This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification of the securities laws of such jurisdiction.

DRAFT AS OF NOVEMBER 7, 2006

NEW ISSUE
BOOK-ENTRY ONLY

RATINGS
Moody's: __ (Insured)
S&P: __ (Insured)
Moody's: __ (Underlying)
S&P: __ (Underlying)
(See "CONCLUDING INFORMATION - Ratings on the Certificates" herein).

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. The difference between the issue price of a Certificate (the first price at which a substantial amount of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. In the further opinion of Special Counsel, the interest (and original issue discount) due with respect to the Certificates is exempt from State of California personal income tax. See "LEGAL MATTERS – Tax Exemption" herein.

ORANGE COUNTY **STATE OF CALIFORNIA**

$30,000,000*
CITY OF COSTA MESA
2006 Certificates of Participation
(Police Facility Expansion Project)
Evidencing Undivided Proportionate Interests in Lease Payments to be Made by the
CITY OF COSTA MESA, CALIFORNIA
Pursuant to a Lease with the
COSTA MESA PUBLIC FINANCING AUTHORITY

Dated: Date of Delivery **Due: October 1, as Shown on the Inside Front Cover.**

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "CERTIFICATE OWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Certificates.

The City of Costa Mesa 2006 Certificates of Participation (Police Facility Expansion Project) (the "Certificates") are being executed and delivered to (i) provide funds for the construction and equipping of certain improvements to the Civic Center complex of the City of Costa Mesa (the "City") (the "Project"), (ii) fund a reserve fund for the Certificates and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates. The Certificates evidence direct, undivided proportionate interests in lease payments ("Lease Payments") to be made by the City to the Costa Mesa Public Financing Authority (the "Authority") as rental for certain real property and the improvements thereon (referred to herein as the "Property") consisting of the City's Civic Center complex and Fire Station No. 2, pursuant to a Lease/Purchase Agreement, dated October 1, 2003 as amended by a First Amendment to Lease/Purchase Agreement dated as of December 1, 2006, by and between the City and the Authority (as amended, the "Lease"), as described herein. See "THE FINANCING PLAN – The Property" herein. The City is required under the Lease to make Lease Payments in each fiscal year in consideration of the use and possession of the Property from any source of available funds, including certain funds held under a trust agreement, as described herein, and insurance or condemnation awards, in an amount sufficient to pay the annual principal and interest due with respect to the Certificates and certain other obligations, subject to abatement, as described herein. See "SOURCES OF PAYMENT FOR THE CERTIFICATES" and "CERTIFICATE OWNERS' RISKS" herein.

Interest represented by the Certificates is payable on April 1, 2007, and semiannually thereafter on October 1 and April 1 of each year until maturity. However, the Certificates are subject to extraordinary and optional prepayment prior to maturity as described herein. See "THE CERTIFICATES - General Provisions" and "THE CERTIFICATES - Prepayment" herein.

THE CERTIFICATES DO NOT CONSTITUTE AN OBLIGATION OF THE AUTHORITY OR THE CITY FOR WHICH THE AUTHORITY OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Payment of the principal of and interest with respect to the Certificates when due will be insured by a financial guaranty insurance policy to be issued by __________________simultaneously with the delivery of the Certificates. See "SOURCES OF PAYMENT FOR THE CERTIFICATES – Municipal Bond Insurance" herein.

[LOGO]

The Certificates are offered, when, as and if executed and delivered, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed on for the City by the City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. It is anticipated that the Certificates, in book-entry form, will be available for delivery on or about January 25, 2007 through the facilities of The Depository Trust Company (see "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" herein).

The date of the Official Statement is __________, 2006.

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* Preliminary, subject to change.

$30,000,000*
CITY OF COSTA MESA
2006 Certificates of Participation
(Police Facility Expansion Project)
Evidencing Undivided Proportionate Interests in Lease Payments to be Made by the
CITY OF COSTA MESA, CALIFORNIA
Pursuant to a Lease with the
COSTA MESA PUBLIC FINANCING AUTHORITY

MATURITY SCHEDULE

(Base CUSIP®† ________)

$__________ Serial Bonds

Maturity Date October 1	Principal Amount	Interest Rate	Reoffering Yield	CUSIP®†
2007				
2008				
2009				
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				

* Preliminary, subject to change.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Certificates 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 Certificates.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority or the City in any press release and in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced herein, 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.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations in connection with the offer or sale of the Certificates 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 the Authority, the City, the Financial Advisor or the Underwriter. 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 Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has submitted the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Information Subject to Change. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

THE CERTIFICATES 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 CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

CITY OF COSTA MESA, CALIFORNIA

CITY COUNCIL

Allan Mansoor, *Mayor*
Eric Bever, *Mayor Pro Tem*
Linda Dixon, *Council Member*
Katrina Foley, *Council Member*
Gary Monahan, *Council Member*

(Wendy Brooks Leece was elected on November 7, 2006 to fill Gary Monahan's Council Seat)

CITY STAFF

Allan L. Roeder, *City Manager*
Thomas Hatch, *Assistant City Manager*
Donald D. Lamm, *Deputy City Manager & Director of Development Services*
Marc R. Puckett, *Director of Finance*
Stephen Mandoki, *Director of Administrative Services*
William J. Morris, *Director of Public Services*
Steve Parker, *Acting Fire Chief*
Steven Staveley, *Acting Police Chief*
(Christopher Shawkey will assume position of Police Chief on _______, 2006)
Kimberly Hall Barlow, Esq., *City Attorney*

PROFESSIONAL SERVICES

Special Counsel and Disclosure Counsel
Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Financial Advisor
Harrell & Company Advisors, LLC
Orange, California

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

TABLE OF CONTENTS

INTRODUCTION **1**
The City 1
Security and Sources of Repayment 1
Additional Certificates 3
Tax Exemption 3
Professional Services 3
Offering of the Certificates 4
Information Concerning this Official Statement 4

THE CERTIFICATES **5**
General Provisions 5
Prepayment 6
Scheduled Lease Payments 8
Additional Certificates 9

THE FINANCING PLAN **11**
Estimated Sources and Uses of Funds 11
The Project 11
Project Costs 12
The Civic Center Complex 12

SOURCES OF PAYMENT FOR THE CERTIFICATES **15**
General 15
Lease Payments; Abatement 15
Reserve Fund 16
Municipal Bond Insurance 17
Insurance Relating to the Property 17
Reentering and Reletting 18

THE AUTHORITY **19**

CITY OF COSTA MESA **19**
General Information 19
General Organization 19
Governmental Services 20
Community Facilities and Services 20
Transportation 21
Population 21
Employment and Industry 22
Major Employers 23
Effective Buying Income 23
Commercial Activity 24
Building Activity 26

FINANCIAL INFORMATION **27**
Budgetary Process and Administration 27
Appropriations Limit 27
Revenues and Expenditures 27
Local Taxes 29
Motor Vehicle License Fees 32
Other Revenue Sources 33
Personnel, Employee Relations and Collective Bargaining 33
Retirement Programs 34
Insurance Program 35
Outstanding Indebtedness of the City 36
Direct and Overlapping Debt 36
Financial Statements 38
City Investment Policy and Portfolio 41

CERTIFICATE OWNERS' RISKS **42**
The Lease Payments 42
Limited Recourse on Default 47
Release or Substitution of Property 48
Loss of Tax Exemption 48
Secondary Market 48

LEGAL MATTERS **49**
Enforceability of Remedies 49
Approval of Legal Proceedings 49
Tax Exemption 49
Absence of Litigation 51

CONCLUDING INFORMATION **52**
Ratings on the Certificates 52
Underwriting 52
The Financial Advisor 52
Continuing Disclosure 52
Additional Information 53
References 53
Execution 53

APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX B - CITY AUDITED FINANCIAL STATEMENTS

APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX D - FORM OF SPECIAL COUNSEL OPINION

APPENDIX E - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

APPENDIX F - BOOK-ENTRY ONLY SYSTEM

OFFICIAL STATEMENT

$30,000,000*
CITY OF COSTA MESA
2006 Certificates of Participation
(Police Facility Expansion Project)
Evidencing Undivided Proportionate Interests in Lease Payments to be Made by the
CITY OF COSTA MESA, CALIFORNIA
Pursuant to a Lease with the
COSTA MESA PUBLIC FINANCING AUTHORITY

This Official Statement which includes the cover page and appendices (the "Official Statement"), is provided to furnish certain information concerning the sale, execution and delivery of the City of Costa Mesa 2006 Certificates of Participation (the "Certificates"), in the aggregate principal amount of $30,000,000*, evidencing undivided proportionate interests in Lease Payments (defined below) to be made by the City of Costa Mesa, California (the "City"), pursuant to a Lease as more fully described herein (the "Lease") with the Costa Mesa Public Financing Authority (the "Authority").

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Certificates to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "CERTIFICATE OWNERS' RISKS" herein).

The City

The City of Costa Mesa (the "City") encompasses 16.8 square miles and is located in the southern coastal area of Orange County, adjacent to the cities of Santa Ana and Newport Beach. At its nearest point, Costa Mesa is approximately 1.5 miles from the Pacific Ocean. Other neighboring cities include Huntington Beach, Fountain Valley and Irvine. Costa Mesa is approximately 35 miles southeast of Los Angeles and 85 miles northwest of San Diego (see "CITY OF COSTA MESA" herein).

Security and Sources of Repayment

In 2003, the City delivered $14,340,000 Refunding Certificates of Participation (Public Facilities Project) Series 2003 (the "2003 Certificates") for the purpose of refinancing certain City outstanding obligations. As of the Delivery Date, $11,910,000 of the 2003 Certificates are outstanding. The 2003 Certificates are payable from lease payments (the "2003 Lease Payments") made pursuant to a Lease/Purchase Agreement dated as of October 1, 2003 (the "2003 Lease") between the City, as lessee, and the Authority, as lessor, entered into for the lease of certain real property and improvements comprising the City's Civic Center complex (the "Property"). The City leased such real property and improvements to the Authority under a Site Lease dated as of October 1, 2003 (the "2003 Site Lease").

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* Preliminary, subject to change.

In order to provide for additional lease payments under the 2003 Lease (the "2006 Lease Payments," and together with the 2003 Lease Payments, the "Lease Payments"), the City and the Authority will enter into a First Amendment to Lease/Purchase Agreement (the "First Amendment") dated as of December 1, 2006, which amends the 2003 Lease (as amended, the "Lease"). The City and the Authority will also enter into a First Amendment to Site Lease, dated as of December 1, 2006, to amend the 2003 Site Lease (as amended, the "Site Lease").

The Certificates are being executed and delivered pursuant to an Amended and Restated Trust Agreement dated as of December 1, 2006 (the "Trust Agreement"), by and among the City, the Authority and The Bank of New York Trust Company, N.A., as successor to BNY Western Trust Company, as trustee (the "Trustee"). The City will use a portion of the proceeds of the Certificates to provide funds for the construction and equipping of additional improvements to the Civic Center complex (the "Project"). See "THE FINANCING PLAN – The Project" herein.

Under the Trust Agreement, the Certificates and the 2003 Certificates are equally secured by the Lease Payments, Net Proceeds and other amounts held by the Trustee under the Trust Agreement other than amounts paid by the municipal bond insurer for the 2003 Certificates, which are available to pay only the 2003 Certificates, and amounts paid by the municipal bond insurer for the Certificates, which are available to pay only the Certificates. In the event that amounts in the Lease Payment Fund are insufficient to pay all of the interest and principal due on the Certificates, the 2003 Certificates and any Additional Certificates on any date, the Trustee is to allocate the available funds on a proportionate basis to each series such that an equal percentage of the total principal and interest then due on each series is paid. The Trustee is then to transfer from the Reserve Fund the amount necessary to pay any shortfall on each series. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – TRUST AGREEMENT – LEASE PAYMENTS; LEASE PAYMENT FUND" and "RESERVE FUND."

Pursuant to an Assignment Agreement, dated as of October 1, 2003, as amended by a First Amendment to Assignment Agreement, dated as of December 1, 2006 (as amended, the "Assignment Agreement"), by and between the Authority and the Trustee, the Authority assigns to the Trustee, for the benefit of the owners of the Certificates and the 2003 Certificates, substantially all of its rights under the Lease, including its right to receive and collect Lease Payments and prepayments from the City under the Lease and rights as may be necessary to enforce payment of Lease Payments and prepayments. All rights assigned by the Authority pursuant to the Assignment Agreement will be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all owners of the Certificates and the 2003 Certificates.

For a summary of the Trust Agreement, the Lease, the Site Lease and the Assignment Agreement, see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. Certain capitalized terms used in this Official Statement and not otherwise defined have the meanings given them in "APPENDIX A."

In general, the City is required under the Lease to pay to the Trustee specified amounts for use and possession of the Property which amounts are calculated to be sufficient in both time and amount to pay, when due, the principal and interest payable with respect to the Certificates and the 2003 Certificates. The City is also required to pay any taxes and assessments levied on the Property and all costs of maintenance and repair of the Property. The City has covenanted in the Lease to take such actions as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments subject to complete or partial abatement of such Lease Payments resulting from a taking of the Property (either in whole or in part) under the powers of eminent domain or resulting from damage or loss of all or any portion of the Property. Except for the Authority's right, title and interest in and to the Lease which have been assigned to the Trustee, no funds or properties of the Authority or the City are pledged to or otherwise liable for the obligations of the Authority (see "CERTIFICATE OWNERS' RISKS" herein).

The Lease is, in the opinion of Special Counsel, a valid and binding obligation of the City enforceable against the City in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted, by equitable principles, by the exercise of judicial discretion and by the limitations on legal remedies against municipalities in the State of California (see "CERTIFICATE OWNERS' RISKS - The Lease Payments - Limited Recourse on Default" herein). The form of Special Counsel's opinion is attached hereto as "APPENDIX D."

The obligation of the City to pay Lease Payments does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Additional Certificates

The Certificates are being executed and delivered as "Additional Certificates" under the Trust Agreement and are secured by Lease Payments on a parity with the 2003 Certificates. The Certificates and the 2003 Certificates will be secured on a parity under the Trust Agreement by Lease Payments and other amounts held in the funds established thereunder other than the Project Fund and the Rebate Fund. See "THE CERTIFICATES – Additional Certificates."

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) due with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the interest (and original issue discount) due with respect to the Certificates is exempt from State of California personal income tax. See "LEGAL MATTERS - Tax Exemption" herein.

Professional Services

The legal proceedings relating to the execution and delivery of the Certificates are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed on for the City by Kimberly Hall Barlow, Jones & Mayer, Fullerton California, City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel.

The Bank of New York Trust Company, N.A., serves as Trustee under the Trust Agreement. The Trustee will act on behalf of the Certificate Owners for the purpose of receiving all moneys required to be paid to the Trustee, to allocate, use and apply the same, to hold, receive and disburse the Lease Payments and other funds held under the Trust Agreement, and otherwise to hold all the offices and perform all the functions and duties provided in the Trust Agreement to be held and performed by the Trustee.

Harrell & Company Advisors, LLC (the "Financial Advisor") advised the City as to the financial structure and certain other financial matters relating to the Certificates.

The City's audited general purpose financial statements for the fiscal year ended June 30, 2006, attached hereto as "APPENDIX B" have been audited by Conrad and Associates, L.L.P., Certified Public Accountants, Irvine, California. The City's audited financial statements are public documents and are included within this Official Statement without the prior approval of the auditor. Accordingly, the auditor has not performed any post-audit of the financial condition of the City.

Offering of the Certificates

Authority for Execution and Delivery. The Certificates are to be executed and delivered pursuant to the Trust Agreement, and have been authorized by a resolution adopted by the City Council of the City on _____________, 2006. The Site Lease and the Lease will be entered into in accordance with the laws of the State of California (the "State"), and particularly Section 37350 of the Government Code of the State.

Offering and Delivery of the Certificates. The Certificates were sold to ________________________ at competitive sale. The Certificates are offered, when, as and if executed and delivered, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. It is anticipated that the Certificates, in book-entry form, will be available for delivery in New York, New York on January 25, 2007 through the facilities of The Depository Trust Company. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM."

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein which has been obtained by the City with the assistance of the Financial Advisor from sources other than the City are believed to be reliable and such information is believed to be accurate and complete, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Financial Advisor or the Disclosure Counsel. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact.

Preliminary Official Statement Deemed Final. The information set forth herein is in a form deemed final, as of its date, by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for the omission of certain information permitted to be omitted under the Rule). The information herein is subject to revision, amendment and completion in a Final Official Statement. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the City since the date hereof.

Availability of Legal Documents. The summaries and references contained herein with respect to the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement, the Certificates and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of the documents described herein are available for inspection during the period of initial offering of the Certificates at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Certificates at the trust office of the Trustee, The Bank of New York Trust Company, N.A., Los Angeles, California or from the City at 77 Fair Drive, Costa Mesa, California 92626.

THE CERTIFICATES

General Provisions

Payment of the Certificates. The Certificates will be executed and delivered in the form of fully registered Certificates in the principal amount of $5,000 each or any integral multiple thereof. Interest represented by the Certificates is payable at the rates per annum set forth on the inside front cover page hereof, on April 1, 2007 and each October 1 and April 1 thereafter (each, an "Interest Payment Date") until maturity. Said interest will represent the portion of Lease Payments designated as interest and coming due on each Interest Payment Date. The share of the portion of Lease Payments designated as interest with respect to any Certificate will be computed by multiplying the portion of Lease Payments designated as principal with respect to such Certificates by the rate of interest represented by such Certificates. Interest represented by the Certificates and the Lease Payments will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal with respect to the Certificates is payable from the principal component of Lease Payments allocable to the Certificates on October 1 in each of the years and in the amounts set forth on the inside front cover page hereof.

Each Certificate will be dated as of the date of original delivery of the Certificates, and interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless (a) it is executed following the 15th day of the month preceding an Interest Payment Date (a "Record Date") and on or before such Interest Payment Date, in which event interest with respect thereto will be payable from such Interest Payment Date; or (b) it is executed on or before the first Record Date, in which event interest represented thereby will be payable from the Delivery Date . Notwithstanding the foregoing, if, as of the date of any Certificate, interest represented by such Certificate is in default, interest represented by such Certificate will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to such Certificate.

Book-Entry Only System. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest with respect to and principal of the Certificates will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Certificates (see "APPENDIX F - BOOK-ENTRY ONLY SYSTEM" herein). As long as DTC is the registered owner of the Certificates and DTC's book-entry method is used for the Certificates, the Trustee will send any notices to certificate owners only to DTC.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered as described in the Trust Agreement. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Certificates will be printed and delivered as described in the Trust Agreement. In addition, the following provisions shall apply: interest represented by each Certificate will be paid on each Interest Payment Date by check of the Trustee mailed on such Interest Payment Date by first class mail, to the person appearing on the registration books of the Trustee as the Owner thereof as of the close of business on the preceding Record Date, at such Owner's address as it appears on the registration books of the Trustee; provided however, that at the written request of the Owner of Certificates in an aggregate principal amount of at least $1,000,000, which request is on file with the Trustee as of any Record Date, interest with respect to such Certificates shall be paid on each succeeding Interest Payment Date (unless such request has been revoked in writing) by wire transfer in immediately available funds to such account within the United States of America as shall be designated in such written request. The principal and prepayment price represented by any Certificate at maturity or upon prepayment will be payable upon presentation and surrender of such Certificate at the Office of the Trustee in Los Angeles, California, or at such place as may be designated by the Trustee.

Prepayment

Optional Prepayment. The Certificates maturing on or after October 1, 2017 are subject to prepayment prior to maturity in whole or in part on any date on or after October 1, 2016, at the option of the City, in the event the City exercises its option under the Lease to prepay all or a portion of the principal component of the 2006 Lease Payments (in integral multiples of $5,000 but not in a principal amount of less than $20,000), at the prepayment price of the principal amount thereof to be prepaid, plus accrued interest to the date fixed for prepayment, without premium. In the event the City gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the City will continue to pay the 2006 Lease Payments as if no such notice had been given.

Extraordinary Prepayment. The Certificates and the 2003 Certificates are subject to mandatory prepayment as a whole or in part, on any date, from Net Proceeds deposited in the Prepayment Fund pursuant to the Lease and not used to repair or replace any portion of the Property damaged or destroyed, or from condemnation proceeds received with respect to any portion of the Property and elected by the City to be used for such purpose deposited in the Prepayment Fund at least 45 days prior to the date fixed for prepayment, at a prepayment price equal to the principal amount of the Certificates, the 2003 Certificates and Additional Certificates, if any, to be prepaid, plus accrued interest thereon to the date fixed for prepayment, without premium. There can be no assurance that such proceeds will be adequate to prepay all of the Certificates, the 2003 Certificates and Additional Certificates, if any, (see "CERTIFICATE OWNERS' RISKS - The Lease Payments - Insurance" herein). In the event that Net Proceeds are to be applied to the prepayment of the Certificates, the 2003 Certificates and Additional Certificates, if any, the Net Proceeds will be applied to prepay a proportionate amount of the Certificates, the 2003 Certificates and Additional Certificates, if any, based on the Outstanding principal amount.

Notice of Prepayment. When prepayment is authorized or required, the Trustee is required to give written notice to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, by first class mail, postage prepaid at least 30, but no more than 60, days prior to the date fixed for prepayment. In addition to the foregoing notice, notice shall be given by the Trustee at the same time such notice is given to the Owners, by first class mail or delivery service postage prepaid, or by telecopy to the Securities Depository and to the Information Services which notice shall contain the information required by the Trust Agreement. Neither failure to receive such notice nor any defect in the notice so mailed will affect the validity of the proceedings for prepayment of such Certificates or the cessation of accrual of interest from and after the prepayment date.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received, and such cancellation will not constitute an Event of Default.

So long as DTC is the registered Owner of the Certificates, all such notices will be provided to DTC as the Owner, without respect to the beneficial ownership of the Certificates. See "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

Effect of Prepayment. If moneys for the prepayment of Certificates have been set aside in the Prepayment Fund on the prepayment date, interest with respect to the Certificates (or portions thereof) called for prepayment will cease to accrue on the date fixed for prepayment and such Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price thereof. The Trust Agreement contains no provisions requiring any publication of notice of prepayment, and Owners must maintain a current address on file with the Trustee to receive any notices of prepayment.

Partial Prepayment. In the event only a portion of any Certificate is called for prepayment, then upon surrender of such Certificate the Trustee will execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of the same interest rate and maturity date, of authorized denominations in an aggregate principal amount equal to the unprepaid portion of the Certificate surrendered.

Purchase of Certificates in Lieu of Redemption. In lieu of optional or extraordinary prepayment of Certificates as described above, amounts held by the Trustee for any such prepayment may also be used for the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid, all as further provided in the Trust Agreement.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the optional prepayment of Certificates and less than all Outstanding Certificates are called for optional prepayment, the Trustee shall select Certificates for optional prepayment from among maturities selected by the City and by lot within any maturity. For extraordinary prepayment of Certificates, the Trustee shall select Certificates for prepayment pro rata, as nearly as practicable, among series and among maturities within a series and by lot within any maturity. The Trustee shall promptly notify the City and the Authority in writing of the Certificates so selected for prepayment by mailing to the City and the Authority copies of the notice of prepayment provided for in the Trust Agreement.

Scheduled Lease Payments

The following is a schedule of annual Lease Payments, and therefore, the scheduled payments of annual principal and interest represented by the Certificates and the 2003 Certificates.

Certificate Year Ending October 1	Principal	Interest	Annual Total	2003 Lease Payments	Total Annual Lease Payments
2007				$ 1,268,625.00	
2008				1,271,925.00	
2009				1,272,687.50	
2010				1,271,437.50	
2011				1,269,437.50	
2012				1,272,062.50	
2013				1,269,662.50	
2014				1,268,775.00	
2015				1,272,775.00	
2016				1,272,650.00	
2017				1,273,250.00	
2018				1,270,500.00	
2019				-	
2020				-	
2021				-	
2022				-	
2023				-	
2024				-	
2025				-	
2026				-	
Total				$15,253,787.50	

Additional Certificates

Upon written request or requests of the City Representative and of the Authority Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there shall have been compliance with all of the following conditions, which are made conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement shall have executed a supplemental agreement which (i) sets forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established thereunder for the Certificates and the 2003 Certificates, as shall be necessary or appropriate, and (ii) requires that prior to the delivery of such Additional Certificates the Reserve Requirement with respect to such Additional Certificates shall be on deposit in the Reserve Fund or in a reserve fund established under such supplemental agreement;

(b) The scheduled principal and interest payable with respect to such Additional Certificates shall be payable only on Interest Payment Dates applicable to the Certificates and the 2003 Certificates;

(c) The Lease shall have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates and 2003 Certificates, including all Additional Certificates as and when the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee), (ii) if appropriate, amend the definition of “Property” to include as part of the Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Property as such Property is constituted as of the date of the Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions shall not prejudice the rights of the Owners of Outstanding Certificates and 2003 Certificates as granted them under the terms of the Trust Agreement);

(d) There shall have been delivered to the Trustee a counterpart of the amendments required by (c) above;

(e) The Trustee shall have received a certificate of the Authority Representative that there exists on the part of the Authority no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee shall have received a certificate of the City Representative that (i) there exists on the part of the City no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Property (as such term is defined in the amended Lease);

(g) The Trustee shall have received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in this clause (ii), shall be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease),

(iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such supplemental agreement and said amendments to the Lease, and performance by the parties thereunder, will not result in the inclusion of the interest portion of any Lease Payments payable with respect to any Certificates or 2003 Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of the Owners of the Certificates for purposes of federal income taxation;

(h) The City shall have provided the Insurer written notice of the proposed execution and delivery of such Additional Certificates and shall have received prior written consent of the Insurer with respect to such Additional Certificates; provided that any Additional Certificates being delivered to prepay any outstanding Certificates or 2003 Certificates shall not require the prior written consent of the Insurer if the aggregate maximum annual debt service with respect to the Certificates or 2003 Certificates and the Additional Certificates during any remaining year that the Certificates or 2003 Certificates will be outstanding does not exceed maximum annual debt service with respect to the Certificates or 2003 Certificates prior to such prepayment;

(i) There shall have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates, the 2003 Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(j) Upon the execution and delivery of such Additional Certificates, the amount on deposit in the Reserve Fund shall be equal to the Reserve Requirement, taking into account the execution of the Additional Certificates; and

(k) Such other conditions shall have been satisfied, and such other instruments shall have been duly executed and delivered to the Trustee (with a copy to the Insurer), as the City or the Authority shall have reasonably requested.

Nothing in the Lease prohibits the City from entering into other financing leases or other obligations payable from the City's general fund (or otherwise) and authorizing certificates of participation which are not treated as Additional Certificates under the Trust Agreement.

THE FINANCING PLAN

Estimated Sources and Uses of Funds

Under the provisions of the Trust Agreement, the Trustee will receive the net proceeds from the sale of the Certificates, and will apply them as follows:

Sources of Funds
Par Amount of Certificates
Net Original Issue Discount
Underwriters Discount
Available Funds

Uses of Funds
Project Fund
Reserve Fund
Delivery Costs Account [(1)]
Total Uses

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(1) Expenses include fees and expenses of Special Counsel, the Financial Advisor, Disclosure Counsel and Trustee, rating fees, bond insurance premium, costs of printing the Official Statement, and other costs of delivery of the Certificates.

The Project

The proceeds of the Certificates deposited in the Project Fund will be used to finance the construction and equipping of additional improvements to the Civic Center complex (the "Project"). These improvements include the renovation, expansion and seismic retrofitting of the City's Police Department facility. The expansion will include an 11,342 single story addition to house expanded Property and Evidence sections, state of the art Crime Scene Investigation facilities, a large auditorium and Emergency Operations Center and dedicated training rooms. Additional parking and security fencing will also be added. The City prepared a mitigated negative declaration to identify any environmental impacts from the Project, held a public hearing and the Planning Commission adopted a resolution approving the Project in October 2002. No further governmental approvals are necessary to commence construction of the Project.

The total budget for the Project is approximately $27.1 million, which is expected to be funded entirely from proceeds of the Certificates. Any costs in excess of the budgeted amount will be funded from the City's reserves. The City awarded the bid for the construction of the Project on September 19, 2006 to USS Cal Builders, Inc. (the "Contractor"). On _______, 2006, the City and the Contractor executed a contract (the "Contract") with respect to the Project. The Contractor is a California corporation, based in Stanton, California. The Contractor has been in business since 1992. They have significant experience in new construction and modernization of public buildings, including many projects for schools and community colleges in Southern California.

The total cost of the Project based on construction contracts and City estimates is as follows:

Facilities Construction	$19,145,000 [(1)]
Basement Sewer Lift Station	43,800
Drainage Project to Fairview Road	497,760
Project Administration	2,952,984
Fixtures, Fees and Equipment	1,608,680
Design Services	449,646
Construction Contingency	2,424,822 [(2)]
Estimated Project Costs	$27,122,692

(1) The contract price is $18,194,000, and the City has included an additional contingency of $951,000.

(2) 10% of Facilities Construction, Project Administration and Fixtures, Fees and Equipment.

The City estimates the current value of the Property at over $___ million. Construction of the sewer lift station and drainage project are underway and construction of the facilities will begin in March 2007. The Project is scheduled to be substantially completed and ready for use by October 2008. Due to the City's need for the police department to remain open 24 hours a day, construction will occur in phases, with no more than 75% of the existing facilities to be non-operational at any given time. To accommodate the progress of construction, the City's 18th Street substation will be used to temporarily house some operations, with remaining displaced operations to be moved to temporary trailers on the Property. The required phasing of construction accounts for the extended period of construction.

Under the Contract, if the Contractor fails to complete the Project within 730 consecutive days from the effective date of the City's Notice to Proceed, the Contractor and the City have agreed upon liquidated damages in the amount of $5,000 per day. The daily liquidated damages amount is sufficient to cover daily interest with respect to the Certificates.

Project Costs

There can be no assurance that the Project will be completed for the costs and within the time described in this Official Statement. A delay in the completion or damage to the Project during construction could have an adverse effect on the costs of the Project. Contractor and subcontractor performance and integrity, availability and cost of labor, equipment and materials, and weather conditions, among other unexpected factors, could cause such a failure of timely on-budget construction.

The Property

The Property is comprised of the City's Civic Center Complex and Fire Station No. 2. The Civic Center Complex includes the City Hall, Council Chambers, Police Facility, Communications Building and Fire Station No. 5. All of the facilities of the Civic Center Complex are located on a 9.4 acre site.

The City Hall was built in 1965 and consists of six floor levels (including the basement) with 65,000 square feet housing all of the administrative offices of the City and City Council Chambers. The City Hall was seismically retrofitted in 2003. The Communications Building was built in 1983 and is comprised of two floors (including the mezzanine) with 8,000 square feet of space used as the City's dispatch center, additional offices and includes a garage. The Police Facility was also built in 1965. It houses the City's main police station, offices and jail cells. The Police Facility has two stories and a basement level, and totals 49,000 square feet. In 1984, a 7,000 square foot elevated helipad with parking was added to the Police Facility. Fire Station No. 5 is a 7,000 square foot, two-story facility built in 1983.

Fire Station No. 2 is a 4,875 square foot fire station, built in 1966 and located on a three-quarter acre site.

The Project will become part of the Property. The Property will include the facilities when complete as well as any additional improvements constructed on the Property which are financed with the proceeds of any Additional Certificates. See "THE CERTIFICATES – Additional Certificates."

Pursuant to the Lease, the City and the Authority have agreed and determined that the Lease Payments required to be made under the Lease represent fair rental value of the Property. Further, under the terms of the Lease, the City shall have the right to substitute alternate real property for any portion of the Property described in the Lease or to release a portion of the Property from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form required pursuant to the Lease and by satisfying the conditions set forth in the Lease. All costs and expenses incurred in connection with such substitution or release shall be borne by the City. Notwithstanding any substitution pursuant to this provision of the Lease, there shall be no reduction in or abatement of the Lease Payments due from the City under the Lease as a result of such substitution. No substitution or release shall be permitted unless:

(i) the City provides prior written notice thereof to the Insurer together with a certificate that the substituted or remaining real property has an equivalent or greater useful life as the Property to be released and that the useful life of the substituted or remaining Property exceeds the remaining term of the Lease Payments;

(ii) an independent California Certified General or equivalent certified real estate appraiser selected by the City finds (and delivers a certificate to the City and the Trustee setting forth its findings) that the substituted and/or remaining real property has an annual fair rental value greater than or equal to the annual Lease Payments and Additional Payments under the Lease so that the Lease Payments payable by the City pursuant to the Lease will not be abated;

(iii) the City obtains or causes to be obtained an ALTA title insurance policy (with western regional exceptions) with respect to the substituted property, with an endorsement so as to be payable to the Trustee for the benefit of the Owners, showing no prior liens thereon other than Permitted Encumbrances (including for this purpose any encumbrances to which the Insurer consents in writing). Such policy shall comply with the provisions of the Lease, shall be in a form satisfactory to the Insurer and the Authority, shall be in the amount equal to the principal component of Lease Payments attributable to the substituted property, and shall insure the leasehold interest or the fee simple interest of the Authority or the City, as applicable, to the substituted property;

(iv) the City provides the Insurer, the Authority and the Trustee with an opinion of Special Counsel in form and substance satisfactory to the Insurer to the effect that following such substitution the Lease remains a valid and binding obligation of the City enforceable in accordance with its terms, subject to bankruptcy, insolvency, the application of equitable principles if equitable remedies are sought and limitations on remedies against cities in the State of California;

(v) the City provides the Authority and the Trustee with an opinion of Special Counsel that such substitution does not cause, in and of itself, the interest evidenced and represented by the Certificates to be included in gross income for federal income tax purposes;

(vi) the City shall give, or cause to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Certificate;

(vii) upon the substitution of any real property and improvements thereon for all or a portion of the Property then existing, the City, the Authority and the Trustee shall execute and the City shall record with the office of the County Recorder, County of Orange, California, any document necessary to reconvey to the City the portion of the Property being substituted and to include the substituted real property and/or improvements thereon as all or a portion of the Property;

(viii) the City shall certify to the Trustee and the Insurer that the substituted property is of approximately the same degree of essentiality to the City as the portion of the Property being replaced;

(ix) the Site Lease shall have been amended to include the substituted property and otherwise conform to changes in the Property as a result of such substitution or release; and

(x) the Trustee shall receive the Insurer's prior written consent to such substitution (which consent shall not be unreasonably withheld), and shall provide a copy of such notice to S&P.

Without limiting the generality of the foregoing, the City may add additional real property to the description of Property in the Lease without releasing other real property, to the extent deemed necessary or appropriate by the City. In such event, the additional real property shall be treated as substitute property for purposes of determining compliance with the provisions of the Lease relating to substitution or release of the Property.

SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate and each 2003 Certificate represents an undivided proportionate interest in the Lease Payments to be made by the City to the Authority under the Lease. Under the Assignment Agreement, the Authority has assigned all of its rights under the Lease, including its rights to receive Lease Payments from the City and its remedies under the Lease, to the Trustee for the benefit of the Owners of the Certificates and the 2003 Certificates. The Lease Payments are calculated to be sufficient to pay, when due, the annual principal of and interest due with respect to the Certificates and the 2003 Certificates.

Principal and interest with respect to the Certificates will be paid from the Lease Payments payable by the City for the use and possession of the Property, a proportionate share of insurance or condemnation Net Proceeds received in respect to the Property to the extent that such Net Proceeds are not used for repair or replacement, interest or other income derived from the investment of the funds held by the Trustee under the Trust Agreement, and if necessary, from amounts in the Reserve Fund established by the Trust Agreement.

Lease Payments; Abatement

The City is required to pay to the Authority specified amounts for use of the Property, which are equal to the principal of and interest due with respect to the Certificates and the 2003 Certificates. The 2006 Lease Payments payable under the Lease are in addition to the 2003 Lease Payments which the City has agreed to pay under the Lease for the use and possession of the Property. The Lease requires the City to make Lease Payments to the Authority 15 days preceding each Interest Payment Date. Under the Assignment Agreement, the Authority has assigned its rights to receive Lease Payments to the Trustee for the benefit of the owners of the Certificates and the 2003 Certificates, as a result of which all Lease Payments will be made by the City directly to the Trustee. The Trust Agreement provides that the Lease Payments will be deposited in the Lease Payment Fund maintained by the Trustee under the Trust Agreement, and be applied to pay the principal and interest with respect to the Certificates and the 2003 Certificates when due.

The City covenants in the Lease to take such action as may be necessary to include all Lease Payments in its annual budgets and to make annual appropriations for all such Lease Payments. The Lease provides that the several actions required by such covenants are deemed to be and shall be construed to be duties imposed by law and that it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants in the Lease agreed to be carried out and performed by the City.

The Lease provides that, except as set forth below, Lease Payments will be abated during any period in which there is substantial interference with the City's use of any portion of the Property because of damage, destruction, taking by eminent domain, title defect or condemnation of such portion. The amount of such abatement will be an amount such that the resulting Lease Payments do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and occupancy of the portions of the Property damaged, destroyed, interfered with or taken. Such abatement will continue for the period commencing with such taking, damage, destruction or interference with use and ending with the substantial completion of the work of the replacement or work or repair or removal of the title defect causing an interference with use. In the event of any event causing an abatement, the Lease will continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such event.

Notwithstanding the foregoing, the City shall remain obligated to make Lease Payments which would otherwise be abated (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Property, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Reserve Fund or the Lease Payment Fund to pay the amount which would otherwise be abated (such as rental interruption insurance proceeds). The Lease Payments shall be payable from such amounts paid under (i) and (ii) above as an obligation of the City payable from a special fund.

During any period of abatement of Lease Payments, the Trustee shall pay principal and interest with respect to the Certificates and the 2003 Certificates (and Additional Certificates, if any) allocable to such portions of the Property from moneys on deposit in the Reserve Fund, and, if available, proceeds of insurance or condemnation award. The City's reduced rental payments will constitute the total Lease Payments. The reduced Lease Payments and other amounts available to the Trustee under the Trust Agreement may not be sufficient to pay principal and interest with respect to the Certificates and the 2003 Certificates (and Additional Certificates, if any) when due. In the event and to the extent the Lease Payments are subject to abatement, there could be insufficient amounts to pay principal of and interest on the 2003 Certificates and the Certificates (and Additional Certificates, if any) in full, and such insufficiency would not constitute a default by the City under the Trust Agreement, the Lease or otherwise.

The obligation of the City to make Lease Payments does not constitute an indebtedness of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Lease Payments constitutes an indebtedness of the City, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Reserve Fund

A Reserve Fund is established by the Trust Agreement and a 2003 Certificates Account and a 2006 Certificates Account are established therein. The Reserve Fund is required to be maintained in an amount equal to the least of (i) maximum aggregate annual Lease Payments payable under the Lease in any Certificate Year (exclusive of Lease Payments attributable to Certificates and Additional Certificates that have been defeased), (ii) 125% of the average annual aggregate Lease Payments (in any Certificate Year) then payable under the Lease (exclusive of Lease Payments attributable to Certificates and Additional Certificates, if any, that have been defeased), or (iii) 10% of the face amount of the Certificates and any Additional Certificates, if any, (less original issue discount if in excess of 2% of the stated payment amount at maturity) (the "Reserve Requirement"). The full amount available in the Reserve Fund may be used by the Trustee to make payments due with respect to the Certificates, the 2003 Certificates and Additional Certificates, if any, in the event of abatement or a failure by the City to make Lease Payments when due.

Currently, there is $1,273,250 on deposit in the Reserve Fund from proceeds of the 2003 Certificates which will be held in the 2003 Certificates Account of the Reserve Fund. The Trustee will deposit an additional $2,270,000* in the 2006 Certificates Account of the Reserve Fund from proceeds of the Certificates.

* Preliminary, subject to change.

Interest or income received by the Trustee on investment of moneys in the Reserve Fund will be retained in the Reserve Fund so long as amounts on deposit in the Reserve Fund are less than the Reserve Requirement on the next succeeding Interest Payment Date. In the event that amounts on deposit in the Reserve Fund exceed the Reserve Requirement, subject to the requirement of transfers to the Rebate Fund, such excess shall be transferred to the Lease Payment Fund one business day immediately preceding such Interest Payment Date.

The Reserve Requirement, or any portion thereof, may also be satisfied by the City, with the consent of the Insurer, by crediting to the Reserve Fund a letter of credit, a surety bond insurance policy, or any other comparable credit facility or any combination thereof which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT - DEFINITIONS."

Municipal Bond Insurance

[to be completed]

Insurance Relating to the Property

Pursuant to the Lease, the City is required to obtain an ALTA leasehold title insurance policy (with western regional exceptions) on the Property in an amount equal to the aggregate principal amount of the 2003 Certificates, the Certificates and any Additional Certificates. The Lease also requires that the City maintain casualty and theft insurance on the Property in amount equal to not less than the replacement value (subject to a deductible clause not to exceed $250,000) and rental interruption insurance to insure against loss of Lease Payments caused by loss or damage to the Property covered under the City's casualty and theft insurance. The rental interruption insurance is to be in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period. The City also is obligated under the Lease to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers' compensation insurance. **The Lease does not require the City to maintain earthquake insurance with respect to the Property.** See "FINANCIAL INFORMATION – Insurance Program" and "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - INSURANCE" herein.

The proceeds of any rental interruption insurance will be deposited to (i) the Reserve Fund to make up any deficiency therein and (ii) in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments become due and payable. The Lease requires the City to apply the Net Proceeds of any casualty insurance award either to replace or repair the Property or to prepay Certificates, the 2003 Certificates and Additional Certificates, if any, if certain certifications with respect to the adequacy of the Net Proceeds to make repairs, and the timing thereof, cannot be made. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS," and "THE CERTIFICATES – Prepayment – Extraordinary Prepayment." The amount of Lease Payments will be abated and Lease Payments due under the Lease may be reduced during any period in which by reason of damage, destruction, title defect or taking by eminent domain or condemnation there is substantial interference with the City's use and possession of all or part of the Property. See "CERTIFICATE OWNERS' RISKS - The Lease Payments - Abatement" herein.

If there are not sufficient insurance proceeds to complete repair of the Property, the Lease Payment schedule will be proportionally reduced in accordance with the Lease. Such reduced Lease Payments may not be sufficient to pay principal and interest with respect to the 2003 Certificates and the Certificates. Such reduction would not constitute a default under either the Trust Agreement or the Lease.

Reentering and Reletting

Whenever any event of default shall have happened and be continuing under the Lease, it shall be lawful for the Trustee as assignee to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. Notwithstanding anything in the Lease or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. After the occurrence of an event of default under the Lease, the City will surrender possession of the Property to the Authority, if requested to do so by the Authority, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement. So long as the Insurer is not in default under the Insurance Policy, the Insurer shall control all remedies upon an event of default under the Lease. The Owners' direction of remedies upon default are subject to the prior written consent of the Insurer. The Insurer, acting alone, shall have the right to direct all remedies upon an event of default.

In the event the Trustee as assignee does not elect to terminate the Lease in the manner provided for in the Lease, the Trustee as assignee may repossess the Property and re-lease it for the account of the City, in which event the City's obligation will accrue from year to year in accordance with the Lease and the City will continue to receive the value of the use of the Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the City shall remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Trustee re-enters or not. The City agrees to and shall remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained therein and shall reimburse the Trustee for any deficiency arising out of the re-leasing of the Property, or, in the event the Trustee is unable to re-lease the Property, then for the full amount of all Lease Payments and Additional Payments to the end of the Term of the Lease, but said Lease Payments and Additional Payments and/or deficiency shall be payable only at the same time and in the same manner as for the payment of Lease Payments and Additional Payments, notwithstanding such repossession by the Trustee or any suit brought by the Trustee for the purpose of effecting such repossession of the Property or the exercise of any other remedy by the Trustee.

The City shall retain the portion of rental obtained by the Trustee, as assignee of the Authority, that is in excess of the Lease Payments and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Property, and all amounts payable by the City under the Lease and the Trust Agreement. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEASE."

THE AUTHORITY

The Costa Mesa Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement, dated as of August 1, 1990, by and between the City and the Redevelopment Agency of the City of Costa Mesa. The Authority has acted as a conduit issuer for the City for a variety of financings.

The Authority is governed by a five-member Board which consists of all members of the City Council. The Mayor serves as the Chairman of the Authority. The City Manager acts as the Executive Director, the City Clerk acts as the Secretary and the Director of Finance acts as the Treasurer of the Authority.

CITY OF COSTA MESA

General Information

The City of Costa Mesa encompasses 16.8 square miles and is located in the southern coastal area of Orange County, adjacent to the cities of Santa Ana and Newport Beach. At its nearest point, Costa Mesa is approximately 1.5 miles from the Pacific Ocean. Other neighboring cities include Huntington Beach, Fountain Valley and Irvine. Costa Mesa is approximately 35 miles southeast of Los Angeles and 85 miles northwest of San Diego. The City is home to the Orange County Performing Arts Center and the Orange County Fairgrounds. The City's January 2006 population was 113,134.

General Organization

The City of Costa Mesa was incorporated as a general law city in 1953, and operates under the council/manager form of government. The City is governed by a five-member council consisting of five members, each elected at large for four-year alternating terms. The positions of City Manager and City Attorney are filled by appointments of the Council. The City of Costa Mesa currently has approximately 607 budgeted full-time and 89 budgeted (full-time equivalent) part-time staff members including sworn officers and fire personnel. The members of the City Council, the expiration dates of their terms and key administrative personnel are set forth in the charts below.

CITY COUNCIL

Council Member	Term Expires
Allan Mansoor, Mayor	December 2006
Eric Bever	December 2008
Linda Dixon	December 2008
Katrina Foley	December 2008
Gary Monahan	December 2006

(Wendy Brooks Leece was elected on November 7, 2006 to fill Gary Monahan's Council Seat)

CHIEF ADMINISTRATIVE PERSONNEL

Allan L. Roeder, *City Manager*
Tom Hatch, *Assistant City Manager*
Donald D. Lamm, *Deputy City Manager & Director of Development Services*
Marc R. Puckett, *Director of Finance*
Stephen Mandoki, *Director of Administrative Services*
William J. Morris, *Director of Public Services*
Steve Parker, *Acting Fire Chief*
(Christopher Shawkey will assume position of Police Chief on ______, 2006)
Steven Staveley, *Acting Police Chief*
Kimberly Hall Barlow, Esq., *City Attorney*

Governmental Services

Public Safety and Welfare

The City of Costa Mesa Police Department's adopted 2006/07 budget authorizes 259 full-time equivalent positions including sworn officers and non-sworn personnel providing patrol, traffic, animal control and investigations. There are six fire stations located in and operated by the City. The Fire Department's adopted 2006/07 budget authorizes 113 full-time equivalent fire personnel positions.

Community Services

Additional services include parkway and median maintenance and improvements, commercial refuse management, recycling, zoning and development administration, environmental review, code enforcement, street lighting and maintenance, housing and community development.

Public Works

Water and sanitation are provided to City residents through independent special districts.

Parks and Recreation

The City's Community Facilities Program provides its citizens with a variety of year-round recreational activities and facilities for enjoyment, health, relaxation and cultural enrichment. Such facilities include twenty-eight park sites, two 18-hole golf courses and four community centers.

Community Facilities and Services

Public educational instruction for kindergarten through high school is provided by the Newport Mesa Unified School District. This district administers 10 elementary schools, two junior high schools and two high schools. There are also 19 private schools. Two private four year universities, Vanguard University and National University, as well as Whittier Law School, and Orange Coast College, a two year community college, are located in the City.

Major medical facilities within the City include Fairview Developmental Center, Hoag Health Center and College Hospital of Costa Mesa.

The City is home to the Orange County Theatre District, which includes Segerstrom Center for the Arts, home to the internationally acclaimed Orange County Performing Arts Center and the Tony Award-winning South Coast Repertory. In September 2006, the Orange County Performing Arts Center inaugurated its new 2,000-seat Renee and Henry Segerstrom Concert Hall, 500-seat multi-use Samueli Theater and an education center. These new venues and resources, along with South Coast Repertory and, eventually, an independent visual arts facility, comprise the Segerstrom Center for the Arts. This expansion is united to the existing Orange County Performing Arts Center, with its 3,000-seat Segerstrom Hall and 500-seat Founders Hall, by an outdoor plaza, becoming one of the nation's largest and most versatile complexes in the nation dedicated to the arts.

The City is also home to South Coast Plaza, one of the largest retail centers in the United States. At almost 3 million square feet of enclosed space, and covering some 128 acres, it contains over 300 shops and nine anchor department stores including Nordstrom, Macy's and Saks Fifth Avenue. South Coast Plaza is regarded as a shopping, dining and entertainment complex, featuring two separate enclosed malls joined by a "Bridge of Gardens" and several distinctive outdoor areas. The surrounding property includes luxury hotels, dozens of restaurants, banks, fountains, art gardens and theaters.

The County operates three public libraries in the City.

Transportation

The Costa Mesa Freeway (State Highway 55), the San Diego Freeway (Interstate 405) and the San Joaquin Tollway (State Highway 73) intersect in the northeastern section of the City. These routes provide access to Riverside and San Bernardino via the Costa Mesa Freeway and Los Angeles and San Diego by way of the San Diego Freeway. Nearby interchanges with the Garden Grove Freeway (I-22), the Riverside Freeway (I-91) and the Santa Ana Freeway (I-5) provide access to all of Orange County.

Commercial rail service is provided by the Atchison, Topeka & Santa Fe Railway and the Southern Pacific Railroad. Amtrak, which provides passenger rail service between San Diego and Los Angeles, has local stops in the neighboring cities of Irvine and Santa Ana.

Bus services within the City are provided by Orange County Transportation Authority, Dial-A-Ride and Park-N-Ride.

Air cargo and passenger flight services are provided by John Wayne Orange County Airport, located less than 5 miles from the City in Santa Ana. Los Angeles International Airport is located approximately 40 miles from the City.

Population

The following table provides a comparison of population growth for Costa Mesa, surrounding cities and Orange County between 2002 and 2006.

TABLE NO. 1
CHANGE IN POPULATION
COSTA MESA, SURROUNDING CITIES AND ORANGE COUNTY
2002 – 2006

	COSTA MESA		SURROUNDING CITIES		ORANGE COUNTY	
January 1 Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2002	110,871		481,080		2,940,743	
2003	111,665	0.7%	500,184	4.0%	2,983,731	1.5%
2004	113,101	1.3%	509,767	1.9%	3,019,889	1.2%
2005	113,042	(0.1)%	523,454	2.7%	3,047,054	0.9%
2006	113,134	0.1%	535,551	2.3%	3,072,336	0.8%
% Increase Between 2002 - 2006		2.0%		11.3%		4.5%

Surrounding cities include Huntington Beach, Newport Beach, Fountain Valley and Irvine.

Source: State of California, Department of Finance, "*E-4 Population Estimates for Cities, Counties and the State, 2001-2006, with 2000 Benchmark.*"

Employment and Industry

The City is located in the Orange County labor market area. Six major job categories constitute 76.6% of the work force. They are professional and business services (18.3%), service producing (15.9%), manufacturing (12.0%), leisure and hospitality (11.4%), government (9.8%) and financial activities (9.2%). The August 2006 unemployment rate in the Orange County area was 3.6%. The State of California August 2006 unemployment rate (unadjusted) was 4.9%. The distribution of employment in the Orange County area is presented in the following table.

TABLE NO. 2
ORANGE COUNTY MSA
WAGE AND SALARY WORKERS BY INDUSTRY [(1)]
(in thousands)

Industry	**2002**	**2003**	**2004**	**2005**	**2006**
Government	142.4	143.8	142.9	148.0	148.8
Other Services	46.5	46.7	47.5	48.5	49.2
Leisure and Hospitality	160.0	163.8	167.9	168.3	172.6
Educational and Health Services	116.9	125.4	129.5	131.7	133.9
Professional and Business Services	250.2	256.2	256.7	269.7	276.6
Financial Activities	110.8	126.0	133.7	139.0	138.7
Information	36.8	34.8	33.3	32.5	31.6
Transportation, Warehousing and Utilities	28.4	29.3	29.2	28.4	28.8
Service Producing					
Retail Trade	150.3	150.6	153.0	157.0	157.5
Wholesale Trade	82.8	82.9	82.2	82.4	82.8
Manufacturing					
Nondurable Goods	57.2	56.9	56.2	54.5	53.6
Durable Goods	131.7	126.7	127.6	127.7	128.6
Goods Producing					
Construction	81.7	86.2	95.9	103.7	105.8
Natural Resources and Mining	0.5	0.6	0.6	0.7	0.7
Total Nonfarm	1,396.2	1,429.9	1,456.2	1,492.1	1,509.2
Farm	7.3	6.3	6.9	5.0	5.0
Total (all industries)	1,403.5	1,436.2	1,463.1	1,497.1	1,514.2

(1) Annually, as of August.

Source: State of California Employment Development Department, Labor Market Information Division, "*Industry Employment & Labor Force - by month March 2005 Benchmark.*"

Major Employers

The five largest major employers operating within the City and their respective number of employees as of June 2006 are as follows:

TABLE NO. 3
CITY OF COSTA MESA
MAJOR EMPLOYERS

Employer	Estimated Number of Employees	Product/Service
Auto Club of Southern California	5,000	Automobile Insurance
Fairview Developmental Center	1,800	Medical Services
Ditech.com	1,200	Mortgage Lender
Experian Information Solutions	1,200	Credit Bureau
First Team Real Estate	1,200	Real Estate

Source: City of Costa Mesa Planning Division.

Effective Buying Income

The most recently available effective buying income information for the City of Costa Mesa, Orange County, the State of California and the United States are summarized in the following table.

TABLE NO. 4
EFFECTIVE BUYING INCOME
CITY OF COSTA MESA, ORANGE COUNTY, CALIFORNIA AND UNITED STATES
2000 – 2004

Year	Costa Mesa	Orange County	State of California	United States
2000	$46,475	$55,262	$44,464	$39,129
2001	46,955	53,277	43,532	38,365
2002	44,250	49,726	42,484	38,035
2003	45,100	50,755	42,924	38,201
2004	45,872	51,823	43,915	39,324

Source: Sales and Marketing Management "*Survey of Buying Power.*"

Commercial Activity

The following table summarizes the volume of retail sales and taxable transactions for the City of Costa Mesa for 2000 through 2004 (the most recent year for which statistics are available).

TABLE NO. 5
CITY OF COSTA MESA
TOTAL TAXABLE TRANSACTIONS
(in thousands)
2000 – 2004

Year	Retail Sales ($000's)	% Change	Retail Sales Permits	Total Taxable Transactions ($000's)	% Change	Issued Sales Permits
2000	$2,394,340		3,300	$3,108,323		9,569
2001	2,473,284	3.3%	3,673	3,160,603	1.7%	9,814
2002	2,549,945	3.1%	4,172	3,176,417	0.5%	10,500
2003	2,806,984	10.1%	4,524	3,452,450	8.7%	11,055
2004	3,164,801	12.8%	4,809	3,820,884	10.7%	11,319

Source: State Board of Equalization, *"Taxable Sales in California."*

The following table compares taxable transactions for the City of Costa Mesa and surrounding cities for 2000 through 2004 (the most recent year for which statistics are available).

TABLE NO. 6
CHANGE IN TOTAL TAXABLE TRANSACTIONS
COSTA MESA AND SURROUNDING CITIES
(in thousands)
2000 – 2004

City	2000	2001	2002	2003	2004	% Change from 2000 - 2004
COSTA MESA	$3,108,323	$3,160,603	$3,176,417	$3,452,450	$3,820,884	22.9%
Fountain Valley	869,965	840,033	809,698	824,719	924,276	6.2%
Huntington Beach	2,335,272	2,113,445	2,104,087	2,220,984	2,411,197	3.3%
Irvine	3,982,449	3,893,976	3,660,618	4,087,470	4,421,676	11.0%
Newport Beach	1,763,466	1,716,344	1,798,205	1,913,046	2,124,545	20.5%

Source: State Board of Equalization, *"Taxable Sales in California."*

Taxable transactions by type of business for the City of Costa Mesa for 2000 through 2004 (the most recent year for which statistics are available) are summarized in Table No. 7.

TABLE NO. 7
CITY OF COSTA MESA
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)

	2000	2001	2002	2003	2004
Retail Stores					
Apparel Stores	$ 290,786	$ 301,223	$ 321,210	$ 343,620	$ 398,856
General Merchandise Stores	538,298	549,926	545,758	568,868	620,041
Food Stores	85,324	88,778	88,963	90,069	95,193
Eating/Drinking Places	236,199	237,227	241,220	264,078	292,216
Home Furnishings and Appliances	141,113	147,905	154,429	192,732	250,255
Building Materials and Farm Implements	111,209	121,909	131,698	143,463	173,011
Auto Dealers/Suppliers	455,441	485,143	528,355	598,721	669,825
Service Stations	104,991	97,401	94,496	107,959	123,366
Other Retail Stores	430,979	443,772	443,816	497,474	542,038
Total Retail Stores	**2,394,340**	**2,473,284**	**2,549,945**	**2,806,984**	**3,164,801**
All Other Outlets	713,983	687,319	626,472	645,466	656,083
Total All Retail Stores and Outlets	**$3,108,323**	**$3,160,603**	**$3,176,417**	**$3,452,450**	**$3,820,884**

Source: State Board of Equalization, "*Taxable Sales in California.*"

Building Activity

The following table summarizes building activity valuations for the City of Costa Mesa for the five-year period from 2001/02 through 2005/06.

TABLE NO. 8
CITY OF COSTA MESA
BUILDING ACTIVITY AND VALUATION
(IN THOUSANDS)
2001/02 – 2005/06

	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Residential	$11,002	$17,500	$27,926	$14,163	$30,105
Commercial	13,308	33,034	35,000	5,254	65,754
Total Valuation	**$24,310**	**$50,534**	**$62,926**	**$19,417**	**$95,859**
Residential Units	**432**	**427**	**508**	**60**	**379**

Source: City of Costa Mesa Financial Report.

FINANCIAL INFORMATION

Budgetary Process and Administration

In accordance with the provisions of Chapter 1, Division 3, Title 3, of the Government Code of the State of California, the City prepares and adopts a budget for each fiscal year. Prior to July 1, the City Manager is required to submit to the City Council a proposed operating budget on a basis consistent with generally accepted accounting principles for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. On or before June 30, public hearings are conducted to obtain public comments. On or before June 30, the budget is required to be enacted through the passage of a resolution by the City Council. The City Manager is authorized to transfer budgeted amounts within each department or between accounts. Budgetary revisions must be approved by the City Council. The budgetary level of control is at the department level. All appropriations lapse at the end of the Fiscal Year to the extent that they have not been expended or lawfully encumbered.

Appropriations Limit

Section 7910 of the Government Code of the State of California requires the City to adopt a formal appropriations limit for each fiscal year. The City's appropriations limit for fiscal year 2006/07 is $147,964,189. The City's appropriations subject to the limit for 2006/07 are $80.4 million. Based on this, the appropriations limit is not expected to have any impact on the ability of the City to budget and appropriate the Lease Payments as required by the Lease.

Revenues and Expenditures

The City General Fund Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City's share of sales and use taxes, property taxes, utility taxes, transient occupancy taxes, revenues from the State and/or federal government, and charges for services provided. See "CERTIFICATE OWNERS' RISKS – The Lease Payments – Impact of State Budget" herein.

Table No. 9 compares the adopted General Fund 2006/07 Budget with original budgeted, final budgeted and actual revenue and expenditures for 2005/06. Sales and use taxes and property taxes provide the major source of revenues to the General Fund, comprising approximately 49% and 25% respectively, of the City's 2006/07 General Fund Budget. Other 2006/07 General Fund budgeted revenue sources are use of money and property, 6%, transient occupancy taxes, 5%, and franchise fees, 4%.

Public safety represents the major use of General Fund moneys, accounting for approximately 54% of total expenditures of the 2006/07 General Fund Budget.

TABLE NO. 9
CITY OF COSTA MESA
GENERAL FUND REVENUES AND EXPENDITURES

	2005/06 Adopted Budget	2005/06 Final Budget	2005/06 Actual [1]	2006/07 Adopted Budget [6]
Revenues [1]				
Property taxes [2]	$ 14,869,700	$ 15,269,700	$ 16,936,786	$ 16,339,700
Sales and Use taxes [3]	43,795,600	44,904,970	45,116,230	46,996,640
Transient occupancy taxes	4,900,000	4,900,000	5,465,320	5,100,000
Franchise fees	3,866,000	3,631,000	3,674,652	3,742,000
Motor Vehicle In-Lieu Fees [4]	6,870,900	8,085,500	8,108,852	8,070,000
Other Governmental Agencies	942,770	985,194	1,180,771	665,160
License and Permits	2,077,900	1,875,500	2,101,870	1,482,600
Fines and Forfeitures	2,728,000	2,708,000	3,038,102	3,519,000
Fees and Charges for Services	2,639,770	2,927,370	3,448,410	3,520,560
Use of money and property	5,296,810	5,242,300	3,704,944	5,729,300
Business licenses	855,000	855,000	912,324	870,000
All other revenues	181,300	334,800	408,700	321,100
Lease Proceeds	-	1,298,388	1,602,436	482,250
Transfers In:	1,874,000	1,874,000	1,891,695	1,047,240
Total Revenues	**$ 90,897,750**	**$ 94,891,722**	**$ 97,591,092**	**$ 97,885,550**
Expenditures [1]				
General government	$ 2,200,027	$ 2,291,362	$ 2,040,997	$ 2,393,750
Finance and Administrative Services	17,051,765	18,157,239	16,335,501	16,978,945
Public Services	15,202,391	16,300,614	14,861,660	15,877,183
Public Safety	50,348,203	54,316,019	54,704,085	55,318,377
Development Services	4,062,212	4,380,212	4,389,125	4,880,767
Non-Departmental [5]	6,191,292	4,491,292	1,132,407	5,756,855
Transfers Out	2,543,454	3,107,524	3,107,524	435,000
Total Requirements	**$ 97,599,344**	**$103,044,262**	**$ 96,571,299**	**$101,640,877**
Change in Fund Balance	**$ (6,701,594)**	**$ (8,152,540)**	**$ (1,019,793)**	**$ (3,755.327)**

(1) Budget categories differ slightly from Financial Statement categories.

(2) Excludes Triple Flip and VLF-in-Lieu Property Taxes – see “Local Taxes” and “Motor Vehicle Fees” below.

(3) Includes Triple Flip payments – see “Local Taxes” below.

(4) Includes VLF-in-Lieu payments – see “Local Taxes” and “Motor Vehicle Fees” below.

(5) Non-Departmental Budgets include provisions for market salary adjustment. If adjustment is required during the year, such amount is later allocated to department budgets (budgeted $1.7 million in 2005/06 and $1.5 million in 2006/07).

(6) To be amended to reflect the delivery of the Certificates and related capital expenditures.

Source: City of Costa Mesa.

Local Taxes

The City receives the following local taxes:

TABLE NO. 10
CITY OF COSTA MESA
TAX REVENUES BY SOURCE
(in Thousands)

	2003/04	2004/05	Actual 2005/06	Budget 2006/07
Sales and Use Taxes [(1)]	$40,244,632	$33,003,241	$35,211,258	$35,500,000
Sales Tax Comp Fund (Triple Flip)	-	9,710,781	9,904,972	11,496,640
Property Taxes [(1)]	15,757,927	15,744,075	16,936,786	16,339,700
Property Taxes in lieu of VLF	-	6,033,161	7,368,457	7,350,000
Transient Occupancy Tax	4,221,661	4,641,350	5,465,320	5,100,000
Franchise Taxes	2,329,340	2,833,347	3,674,652	3,742,000
Business License Tax	830,794	912,434	912,434	870,000
Total Tax Revenues	**$63,384,354**	**$72,878,389**	**$79,473,879**	**$80,398,340**

(1) Does not reflect amounts paid by the State in-lieu of sales tax or vehicle license fees. These amounts are shown as separate line items in this table. Property taxes in-lieu of vehicle license fees are accounted for as "Intergovernmental Revenues" in Table No. 17.

Source: City of Costa Mesa.

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction received an amount equal to 1% of taxable sales within their jurisdiction. In addition, the City receives a portion of a ½ cent sales tax increase approved by voters in 1993. Sales tax generated by this increase is used to offset certain expenses for public safety.

On March 2, 2004, voters approved a bond proposition formally known as the "Economic Recovery Bond Act." This act authorized the issuance of $15 billion in bonds to finance the 2002/03 and 2003/04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the Triple Flip. Currently, $11.3 billion of the $15 billion authorization has been sold, with the remaining authorization being held in reserve to assist in defraying any future State budget deficits.

Under the "Triple Flip," one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in each county's Education Revenue Augmentation Fund ("ERAF") to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the deficit financing bonds are repaid, which is currently expected to occur in approximately 9 to 13 years. See "CERTIFICATE OWNERS' RISKS – The Lease Payments – Impact of State Budget – Triple Flip" herein.

Ad Valorem Property Taxes. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of l½% per month to the time of redemption. If taxes are unpaid for a period of 5 years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of l½% per month begins to accrue on November 1 of the fiscal year. The City has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Taxable Property and Assessed Valuation

Set forth in Table Nos. 11 and 12 below are historical assessed valuation for secured and unsecured property within the City of Costa Mesa and tax levies and collections.

TABLE NO. 11
CITY OF COSTA MESA
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY

Fiscal Year	Secured	Unsecured	Total
2002/03	$ 8,433,449,031	$1,063,585,290	$ 9,497,034,321
2003/04	9,035,785,680	1,043,278,924	10,079,064,604
2004/05	9,656,492,140	1,038,854,837	10,695,346,977
2005/06	10,657,341,292	982,950,159	11,640,291,451
2006/07	11,666,425,748	1,089,590,828	12,756,016,576

Source: County of Orange Auditor-Controller.

TABLE NO. 12
CITY OF COSTA MESA
PROPERTY TAX LEVIES AND COLLECTIONS

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Collected	Delinquent Tax Collections	Total Tax Collections
2001/02	$13,759,323	$13,427,866	97.6%	$229,852	$13,657,718
2002/03	14,454,930	14,157,707	97.9	269,338	14,427,045
2003/04	15,334,915	14,971,613	97.6	252,804	15,224,417
2004/05	16,675,818	16,292,111	97.7	210,990	16,503,101
2005/06	18,120,013	17,562,967	96.9	158,596	17,721,563

Source: City of Costa Mesa.

Largest Taxpayers

The principal taxpayers in the City as of June 30, 2006 are as shown in Table No. 13.

TABLE NO. 13
CITY OF COSTA MESA
LARGEST TAXPAYERS

	Property Owner		Assessed Valuation	Total [1]
1.	South Coast Plaza		$ 228,010,556	1.8%
2.	Orange County Performing Arts Center		221,657,722	1.7%
3.	Maguire Props-Pacific Arts Plaza		176,797,231	1.4%
4.	City of Costa Mesa		138,569,558	1.1%
5.	Automobile Club of Southern California		128,284,934	1.0%
6.	Los Angeles Times Communications LLC		115,511,524	0.9%
7.	Casden Lakes Limited Partnership		106,946,852	0.8%
8.	Experian Information Systems		100,829,229	0.8%
9.	C.J. Segerstrom & Sons		96,591,879	0.8%
10.	United Dominion Realty Limited Partnership		92,345,492	0.7%
		Total	$1,405,544,977	11.0%

(1) Percentage of assessed valuation to total assessed valuation.

Source: City of Costa Mesa.

Redevelopment Agencies

The California Redevelopment Law authorizes the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area is formed. In effect, local taxing authorities, such as the City, realize tax revenues only on the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. One redevelopment project has been formed in the City. The following table sets forth total assessed valuations and redevelopment agency incremental values.

TABLE NO. 14
CITY OF COSTA MESA
TOTAL AND NET PROPERTY TAX VALUATIONS

Fiscal Year	Total Assessed Valuation	Redevelopment Agency Incremental Value [1]	Net Value
2002/03	$ 9,497,034,321	$270,863,674	$ 9,226,170,647
2003/04	10,079,064,604	284,298,449	10,399,556,512
2004/05	10,695,346,977	295,790,465	11,328,392,475
2005/06	11,640,291,451	311,898,976	12,422,327,991
2006/07	12,756,016,576	333,688,585	10,399,556,512

Source: County of Orange Auditor-Controller.
[1] Does not include incremental value of a County of Orange redevelopment project that slightly overlaps City boundaries.

State Legislative Shift of Property Tax Allocation

Beginning in 1992/93, the State has required that local agencies remit a portion of property taxes received to augment school funding. These funds are deposited in each county's ERAF Fund. The 2005/06 property tax reduction for the City was approximately $4.1 million. The 2005/06 State budget shifted additional property taxes, of which the City's share was approximately $1.96 million. This second shift is not expected to occur in future years and no additional shift of City revenues was included in the State's 2006/07 budget. Further, certain provisions in the State budget have resulted in a realignment of property tax revenues in 2006/07 and future years. See "CERTIFICATE OWNERS' RISKS – The Lease Payments – Impact of State Budget" herein and "Local Taxes - Sales and Use Taxes" above.

Franchise Taxes. The City levies a franchise tax on its cable television, trash collection and utility franchises.

Business License Taxes. The City levies a business license tax of not more than $200 per business.

Transient Occupancy Taxes. The City levies a 6% transient occupancy tax on hotel and motels bills.

Motor Vehicle License Fees

Prior to 2003, a significant revenue source of the City was State of California payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as "intergovernmental revenues from other agencies."

Several years ago, the state-wide VLF was reduced by approximately two-thirds. However, pursuant to legislation, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the "VLF backfill." On June 19, 2003, the State triggered an increase in VLF to be effective beginning October 1, 2003. The Governor signed an executive order on November 17, 2003 to reduce the VLF rate once again, eliminating the increase. On December 17, 2003 the Governor issued another executive order, this time appropriating $2.625 billion to provide backfill funding for the city and county VLF funding in 2003/04 which covered the backfill except for the VLF loan amounts.

The State Legislature adopted AB 1768 which deferred payment to local agencies of the amount of the VLF backfill that related to the period from June 20, 2003 to September 30, 2003 when the higher VLF went into effect, until August 2006. This VLF "gap" or "loan" was approximately $1.2 billion statewide. The City's share of the "loan" was $1.9 million. The State repaid its VLF loans in July 2005.

The City's budgeted VLF amount of $720,000 for Fiscal Year 2006/07 is based on projected amounts at the reduced VLF rates and no assumed State VLF backfill. The State's 2005/06 Budget realigned certain property tax revenues so that cities and counties would be kept whole with respect to the amount of the VLF backfill in future years. The City accounts for this realignment of property taxes in-lieu of VLF in the same manner as VLF in its financial statements, however, such amounts are also shown separately in Table No. 10 above. See "CERTIFICATE OWNERS' RISKS – The Lease Payments – Impact of State Budget" herein.

Other Revenue Sources

Licenses and Permits. These revenues consist primarily of building construction and engineering permits. Revenue is also derived from dog licenses, vendor permits and sign permits.

Fines and Forfeitures. These revenues include parking citations and motor vehicle violations and illegal sign removal.

Use of Money and Property. These revenues consist primarily of investment earnings and rental income received for the City's community buildings and golf course operations. Rental income is shown separately from investment income in Table No. 17 but is combined in Table No. 9.

Fees and Charges for Services. Service charges are paid for various City-sponsored recreational program, plan check and other services provided by the Planning Department, fingerprinting, jail booking and other services provided by the Police Department and fire inspection, false alarm and paramedic services.

Personnel, Employee Relations and Collective Bargaining

The City has approximately 607 full-time budgeted positions and 89 (full-time equivalent) budgeted part-time positions. City employees are represented by four labor associations. Terms of the current negotiated agreements are shown below.

Bargaining Unit	Covered Group	Expiration Dates	Term of Agreement
Costa Mesa City Employees Assn.	General Employees	August 31, 2007	Three years
Costa Mesa Police Mgt. Assn.	Police Management	August 31, 2007	Three years
Costa Mesa Police Assn.	Police Officers	August 31, 2007	Three years
Costa Mesa Fire Assn.	Firefighters	June 30, 2007	Three years

Retirement Programs

California Public Employee's Retirement System. The City contributes to the California Public Employee's Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time employees are eligible to participate in the PERS. Benefits for employees vary based upon final yearly compensation, safety or non-safety status and age at retirement. PERS also provides death and disability benefits. City employees' contribution rates are 7% of earnings (9% for safety employees). The City contributes the total amount necessary to fund the benefits for its members using the actuarial basis recommended by PERS. The City makes the contributions required of City employees on their behalf and for their account, which amounted to approximately $3.6 million for the year ended June 30, 2006. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The City entered into a Safety 3.0% at 55 Risk Pool of PERS for its safety employees effective with valuation date 6/30/04. The following summarizes the City's actual and projected contribution rates:

	Personnel Group		
Fiscal Year	**Miscellaneous**	**Police**	**File**
2005/06	11.222%	29.858%	24.538%
2006/07	11.287	28.037	23.765
2007/08	12.144	28.405	23.998
2008/09 (projected)	12.000	28.000	24.200

The City's share of PERS payments for 2003/04 through 2005/06 are shown below.

Fiscal Year End	**Annual Pension Cost (Employer Contribution Only)**
6/30/04	$3,405,378
6/30/05	3,806,642
6/30/06	4,136,200

PERS unfunded actuarial accrued liability (or surplus) for both miscellaneous and safety employees are being amortized as a level percentage of projected payrolls over a closed 30-year period for prior and current service unfunded liability. As of June 30, 2005, the latest information available, the City was approximately 77.4% funded with respect to safety police employees' actuarial liability, 89.8% funded with respect to miscellaneous employees' actuarial liability and the Risk Pool for safety fire employees' actuarial liability was approximately 83.4% funded.

Post-Employment Benefits. On January 1, 2004, the City adopted a new Retirement Health Savings Plan (RHS) for all full-time active employees. The RHS plan is a defined contribution plan for all full and part-time employees at the City. Under the plan, the employee and the City each make a mandatory 1% of base pay contribution. If the employee separates from the City prior to the 10-year vesting period, the employee forfeits their share of the City's contribution. Also, the employee may elect to contribute up to 15% of their pre-tax base pay to this plan or the employee may elect to convert secondary sick leave, vacation or holiday time to be earned in the coming calendar year to this plan. The City's contribution to this plan for the year ended June 30, 2006 was $415,191. The City has no payment obligations once the employee separates from the City. The IRS is currently reviewing the tax qualified status of the plan. A final determination has not yet been made as of the release date of the financial statements. At this point, it is not possible for the City to reasonably estimate the potential financial impact, if any, of the IRS determination.

Prior to January 1, 2004, the City provided retirement health care benefits and life insurance under Council Policy No. 300-1 and the City's agreements with the labor associations. Only employees hired before January 1, 2004 are eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for these active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. As of June 30, 2006, approximately 269 retired employees were receiving benefits. The City pays up to 100% of these benefits under this plan, based upon the number of years of active service prior to retirement.

The City finances these post-employment benefits on a pay-as-you-go basis. For the year ended June 30, 2006, approximately $707,370 of post-employment benefit expenditures were recognized. This may increase as additional participants become eligible.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. These disclosure requirements will be effective for the City's Fiscal Year ending June 30, 2008.

GASB 45 may result in an increase in the annual expense recognized by the City for post-retirement health care benefits. The City expects to retain the services of an actuary in 2007 to determine the extent of the City's OPEB liability. The amount of the liability and the increase in the annual expense to be recognized, if any, has not yet been determined by the City.

Insurance Program

The City participates in the California Municipal Excess Liability ("CAMEL") Program. The membership of CAMEL consists of approximately 21 cities with similar interests and needs regarding liability insurance. Premiums are based upon the losses incurred. The Board of Directors set the premiums for each participant and each participant is represented on the Board. Premiums are based upon the losses incurred by each member and are not affected by losses incurred by other members.

In the Self-Insurance Workers' Compensation/General Liability/Unemployment Insurance Internal Service Fund, the City has recorded liabilities of $9,007,121 as of June 30, 2006 for lawsuits and other claims arising in the ordinary course of business. The City is self-insured for the first $2,000,000 of each claim arising for workers' compensation and has purchased outside insurance coverage in excess of the $2,000,000 up to an unlimited maximum. The City is self-insured for the first $2,000,000 of each claim arising for general liability and has purchased outside insurance coverage in excess of the $2,000,000 up to a maximum of $10,000,000 per occurrence. For the past three years, claim payments have not exceeded the amount of applicable insurance coverage.

The City has estimated losses for claims and judgments and has established liabilities of $6,201,796 for workers' compensation and $2,805,325 for general liability as of June 30, 2006. Losses for claims incurred but not reported are recorded when the probable amount of loss can be reasonably estimated. These amounts represent estimates of amounts to be paid for reported claims and incurred but not yet reported claims based on past experience, modified for current trends and information. While the ultimate amount of losses incurred is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The City is contingently liable for additional losses not reported in the financial statements in the range of approximately $25,000 to $2,500,000 for which the likelihood of an unfavorable outcome is only reasonably possible, as determined by legal counsel.

Changes in claims payable for the past two fiscal years are as follows:

Fiscal Year	Beginning Balance	Claims Incurred and Changes in Estimates	Claims Payments	Ending Balance
2004-05	$9,369,190	$1,708,260	$(2,558,287)	$8,519,163
2005-06	8,519,163	3,184,063	(2,696,105)	9,007,121

Outstanding Indebtedness of the City

As of June 30, 2006, the City's indebtedness (excluding the Certificates and obligations payable by the Costa Mesa Redevelopment Agency or separate obligations of the Authority not payable from the City's General Fund) consisted of 2003 Certificates in the principal amount of $12,730,000 maturing in 2018, 1998 Refunding Revenue Bonds in the principal amount of $7,600,000 maturing in 2012, capitalized lease obligations with minimum remaining lease payments of $7,482,976 and accrued employee leave benefits of $6,023,443. The maximum annual lease payments for the 2003 Certificates of Participation and the 1998 Refunding Revenue Bonds are $1,273,000 and $1,280,000, respectively. The City has not incurred any additional indebtedness since June 30, 2006. The City has never defaulted in the payment of any of its obligations.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of June 30, 2006. The Debt Report is included for general information purposes only. The City has not independently verified this information and makes no representations as to its accuracy or completeness. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations are not payable from City's General Fund nor are they necessarily obligations secured by property within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

TABLE NO. 15
CITY OF COSTA MESA
DIRECT AND OVERLAPPING DEBT

2005/06 Assessed Valuation:	$11,640,291,451
Redevelopment Incremental Valuation:	394,132,867 (1)
Adjusted Assessed Valuation:	$11,246,158,584

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/06	% Applicable (1)	City's Share of Debt 6/30/06
Orange County Teeter Plan Obligations	$123,725,000	3.651%	$ 4,517,200
Metropolitan Water District	389,565,000	0.769	2,995,755
Coast Community College District	102,718,867	14.744	15,144,870
Rancho Santiago Community College District	210,699,166	1.636	3,447,038
Newport Mesa Unified School District	104,770,000	28.498	29,857,355
Santa Ana Unified School District	135,923,187	3.916	5,322,752
City of Costa Mesa Community Facilities District No. 91-1	2,365,000	100.	2,365,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			$ 63,649,970
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	$630,022,000	3.651%	$ 23,002,103
Orange County Pension Obligations	99,716,298	3.651	3,640,642
Orange County Transit District Authority	2,470,000	3.651	90,180
Orange County Board of Education Certificates of Participation	19,820,000	3.651	723,628
Municipal Water District of Orange County Water Facilities Corporation	28,205,000	4.345	1,225,507
Orange County Sanitation District Certificates of Participation	130,370,000	5.058	6,594,115
Coast Community College District Certificates of Participation	6,695,000	14.744	987,111
Newport Mesa Unified School District Certificates of Participation	1,915,000	28.498	545,737
Santa Ana Unified School District Certificates of Participation	44,699,711	3.916	1,750,441
Irvine Ranch Water District Certificates of Participation	44,200,000	1.806	798,252
City of Costa Mesa General Fund Obligations	**20,275,000**	**100.**	**20,275,000**
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 59,632,716
Less: Orange County Transit District Authority (80% self-supporting)			72,144
MWDOC Water Facilities Corporation (100% self-supporting)			1,225,507
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 58,335,065
GROSS COMBINED TOTAL DEBT			$123,282,686 (2)
NET COMBINED TOTAL DEBT			$121,985,035

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005/06 Assessed Valuation:
Total Overlapping Tax and Assessment Debt............................0.55%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($20,275,000).....................................0.18%
Gross Combined Total Debt..1.10%
Net Combined Total Debt 1.08%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $0

(1) Incremental value includes a portion of a County redevelopment project that overlaps City boundaries.

Source: California Municipal Statistics.

Financial Statements

The City's accounting policies conform to generally accepted accounting principles and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board.

GASB No. 34. The Governmental Accounting Standards Board (GASB) published its Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, comptrollers, and financial officers on requirements for financial reporting for all governmental agencies in the United States. Retroactive reporting is required four years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. The City was required to implement the provision of GASB 34 for the fiscal year ending June 30, 2003.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The City retained the firm of Conrad & Associates, L.L.P., Certified Public Accountants, Irvine, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2006. The following tables summarize the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the last four fiscal years.

TABLE NO. 16
CITY OF COSTA MESA
GENERAL FUND
BALANCE SHEET
As of June 30

	2003	2004	2005	2006
Assets				
Cash and investments	$44,480,615	$43,944,532	$51,426,445	$50,162,000
Cash and investments with fiscal agent	-	-	-	1,638,703
Due from other governments	8,357,674	8,217,199	9,572,848	9,743,409
Accounts receivable	730,471	596,409	941,936	439,687
Interest receivable	1,297,369	1,395,877	1,483,388	1,589,673
Rent receivable	-	-	-	233,114
Due from other funds	63,731	603,476	432,806	527,498
Advances to other funds	13,018,886	12,760,692	12,481,842	12,180,685
Inventories	16,529	15,581	19,998	29,312
Prepaid items	392,005	139,976	119,416	32,823
Total assets	$68,357,280	$67,673,742	$76,478,679	$76,576,904
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 957,731	$ 1,150,048	$ 1,383,954	$ 1,019,582
Accrued liabilities	1,363,423	1,256,441	1,304,467	747,910
Retention payable	6,708	4,608	9,996	13,346
Deposits payable	5,620,321	3,268,010	3,488,801	3,301,434
Due to other funds	-	-	7,500	-
Deferred Revenue	589,176	394,405	451,607	557,464
Total liabilities	8,537,359	6,073,512	6,646,325	5,639,736
Fund Balances:				
Reserved for:				
Encumbrances	-	308,756	605,980	-
Prepaid items	392,005	139,976	119,416	32,823
Inventories	16,529	15,581	19,998	29,312
Advances to other funds	13,018,886	12,760,692	12,481,842	12,180,685
Self Insurance	-	2,000,000	2,000,000	2,000,000
Retirement buyback receivable	152,511	-	-	-
Unreserved:				
Designated	-	-	-	17,825,000
Undesignated	46,239,990	46,375,225	54,605,118	38,869,348
Total fund balances	$59,819,921	$61,600,230	$69,832,354	$70,937,168
Total liabilities and fund balances	$68,357,280	$67,673,742	$76,478,679	$76,576,904

Source: City of Costa Mesa Comprehensive Annual Financial Report.

TABLE NO. 17
CITY OF COSTA MESA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

	2003	2004	2005	2006
Revenues:				
Taxes	$57,321,828	$63,384,353	$66,845,228	$72,105,312
Licenses and permits	1,766,850	2,143,839	1,948,650	2,101,870
Fines and forfeits	1,971,320	3,098,176	2,776,842	3,038,102
Intergovernmental	7,940,702	6,701,783	9,973,140	9,289,623
Charges for services	2,671,359	2,882,211	3,140,577	3,448,410
Rental	2,607,667	2,730,378	2,722,143	2,657,369
Investment income	2,644,724	567,624	2,533,856	1,047,575
Miscellaneous	265,558	288,421	863,044	408,700
Total revenues	77,190,008	81,796,785	90,803,480	94,096,961
Expenditures:				
Current:				
General government	20,011,775	19,505,745	21,487,096	24,117,828
Protection of persons and property	46,657,375	47,641,912	50,568,799	57,373,126
Community programs	5,183,313	5,046,888	4,739,474	5,080,391
Public services	4,964,263	5,264,678	5,300,791	5,760,023
Debt Service:				
Principal	-	576,728	702,337	943,001
Interest and fiscal charges	-	145,330	119,793	189,406
Total expenditures	76,816,726	78,181,281	82,918,290	93,463,775
Excess of revenues over expenditures	373,282	3,615,504	7,885,190	633,186
Other financing sources (uses):				
Transfers in	260,943	1,067,699	3,457,279	1,891,695
Transfers out	(4,560,058)	(2,917,014)	(3,110,345)	(3,107,524)
Issuance of long-term debt	-	-	-	1,602,436
Lease proceeds	-	14,120	-	-
Total other financing sources (uses)	(4,299,115)	(1,835,195)	346,934	386,607
Net change in find balances	(3,925,833)	1,780,309	8,232,124	1,019,793
Fund balances at beginning of year, as restated	63,745,754	59,819,921	61,600,230	69,917,375
Fund balances at end of year	$59,819,921	$61,600,230	$69,832,354	$70,937,168

Source: City of Costa Mesa Comprehensive Annual Financial Report.

City Investment Policy and Portfolio

The City administers a pooled investment program, except for those funds which are managed separately by trustees appointed under bond indentures. This program enables the City to combine available cash from all funds and to invest cash that exceeds current needs. Under the City's Investment Policy and in accordance with the Government Code, the City may invest in the following types of investments:

U.S. Treasury securities, U.S. Agency securities, bankers' acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, reverse repurchase agreements, medium-term notes, money market mutual funds, the Local Agency Investment Fund (LAIF) of the State and the Orange County Treasurer's Pool.

The par value, market value, adjusted cost basis and percent of total investments for each category of the City's investments, as of September 30, 2006, are set forth in Table No. 18 below. This table excludes general and payroll checking accounts and impressed accounts. As of September 30, 2006, the weighted average maturity of the City's investment portfolio was 701 days.

TABLE NO. 18
CITY OF COSTA MESA
SCHEDULE OF INVESTMENTS
(As of September 30, 2006)

Investment Type	Par Value [1]	Market Value [2]	Book Value [3]	% of Total Investments
Money Market Mutual Funds	$ 19,687	$ 19,687	$ 19,687	0.02%
Commercial Paper	5,000,000	4,959,725	4,962,011	4.92
Local Agency Investment Fund	7,528,834	7,528,834	7,528,834	7.48
United States Agency Securities				
Federal Home Loan Bank	40,500,000	39,628,047	40,478,100	39.36
Federal Farm Credit Bank	13,500,000	13,255,312	13,500,000	13.17
Federal Home Loan Mortgage	19,200,000	18,929,026	19,200,000	18.80
Federal National Mortgage Assn.	16,500,000	16,359,375	16,500,000	16.25
Subtotal	89,700,000	88,171,760	89,678,100	87.58
Totals	$102,248,521	$100,680,006	$102,188,632	100.00%

(1) Par value is the principal amount of the investment at maturity.

(2) All market values contained herein are received from sources the City believes are reliable; however, the City does not guarantee their accuracy.

(3) Original cost of investments when purchased.

Source: City of Costa Mesa.

CERTIFICATE OWNERS' RISKS

The purchase of the Certificates involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal and/or interest represented by the Certificates. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

The Lease Payments

City's Lease Payments and Other Payments. The City's Lease Payments and other payments due under the Lease (including the costs of improvement, repair and maintenance of the Property and taxes, other governmental charges and assessments levied against the Property) are not secured by any pledge of taxes or other revenues of the City but are payable from yearly appropriations of any funds lawfully available to the City. If the City's revenue sources are less than its total obligations, the City could choose to fund other services before making Lease Payments and other payments due under the Lease. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues (see "Constitutional Limitation on Taxes and Expenditures" herein). To the extent these types of events or other events adversely affecting the funds available to the City occur in any year, the funds available to make Lease Payments may be decreased.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to the City to make Lease Payments may be decreased. The City is currently liable on other obligations payable from general revenues, including refunding revenue bonds issued in 1998 and the 2003 Certificates. In the event of a shortfall in revenues, a court might require that the City first set aside revenues to pay the other obligations of the City or to make expenditures necessary to preserve the health and welfare of City residents. See "FINANCIAL INFORMATION - Outstanding Indebtedness of the City" herein.

Abatement. The amount of Lease Payments due under the Lease will be adjusted or abated during any period in which by reason of damage or destruction to the Property or eminent domain proceedings or title defects there is substantial interference with the use and possession of the Property. Notwithstanding the provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the City's failure to have use and possession of the Property, such provisions may be superseded by operation of law, and, in such event, the resulting Lease Payments of the City may not be sufficient to pay all of that portion of the remaining principal and interest represented by the Certificates and the 2003 Certificates.

Insurance. The Lease obligates the City to obtain and keep in force various forms of insurance, to assure repair or replacement of the Property in the event of damage or destruction to the Property (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – AGREEMENT TO LEASE; TERMS OF LEASE; LEASE PAYMENTS" and "INSURANCE" herein). The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease. In addition, certain risks, such as damage from earthquakes and floods, may not be covered by such property insurance (see "SOURCES OF PAYMENT FOR THE CERTIFICATES - Insurance Relating to the Property" herein). The City currently maintains both flood and earthquake insurance on the Property.

Like many areas of California, the City is subject to seismic activity. According to the Environmental Hazards Element of the City's General Plan, the City is located in a seismically active region and the Property could be impacted by a major earthquake originating from the numerous faults in the area. According to the City's General Plan Safety Element, there are four major faults or zones which present seismic hazards for Costa Mesa -- Newport-Inglewood structural zone; Whittier fault zone; San Andreas fault zone; and San Jacinto fault zone. Other faults with lesser seismic hazard include the El Modeno, Norwalk, Palos Verdes, 4-S Ranch and Aliso Faults. The General Plan describes ground shaking as the most critical seismic hazard, and the potential for surface rupture or liquefaction as low. **The Lease does not require the City to maintain earthquake insurance.**

If the Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Lease Payments will be partially or completely abated. Apart from the Net Proceeds of insurance, the City and the Authority will have no obligation to expend any funds to repair or replace such damaged or destroyed property. If any Property so damaged or destroyed is not repaired or replaced within the period during which the proceeds of rental interruption insurance or amounts in the Reserve Fund are available, any such abatement could prevent the City from making timely Lease Payments.

Discovery of a Hazardous Substance That Would Limit the Beneficial Use of the Property. In general, the owners and lessees of a parcel may be required by law to remedy conditions of the property relating to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 sometimes referred to as CERCLA or the Superfund Act, is the most well known and widely applicable of these laws but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or lessee) is obligated to remedy a hazardous substance condition of property whether or not the owner (or lessee) had any involvement in creating or handling the hazardous substance. The effect, therefore, should the Property be affected by a hazardous substance, might be to limit the beneficial use of the Property upon discovery and during remediation.

Impact of State Budget

The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the City nor the Financial Advisor has independently verified or do they guarantee the accuracy of the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.

Recent State Budgets. Among the measures in the recent State budget affecting local governments were the following:

Vehicle License Fee Backfill. The State enacted Vehicle License Fee reductions for the current and prior fiscal years, but under the law authorizing these reductions, the State is required to "backfill" local governments for their revenue losses resulting from the lowered rates, and the Vehicle License Fee rate must be increased whenever there are insufficient moneys in the State general fund to pay for the backfill. The 2004/05, 2005/06 and 2006/07 State budgets deleted the requirement for backfill payments and, instead, provided that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See "FINANCIAL INFORMATION – Local Taxes."

Property Tax Shift to the ERAF. The 2004/05 and 2005/06 State budgets included a $1.3 billion shift of local government property taxes to the ERAF. The budgets apportioned the $1.3 billion among cities ($350 million), counties ($350 million), special districts ($350 million) and redevelopment agencies ($250 million) and limited the $1.3 billion ERAF transfer to the two fiscal years 2004/05 and 2005/06. The City's share of this additional shift of property taxes was $1,964,000 in each of the two years.

Deferral of Mandate Reimbursement. Recent budgets defer reimbursement to counties, cities and special districts for State mandates (i.e., State-mandated requirements that local agencies must carry out without regard to the timing of State reimbursement of the costs of those mandates).

Other Measures. In addition to the ERAF shift, recent budgets contained numerous other changes that reduce local government funds or increase local costs, including the elimination of booking fee subventions.

Triple Flip. Property tax revenue has become an increasingly significant portion of City revenues, and sales tax revenue has become an increasingly smaller portion of City revenues, at least over the next few fiscal years, because of legislation which was approved by the voters on March 2, 2004, commonly referred to as the "Triple Flip" and formally known as the "Economic Bond Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002/03 and 2003/04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the Triple Flip. Currently, $11.3 billion of the $15 billion authorization has been sold, with the remaining authorization being held in reserve to assist in defraying any future State budget deficits.

Under the "Triple Flip" one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction is redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Lease Payments. First, there may be a timing issue associated with the redirected sales and use taxes with property tax revenue: while sales and use taxes are distributed by the State Board of Equalization on a monthly basis, the County would only pay the redirected property taxes on a semi-annual basis. This timing issue would not only impact the City's cash flow, but would cause the City to lose investment earnings on the sales and use taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Lease Payments, the City may not know the exact amount of revenue available to pay Lease Payments.

Other than as described above, no additional shift of City revenues was included in the State's 2006/07 budget, and the property tax shift to ERAF described above that occurred in years 2004/05 and 2005/06 was not included in the State's 2006/07 budget.

Future State Budgets. The State has not resolved its structural deficit between revenues and expenditures. It is therefore anticipated that there will be additional future legislation which addresses this situation. The City cannot predict what measures may be proposed or implemented for the current fiscal year or in the future. Given the magnitude of the State's potential structural deficit, it is possible that future legislation will further reduce City revenues.

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in 2008/09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. In the future, it is possible that the Governor will proclaim that a shift of additional local property tax revenue is needed due to severe financial hardship.

The City cannot predict whether the State Legislature will, in future fiscal years, adopt legislation requiring other shifts of revenues to the State and/or to schools, whether by the ERAF mechanism or by another arrangement.

Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in such revenues may have an adverse impact on the City's ability to pay Lease Payments.

Constitutional Limitation on Taxes and Expenditures

State Initiative Measures Generally. Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. For more than 25 years, the voters have exercised this power to place limitations on the ability of local governments to levy taxes and make expenditures, including through the adoption of Proposition 13 ("Article XIIIA") and similar measures, the most recent of which was approved as Proposition 218 in the general election held on November 5, 1996.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Lease.

Article XIIIA. Article XIIIA of the California Constitution limits the taxing powers of California public agencies. Article XIIIA provides that the maximum ad valorem tax on real property cannot exceed one percent of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "the County assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The "full cash value" is subject to annual adjustment to reflect inflation at a rate not to exceed two percent or a reduction in the consumer price index or comparable local data. Article XIIIA has subsequently been amended to permit reduction of the 'full cash value' base in the event of declining property values caused by substantial damage, destruction or other factors, and to provide that there would be no increase in the 'full cash value' base in the event of reconstruction of property damaged or destroyed in a disaster and in other special circumstances.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of votes cast by the voters voting on the proposition.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend the terms "purchase" and "change of ownership", for purposes of determining full cash value of property under Article XIIIA, to not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first $1,000,000 of other property between parents and children. Proposition 60 amends Article XIIIA to permit the Legislature to allow persons over age 55 who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence's assessed value to the new residence. In the March 26, 1996 general election, voters approved Proposition 193, which extends the parents-children exception to the reappraisal of assessed value. Proposition 193 amended Article XIIIA so that grandparents may transfer to their grandchildren whose parents are deceased, their principal residences, and the first $1,000,000 of other property without a re-appraisal of assessed value.

Article XIIIB. On October 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIIIB to the California Constitution. The principal thrust of Article XIIIB is to limit the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State. The "base year" for establishing such appropriations limit is the 1978/79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by public agencies.

Proposition 62 and Proposition 218. Proposition 62 was a statutory initiative adding Sections 53720 to 53730, inclusive, to the California Government Code. It confirmed the distinction between a general tax and special tax, established by the State Supreme Court in 1982 in *City and County of San Francisco v. Farrell*, by defining a general tax as one imposed for general governmental purposes and a special tax as one imposed for specific purposes. Proposition 62 further provided that no local government or district may impose (i) a general tax without prior approval of the electorate by majority vote or (ii) a special tax without such prior approval by two-thirds vote. It further provided that if any such tax is imposed without such prior written approval, the amount thereof must be withheld from the levying entity's allocation of annual property taxes for each year that the tax is collected. By its terms, Proposition 62 applies only to general and special taxes imposed on or after August 1, 1985. Proposition 62 was generally upheld in *Santa Clara County Local Transportation Authority v. Guardino*, a California Supreme Court decision filed September 28, 1995.

On November 5, 1996, California voters approved Proposition 218 - Voter Approval for Local Government Taxes - Limitation on Fees, Assessments, and Charges - Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIIIA of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

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

Proposition 218 provides that, effective July 1, 1997, fees that are charged "as an incident of property ownership" may not "exceed the funds required to provide the property related services" and may only be charged for services that are "immediately available to the owner of the property."

The foregoing discussion of Proposition 62 and Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Lease Payments as well as the market for the Certificates. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Like its antecedents, Proposition 218 is likely to continue to undergo both judicial and legislative scrutiny before its ultimate impact on the City and its obligations can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law. The City is not able to predict the outcome of any such examination.

Future Initiatives. Articles XIIIA, XIIIB, XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's Constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Limited Recourse on Default

If an event of default occurs and is continuing under the Lease, there is no remedy of acceleration of any Lease Payments which have not come due and payable in accordance with the Lease. The City will continue to be liable for Lease Payments as they become due and payable in accordance with the Lease if the Trustee does not terminate the Lease, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest. In addition, the enforcement of any remedies provided in the Lease and the Trust Agreement could prove both expensive and time-consuming.

The Lease permits the Trustee to take possession of and re-lease the Property in the event of a default by the City under the Lease. However, due to the fact that the Property serves essential governmental purposes, it is unlikely that a court would permit such remedy to be exercised. Even if such remedy may be exercised, due to the specialized nature of the Property it is unlikely that the Trustee could readily re-lease it for rents which are sufficient to enable it to pay principal and interest represented by the Certificates and the 2003 Certificates in full when due. **In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease.**

Release or Substitution of Property

The Lease provides that, upon the satisfaction of the other conditions specified therein, the City may substitute other public facilities or real property for all or any portion of the Property, or release a portion of the Property from the lien of the Lease. The Lease requires that any project which will comprise the Property after such a substitution or release must have a useful life and fair rental value at least equal to the useful life and fair rental value of the Property at the time of substitution or release. Such a replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS - Tax Exemption" herein, the portion of the Lease Payments designated as and comprising interest and received by the Owners of the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were executed and delivered as a result of future acts or omissions of the City or the Authority in violation of their covenants contained in the Trust Agreement and the Lease. Should such an event of taxability occur, the Certificates are not subject to special prepayment or any increase in interest rate and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

Secondary Market

There can be no guarantee that there will be a secondary market for the Certificates or, if a secondary market exists, that such Certificates 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.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Certificates upon an event of default under the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. In the case of any bankruptcy proceeding involving the City, the rights of the Owners could be modified at the discretion of the court. The various legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified to the extent that the enforceability of certain legal rights related to the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement and other pertinent documents is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Special Counsel, will render an opinion which states that the Lease represents a valid and binding obligation of the City enforceable against the City in accordance with its terms except as limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights, by equitable principles by the exercise of judicial discretion and by limitations on legal remedies against municipalities in the State. See "APPENDIX D" hereto for the proposed form of Special Counsel's opinion.

The City has no knowledge of any fact or other information which would indicate that the Trust Agreement, the Lease or the Certificates are not so enforceable against the City, except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally and by limitations on legal remedies against municipalities in the State.

Certain legal matters will be passed on by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and for the City by the City Attorney. Special Counsel and Disclosure Counsel and the City Attorney express no opinion to the Owners of the Certificates as to the accuracy, completeness or fairness of this Official Statement. Fees payable to Special Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Certificates.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest due with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest due with respect to the Certificates may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Certificate before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the owner of a Certificate will increase the owner's basis in the Certificate. In the opinion of Special Counsel, original issue discount that accrues to the owner of a Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of constituting interest (and original issue discount) due with respect to the Certificates is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) due with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate Owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate Owner realizing a taxable gain when a Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Certificate premium.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Lease, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar securities).

Although Special Counsel has rendered an opinion that the interest (and original issue discount) due with respect to the Certificates is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest (and original issue discount) with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

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

Absence of Litigation

The City will furnish a certificate dated as of the date of delivery of the Certificates that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Trust Agreement, the Lease or the sale or delivery of the Certificates or in any manner questioning the proceedings and authority under which the Trust Agreement, the Site Lease and the Lease are to be executed or delivered or the Certificates are to be delivered or affecting the validity thereof.

CONCLUDING INFORMATION

Ratings on the Certificates

Moody's and Standard and Poor's have assigned their ratings of "Aaa" and "AAA," respectively, to the Certificates with the understanding that a municipal bond insurance policy insuring payment when due of the principal of and interest on the Certificates will be issued on the closing date by ____________________. In addition, Moody's and Standard & Poor's have assigned their municipal bond ratings of "__" and "__" respectively, to the Certificates, notwithstanding the delivery of the municipal bond insurance policy. Such ratings reflect only the views of the rating agencies and any desired explanation of the significance of such rating should be obtained from the rating agencies. 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 such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

Underwriting

The Certificates were sold to ___________ (the "Underwriter") at competitive sale. The Underwriter is offering the Certificates at the prices set forth on the inside front cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter has purchased the Certificates at a price equal to $________________, which amount represents the principal amount of the Certificates, less an original issue discount of $____________, and less an Underwriter's discount of $_____________. The Underwriter will pay certain of its expenses relating to the offering.

The Financial Advisor

The material contained in this Official Statement was prepared by the City with the assistance of the Financial Advisor who advised the City as to the financial structure and certain other financial matters relating to the Certificates. The information set forth herein received from sources other than the City has been obtained by the City from sources which are believed to be reliable, but such information is not guaranteed by the City or the Financial Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Financial Advisor are contingent upon the sale and delivery of the Certificates.

Continuing Disclosure

The City will covenant to provide annually certain financial information and operating data by not later than February 15 each year commencing February 15, 2007 and to provide the audited General Purpose Financial Statements of the City for the fiscal year ending June 30, 2007 and for each subsequent fiscal year when they are available (together, the "Annual Report"), and to provide notices of the occurrence of certain other enumerated events if deemed by the City to be material. The Annual Report will be filed by the Trustee on behalf of the City with each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (the "Repositories") and a State repository, if any, and may also be obtained from the Trustee. The notices of material events will be timely filed by the City with the Municipal Securities Rulemaking Board and the State repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the continuing disclosure obligation are set forth in "APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

The City has not failed to comply with any undertaking to provide any required continuing disclosure filing under the federal securities laws.

Additional Information

The summaries and references contained herein with respect to the Trust Agreement, the Site Lease, the Lease, the Assignment Agreement, the Certificates, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Certificates are qualified in their entirety by reference to the form hereof included in the Trust Agreement. Copies of the Trust Agreement, the Site Lease and the Lease are available for inspection during the period of initial offering on the Certificates at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Certificates from the City at 77 Fair Drive, Costa Mesa, California 92626.

References

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

Execution

The execution of this Official Statement by the Director of Finance has been duly authorized by the City of Costa Mesa.

CITY OF COSTA MESA

By: ______________________________

Director of Finance

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[to be provided by Special Counsel]

APPENDIX B
CITY AUDITED FINANCIAL STATEMENTS

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

[to be provided by Disclosure Counsel]

APPENDIX D
FORM OF SPECIAL COUNSEL OPINION

[to be provided by Special Counsel]

APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

[to be provided by Bond Insurer]

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy or completeness thereof. The City cannot and does not give any assurances 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 Certificates, (b) Certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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 Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC,") New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 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 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, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, 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 and www.dtc.org.

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City (or the Trustee on behalf thereof) 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, prepayment price, and interest payments with respect to the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Trustee, on the 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, Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment price, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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 Certificates at any time by giving reasonable notice to the City or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.