement, 10% ductile iron, and 10% poly-vinyl chloride. Cast Iron pipelines are the oldest and are no longer used by the City for new installations. The majority of the water system has been built since 1960. Asbestos Cement pipelines were installed in areas with corrosive soils from about 1960 to 1985. PVC and DIP pipelines are the most common material used since 1985. For large diameter pipe, the most common material used by the City has been concrete cylinder pipe; however, the City has also used DIP, Steel and WSP for large diameter installations as well.

Useful life of a pipeline depends on a number of varying characteristics such as pipeline material, soil corrosivity, construction methods, and maintenance. Depending upon these variables a pipeline may last 100 years. Based upon the age of construction, material, and repair/leak records, the City's water system appears to have an integrity that is equal to or better than most water systems.

Pressure Zones

The City of Mountain View water system is divided into three main pressure zones; Zone 1, Zone 2 and Zone 3. Pump stations and inter-zonal connections are used to move water from one zone to another when needed.

Reservoirs

There are currently two potable water storage reservoirs in the City's distribution system, with a total storage capacity of 6.7 million gallons (MG).

Table 5 – Existing Storage Reservoirs

Reservoir	Zone	Existing Capacity (MG)
Whisman	1,2	6.0
Miramonte	1,3	0.7
Totals		6.7

The City is currently constructing an 8 MG buried reservoir with pump station at the Graham School site south of El Camino Real, and a 2.3 MG Miramonte Reservoir expansion west of and adjacent to the existing Miramonte Reservoir. The proposed Graham reservoir will serve both Zone 1 and Zone 2. The proposed Miramonte Reservoir, in addition to the existing Miramonte Reservoir, will serve Zone 1 and Zone 3. With the completion of an 8 MG Graham reservoir, the City's total water storage would be 17.0 MG, providing water storage for 1.2 days, based on projected year 2015 average day demand.

Pump Stations

There are two pump stations in the distribution system. These pump stations are summarized in Table 6 and described as follows:

- The Whisman pump station has 4 pumps. Units 1 and 2 serve Zone 2. Units 3 and 4 serve Zone 1 and are served from Whisman reservoir. There is a permanently installed automatic start 500 kW diesel generator at the Whisman pump station.
- The Miramonte pump station has 4 pumps. All 4 pumps serve Zone 3, with suction from the Miramonte Reservoir or Zone 1 or Zone 2. There is a permanently installed 350 kW automatic start diesel generator at the Miramonte pump station. The total pump station flow capacity is 3,200 gpm when drawing from the Miramonte reservoir.

Table 6 – Existing Pump Stations

Pump Station*	Pump Number	Zone	Capacity (gpm) @ Head (feet)
Whisman	1,2	2	2,500 @ 228'
Whisman	3,4	1	3,000 @ 128'
Miramonte	1	3	869 @ 120'
Miramonte	2,3,4	3	2670 @ 165'

*The City is currently designing and constructing a future pump station at the proposed Graham reservoir site. The graham pump station will have the ability to serve both Zones 1 and 2 with a maximum flow of approximately 2,600 gpm to both zones.

Wells

The City currently operates and maintains six (6) wells in the distribution system. Table 7 summarizes the City wells. Wells 10, 19 and 20 are equipped with Quick Connects which allow for a back-up power generator to supply power to the pump in the event of a loss of power.

Table 7 – Existing Wells

Well*	Primary Zone Served	Secondary Zone(s) Served	Fluoridation (F)/ Quick Connects (QC)	Individual Maximum Pumping Rate
9	3	1,2		700
10	1		F, QC	850
17	2	1	F	150
19	2		F, QC	1170
20	2		F, QC	1200
21	1		F	775

*The City is currently in the construction phase of Well No. 22 and in the design phase of Well No. 23.

Supply

The City currently receives treated water from the SFPUC through two connections, the Escuela Connection and the Whisman Connection. The Escuela connection can serve Zone 1 through the SFWD #5 turnout and Zone 2 through the SFWD #7 turnout. The Whisman connection can only serve Zone 2 through the SFWD #14 turnout. The Existing Mountain View Turnouts are summarized in Table 8.

Table 8 – SFPUC Connections

SFPUC Connection	Turnout No.	Zone	Turnout Capacity (gpm)
Escuela	SFWD #5	1	12,000
Escuela	SFWD #7	2	12,000
Whisman	SFWD #14	2	12,000

Emergency Connections and Other Local Facilities

The City of Mountain View has six connections to neighboring water systems:

- City of Palo Alto: Two 6" diameter connections
- City of Sunnyvale: Four 8" diameter connections

There are several small pockets within the City's service area that are served by the California Water Service Company (Cal Water). Although there are no permanent connections between the Cal Water system and the City's water system, temporary connections could be made in the event of an emergency.

SCADA System

The City has a Supervisory Control and Data Acquisition (SCADA) System that was implemented in 2001. SCADA is used to monitor, operate and record water system operations remotely and continuously. A computer located at the public services operation center normally operates the SCADA system and a backup computer is located at the City's emergency operations center.

WATER QUALITY

The City of Mountain View annually tests over 1,500 samples to continuously monitor the water distributed to customers. According to City's Water Quality Consumer Confidence Report year 2003, all City distribution system water quality results met or exceeded all State and Federal drinking water standards.

In 2003, Mountain View supplied fluoridated water at approximately 1 part per million, the State prescribed optimum level. Mountain View has added fluoride to its drinking water since 2001 in compliance with Department of Health Services (DOHS) regulations. The City

fluoridates the water from all its wells except for Well No. 9, which is rarely required for supply. The City distributes over 4.2 billion gallons of fluoridated water annually from each of its three supply sources.

The SFPUC completed a detailed drinking water source assessment in 2000. The assessment showed that SFPUC watersheds have very low levels of contaminants, and those contaminants found are associated with wildlife and, to a limited extent, human recreational activity.

SFPUC and SCVWD supplies water to the City disinfected with chloramines to meet current and future water quality regulations and enhance water quality.

CAPITAL IMPROVEMENT AND REPAIR/REPLACEMENT PROGRAM

In any water utility, there are three main areas for annual expenditures relating to its water infrastructure. These areas include:

- Investment in new infrastructure to mitigate hydraulic deficiencies.
- Investment in new infrastructure to replace aging facilities near the end of their useful life cycle.
- Re-investment in existing infrastructure to extend its useful life.

The City of Mountain View undertaken an aggressive CIP program called the “Water Master Plan” that has focused on capital improvements to improve the backbone infrastructure of the water distribution system, while continuing to maintain infrastructure repair and replacement investments. While the primary focus of the past few years has been on the backbone infrastructure of the water system, the City continues to replace aging infrastructure at the rate of approximately 2 miles of water mains and appurtenances annually.

Recent significant capital improvements include:

- The complete rehabilitation of the Whisman Pump Station
- The complete rehabilitation of the Miramonte Pump Station
- The construction of Well No. 21, which replaced Well No. 18
- The replacement and upgrade of the Miramonte Water Main
- The installation and implementation of a SCADA system
- Miramonte Reservoir Expansion
- A focus on improving Emergency Storage supplies, including the study and design of the proposed Graham Reservoir/pump station/well sites
- Installation and implementation of a water fluoridation system.
- Removal of Bryant tank.
- New well 22
- New well 23 (in design phase)

A summary of recent significant capital improvement projects and their associated costs are provided in Table 9.

Table 9 – Summary of Recent Capital Improvement Projects Completed

Capital Improvement Project	Date of Award	Construction Cost
Well No. 22 Pump Station	10/14/2003	\$798,317
2000-01 Water Main Replacement	3/25/2003	\$1,518,000
New Well No. 22, Phase I	6/25/2002	\$293,903
1999-2000 Water Main Replacement	1/22/2002	\$816,540
Well No. 17 Rehabilitation	8/7/2001	\$223,540
Miramonte Water Main Replacement	8/7/2001	\$3,565,690
Bryant Water Tank Removal	3/28/2000	\$98,200
Water Main Replacement	5/11/1999	\$436,745
Whisman Pump Station Improvements	9/28/1998	\$1,244,500
Miramonte Pump Station Improvements	8/4/1998	\$1,356,000
Miramonte/Bryant Water Main Improvement	6/9/1998	\$754,000
Miramonte Reservoir Project	5/11/2004	\$5,800,000
Water Fluoridation System	5/9/2000	\$1,400,000
Total		\$18,305,435

Consistent with its policy to focus on improving its backbone water system infrastructure, the City has invested over \$18 million in water system capital improvements over the past 6 years and is currently constructing the Graham reservoir and pump station, and well 23 at a total cost of \$13.3 million.

The City has also invested in recent water facilities and supply planning studies that include:

- New Well and Reservoir Siting Study (Project 96-36), January 1998
- Water Storage Reservoir Siting Study, June 2000
- Chloramine Conversion Study, December 2000
- Seismic Risk Assessment, Whisman Reservoir, June 2001

The City's last Water Master Plan was performed in 1992 and the Priority 1 and Priority 2 recommended system improvements have been implemented. The City is planning to update the 1992 Water Master Plan this year, which will update the Water System Capital

Improvement Program.

Repair/Replacement Program

The City developed an Infrastructure Repair and Replacement Manual to plan and budget for the repair and replacement of the City's infrastructure in 1993. This manual includes repair and replacement guidelines for water mains and services, drinking water wells, drinking water reservoirs and pump stations.

The City typically includes two line items for water system improvements in its annual Adopted Capital Improvement Projects budget. This budget is for the scheduled replacement of smaller water system components and minor unscheduled improvements to the City's water system, and miscellaneous Water Main/Service line and saddle replacements. Table 10 summarizes the adopted annual capital improvements budgets for the past 5 fiscal years.

Table 10 – Adopted Annual Water Main Replacement Budgets

Fiscal Year	Amount	
	Misc. Water System Improvements	Water Main/Service Line Replacement
1999/2000	\$270,000	\$1,084,000
2000/2001	\$450,000	\$1,084,000
2001/2002	\$284,000	\$1,663,000
2002/2003	\$284,000	\$1,913,000
2003/2004	\$284,000	\$1,255,000
5-year Total	\$1,572,000	\$6,999,000
5-year Average	\$314,400	\$1,399,800

From Table 9, it can be seen that over the past 5 fiscal years the City has budgeted approximately \$1.6 million to miscellaneous water system improvements and \$7 million on miscellaneous water main/service line replacements. The City has a proposed budget of \$284,000 and \$1,318,000 for these improvements for the fiscal year 2004/2005.

In implementing the current City's repair/replacement policy, the number of water main breaks per year has been reduced from approximately 12 per year in the 1990s to

approximately 6.5 per year from January 1, 2000.

SEISMIC RISK ASSESSMENT

The City, recently performed a seismic risk assessment of its two existing reservoirs and found that the structures are in sound condition. Minor repairs to the Miramonte reservoir recommended in the report have been completed. Minor upgrades to the Whisman reservoir recommended in the report are planned for next year. The new reservoirs and pump station are designed to meet current standards. The City of Mountain View is currently participating in a regional reliability assessment administered by Santa Clara Valley Water District. Historically, the City's water system experienced the Loma Prieta earthquake in 1989 and suffered little damage from that seismic event.

APPENDIX H

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY
AND RESERVE SURETY**

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

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

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

**DEBT SERVICE RESERVE
SURETY BOND**

**MBIA Insurance Corporation
Armonk, New York 10504**

Surety Bond No. XXXXXX

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments that are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and that are required to be made by or on behalf of [NAME OF ISSUER] (the "Issuer") under the [TITLE OF THE DOCUMENT] (the "Document") to [NAME OF PAYING AGENT], (the "Paying Agent"), as such payments are due but shall not be so paid, in connection with the issuance by the Issuer of [TITLE OF THE OBLIGATIONS] (the "Obligations"), [IF PARITY " together with any bonds issued on a parity therewith,"], provided, that the amount available hereunder for payment pursuant to any one Demand for Payment (as hereinafter defined) shall not exceed [a: FIXED COVERAGE [Dollar Amount of Coverage] or the [Debt Service Reserve Fund Requirement] (as defined in the Document) for the Obligations, whichever is less (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.] or [b: VARIABLE COVERAGE the annual amount set forth for the applicable bond year on Exhibit A attached hereto (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.]

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Issuer or any designee of the Issuer for such purpose. The term "Owner" shall not include the Issuer or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Obligations.

2. Upon the later of: (i) three (3) days after receipt by the Insurer of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts that are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

3. Demand for Payment hereunder may be made by prepaid telecopy, telex, TWX or telegram of the executed Demand for Payment c/o the Insurer. If a Demand for Payment made hereunder does not, in any instance, conform to the terms and conditions of this Surety Bond, the Insurer shall give notice to the Paying Agent, as promptly as reasonably practicable, that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.

4. The amount payable by the Insurer under this Surety Bond pursuant to a particular Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by the Insurer hereunder and will be reinstated to the extent of each reimbursement of the Insurer pursuant to the provisions of Article II of the Financial Guaranty Agreement dated the date hereof between the Insurer and the [ISSUER OR OBLIGOR] (the "Financial Guaranty Agreement"); provided, [ANNUAL PREMIUM OPTION: that no premium is due and unpaid on this Surety Bond and] that in no event shall such reinstatement exceed the Surety Bond Limit. The Insurer will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Financial Guaranty Agreement and such reinstatement shall be effective as of the date the Insurer gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2.

5. Any service of process on the Insurer or notice to the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

6. The term of this Surety Bond shall expire [ANNUAL PREMIUM OPTION: ,unless cancelled pursuant to paragraph 9 hereof,] on the earlier of (i) [MATURITY DATE] (the maturity date of the Obligations being currently issued), or (ii) the date on which the Issuer has made all payments required to be made on the Obligations pursuant to the Document.

7. The premium payable on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

8. [OPTIONAL FIRST SENTENCE: This Surety Bond shall be governed by and interpreted under the laws of the State of (STATE)]. Any suit hereunder in connection with any payment may be brought only by the Paying Agent within [1 or 3 years] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and the Insurer has failed to make such payment, or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to the Insurer a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

[NOS. 9 and 11 are OPTIONAL]

9. Subject to the terms of the Document, the Issuer shall have the right, upon 30 days prior written notice to the Insurer and the Paying Agent, to terminate this Surety Bond. In the event of a failure by the Issuer to pay the premium due on this Surety Bond pursuant to the terms of the Financial Guaranty Agreement, the Insurer shall have the right upon [No. of days] days prior written notice to the Issuer and the Paying Agent to cancel this Surety Bond. No Demand for Payment shall be made subsequent to such notice of cancellation unless payments are due but shall not have been so paid in connection with the Obligations.

10. There shall be no acceleration payment due under this Policy unless such acceleration is at the sole option of the Insurer.

11. This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

In witness whereof, the Insurer has caused this Surety Bond to be executed in facsimile on its behalf by its duly authorized officers, this [DATE] day of [MONTH, YEAR]

MBIA INSURANCE CORPORATION

President

Assistant Secretary

EXHIBIT A

Surety Bond No. XXXXXX

<u>Bond Year</u>	<u>Maximum Annual Debt Service</u>
199 to 199	\$
199 to 199	\$
199 to 199	\$

Attachment 1

Surety Bond No. XXXXXX

DEMAND FOR PAYMENT

_____, 19__

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504

Attention: President

Reference is made to the Surety Bond No. XXXXXX (the "Surety Bond") issued by the MBIA Insurance Corporation (the "Insurer"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Paying Agent hereby certifies that:

- (a) In accordance with the provisions of the Document (attached hereto as Exhibit A), payment is due to the Owners of the Obligations on _____ (the "Due Date") in an amount equal to \$_____ (the "Amount Due").
- (b) The [Debt Service Reserve Fund Requirement] for the Obligations is \$_____.
- (c) The amounts legally available to the Paying Agent on the Due Date will be \$_____ less than the Amount Due (the "Deficiency").
- (d) The Paying Agent has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Paying Agent hereby requests that payment of the Deficiency (subject to the Surety Bond Coverage) be made by the Insurer under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond: _____

[Paying Agent's Account]

[PAYING AGENT]

By _____

Its _____

XXXXXX

NOTICE OF REINSTATEMENT

_____, 19__

[Paying Agent]

[Address]

Reference is made to the Surety Bond No. XXXXXX (the "Surety Bond") issued by the MBIA Insurance Corporation (the "Insurer"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Insurer hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Financial Guaranty Agreement and as of the date hereof the Surety Bond Coverage is \$ _____.

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

PACIFIC FINANCIAL PRINTING

PHONE: 650-328-1500 • FAX: 650-328-3737

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