



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 07/17/07
AGENDA ITEM 9
WORK SESSION ITEM _____

TO: Mayor and City Council, and Public Financing Authority Board

FROM: Director of Finance and Internal Services

SUBJECT: Refinancing Certain Debt, including 1996 Civic Center Project, 1997 Capital Projects, 1996 Sewer System Refunding and Improvement Project, and 1998 Sewer System Improvement Project Certificates of Participation

RECOMMENDATION:

That the City Council and the Hayward Public Financing Authority adopt the attached resolutions authorizing the refinancing of certain outstanding General Fund debt issued for the 1996 Civic Center and 1997 Capital Projects; and outstanding Sewer Fund debt issued for the 1996 and 1998 Sewer Improvement Projects.

DISCUSSION:

Staff has identified approximately \$1.7 million and \$304,000 in interest expense savings, net of all cost, to the General Fund and Sewer Fund, respectively, if the City refinances four Certificates of Participation (COP) debt issues. Since the time the original debt was issued, interest rates have declined and at the current rates the City would be able to realize debt service savings. Should interest rates move unfavorably between the time Council approves the refinancing and staff completes the sale, staff will not proceed with the refinancing: A minimum of 3% present value savings must be obtained.

To maximize savings, staff is proposing two new debt issues:

1. The new 2007 Refunding Certificate of Participation will refund the 1996 Civic Center and 1997 Capital Projects General Fund COP's.
2. The new 2007 Sewer Revenue Bonds will refund the 1996 and 1998 Sewer Improvement Project COP's.

Details of the new and original debt issues are provided in the background section below.

Proposed Refinancing Structure

General Fund Refinancing - Staff is recommending that the City issue the refunding COP debt through the Hayward Public Financing Authority (HPFA). The HPFA is a Joint Exercise of Powers Authority (JPA) formed by the City in 1989 to facilitate the financing of capital projects

and has been used for several previous financings. The City Council also serves as the governing body of the HPFA. The repayment of the debt will be secured by the City of Hayward General Fund and the City Hall property located at 777 B Street. The original debt used not only the City Hall as collateral, but also the Police Facility, Corporate Yard and Fire Station No. 1. The amount of outstanding debt to be refinanced is \$30,985,000. Including the costs associated with issuing the COP's that will be funded from the refinancing (such as bond counsel, financial advisor, trustee, rating agencies and bond insurance); the amount of the new issue is estimated at \$31,915,000.

Sewer Fund Refinancing - The City of Hayward will issue the 2007 Sewer Revenue Refunding Bonds. The bonds are payable from and secured solely by net revenues derived from the operation of the sewer system. The original debt was structured using the HPFA to issue COP's. Staff believes that by refinancing the COP's with Revenue bonds, the City is utilizing a legal structure that better matches the type of financing with the uses. The amount of outstanding COP's to be refinanced is \$10,130,000. The current reserve funds of \$1,441,000 will be used to reduce the outstanding balance. Therefore, including the issuance costs (such as bond counsel, financial advisor, trustee, and bond insurance); the amount of the new bond issue is estimated at \$9,960,000.

Professional Assistance – The City has engaged the law firm of Jones Hall for bond counsel services and financial advisor services have been provided by Fieldman, Rolapp & Associates. The trustee services for these issues will continue to be provided by the Bank of New York. Total estimated costs of issuance for the General Fund COP's and Sewer Revenue Bonds are \$700,000 and \$338,000 respectively. These costs are paid from the bond proceeds.

Description of Financing Documents - The attached resolutions approve a variety of documents that are required in order to proceed with the refinancing. Prepared by the City's bond counsel (Jones Hall), the following is a brief description of these documents, which are on file in the City Clerk's office:

1. Indenture of Trust. This document contains all of the terms and provisions relating to the refinancing debt, including prepayment provisions, maturity schedules, rights and remedies of the certificate owners and the trustee in the event of a default.
2. Official Statement. The Official Statement (OS) describes the financing for prospective purchasers of the refunding certificates, and constitutes the primary marketing document for the financing.
3. Assignment and Termination Agreement. The assignment agreement is between the Hayward Public Financing Authority and the trustee (Bank of New York). The assignment consists of the Authority transferring certain rights to the trustee, such as the collection of the lease payments from the City and protecting the interests of the certificate owners. This agreement also terminates the assignment made for the security of the original leases.
4. Lease Agreement. The lease agreement is between the City and the Hayward Public Financing Authority. In order to secure the certificates, the Authority will lease the City Hall

and release the other property pledged in the previous lease agreements. The lease agreement also reduces the schedule of lease payments to reflect the savings resulting from the refinancing. Semiannual rental payments from the City will be sufficient to pay principal and interest on the bonds.

5. Irrevocable Refunding Instructions. These govern the mechanics of refinancing the certificates, such as directing the Trustee (Bank of New York) to open an escrow account and directing the flow of funds and use of bond proceeds.

As reflected in the attached resolutions approving these financing documents, the City Manager and Director of Finance are authorized to make minor amendments to these documents as recommended by bond counsel and the financial advisor, and to execute the final documents.

Competitive Sale of Debt - In accordance with recommended practices, the sale of these bonds will be a competitive process, with the award made to the lowest bidder. The attached resolutions authorize the City Manager and/or Director of Finance to make this award based on the recommendation of our Financial Advisor. As noted above, if the proposed refinancing does not result in net present value savings of at least 3%, we will not proceed.

Project Financing Schedule - If authorization to proceed is granted then staff estimates that the following schedule will be in effect. Immediately following authorization to proceed the City will authorize the City's Financial Advisor, Fieldman, Rolapp & Associates, to post a Notice of Sale and a Preliminary Official Statement to prospective purchasers of the COP's and Revenue Bonds. On or about August 1, 2007 the debt instruments will be sold by a competitive sale and closing is estimated to occur by August 15, 2007.

FISCAL IMPACT:

Based on current market conditions, the average annual savings are summarized as follows:

Refinancing Savings

	Total Net Present Value Savings	Average Annual Debt Service		
		Current	After Refinancing	Savings
General Fund	\$1,795,150	\$2,561,580	\$2,425,975	\$135,605
Sewer Fund	\$303,980	\$1,284,525	\$1,093,150	\$191,375

BACKGROUND:

Refunding of 1996 and 1997 General Fund Debt

The City issued Certificates of Participation (COP) in 1996 to construct the Civic Center Project. The original amount of the issue was \$32,595,000 of which approximately \$26,740,000 will be refunded. The outstanding interest expense due through the August 2026 maturity is \$17,143,629.

The City issued COP's in 1997 to refinance debt originally issued in 1991 for capital improvement projects including the Police Station, Fire Station and Corporate Yard. The original amount of the issue was \$7,045,000 of which approximately \$4,245,000 will be refunded. The outstanding interest expense due through the August 2017 maturity is \$1,388,073.

All the improvements from both the 1996 and 1997 COP's have been completed.

Issuing 2007 General Fund Refunding COP's

The new 2007 COP issue will have a par amount of approximately \$31,915,000. The proceeds are placed in an irrevocable trust to refund and defease the 1996 and 1997 debt. The term of the new issue will be 20 years with net annual debt service ranging from \$2.2 million to \$2.7 million. At this time, based on a 4.38% true interest cost, the General Fund will receive gross annual savings ranging from \$111,000 to \$132,000.

Benefits to refinancing these two General Fund debts include not only the \$1.7 million in savings, but also the ability to release certain pledged assets, such as the Police Station, Fire Station, and Corporate Yard.

Refunding of 1996 and 1998 Sewer Fund Debt

The City issued Certificates of Participation (COP) in 1996 to retire \$3,245,000 of outstanding sewer bonds and to issue new bonds to construct a new pumping plant and sewer line replacement at Clawiter Road and Enterprise Avenue. The original amount of the issue was \$10,665,000 of which approximately \$5,635,000 will be refunded. The outstanding interest expense due through the August 2016 maturity is \$1,833,868.

The City issued COP's in 1998 to finance construction of an upgrade of the Valle Vista pump station, Russ Road sewer line replacement, upgrade of Tennyson Road lift station, and replacement of the Tennyson Road interceptor. The original amount of the issue was \$7,300,000 of which approximately \$4,495,000 will be refunded. The outstanding interest expense due through the February 2015 maturity is \$1,558,740.

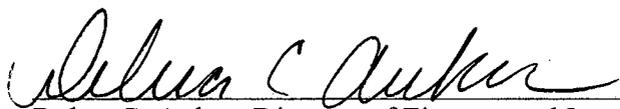
All the improvements from both the 1996 and 1998 COP's have been completed.

Issuing 2007 Sewer Revenue Refunding Bonds

The new 2007 Sewer Revenue Refunding Bonds will have a par amount of approximately \$9,960,000. The proceeds are placed in an irrevocable trust to refund and defease the 1996 and 1998 debt. The term of the new issue will be 11 years with net annual debt service ranging from \$550,000 million to \$1.25 million. At this time, based on a 4.2% true interest cost, the Sewer Fund will receive gross annual savings ranging from \$111,000 to \$132,000.

Benefits to refinancing these two Sewer Fund debts include not only the net present value savings of \$304,000, but also the ability to release the HPFA and utilize a more beneficial legal structure for issuing enterprise fund debt.

Recommended by:



Debra C. Auken, Director of Finance and Internal Services

Approved by:



Fran David, Acting City Manager

Attachments: Preliminary Official Statements –selected pages
Resolutions (3)

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2007

NEW ISSUE - BOOK-ENTRY ONLY

Insured Ratings: _____ S&P: _____ Fitch: _____
Underlying Ratings: _____

(See "RATINGS")

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing laws, the interest on the 2007 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$ _____ *
CITY OF HAYWARD
2007 SEWER REVENUE REFUNDING BONDS

Dated: Date of Delivery

Due: February 1, as shown on the inside cover page

The City of Hayward (the "City") is issuing \$ _____ *aggregate principal amount of City of Hayward 2007 Sewer Revenue Refunding Bonds (the "2007 Bonds") to: (i) prepay the City's Certificates of Participation (1996 Sewer System Refunding and Improvement Project) in the outstanding principal amount of \$6,190,000; (ii) prepay the City's Certificates of Participation (1998 Sewer System Improvement Project) in the outstanding principal amount of \$4,835,000; (iii) purchase a surety bond in the amount of the Reserve Requirement (defined herein) for deposit in the Reserve Fund established for the 2007 Bonds; and (iv) pay certain costs associated with the issuance of the 2007 Bonds. The 2007 Bonds are issued pursuant to an Indenture of Trust, dated as of August 1, 2007 (the "Indenture") by and between the City and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). See "PLAN OF REFUNDING."

The 2007 Bonds are payable from and secured solely by Net Revenues (defined herein) derived from the operation of the Sewer System. No funds or properties of the City, other than the Net Revenues, are pledged to secure the 2007 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2007 BONDS."

The 2007 Bonds will be issued in book-entry form, initially registered in the name of Cede & Co. as nominee of the Depository Trust Company, New York, New York ("DTC"), who will act as securities depository for the 2007 Bonds. Individual purchases of the 2007 Bonds will be in book-entry form only, and in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive physical certificates representing their interests in the 2007 Bonds. Principal of, interest on and redemption premium, if any, on the 2007 Bonds will be paid by the Trustee directly to DTC, which in turn is obligated to remit such principal, interest and redemption premium, if any, to DTC Participants for subsequent disbursement to the Beneficial Owners of the 2007 Bonds. See APPENDIX E-"DTC AND THE BOOK-ENTRY ONLY SYSTEM." Interest on the 2007 Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2008 at the respective rates set forth below. Principal of the 2007 Bonds is payable on the dates and in the respective principal amounts set forth on the inside cover.

The 2007 Bonds are subject to mandatory sinking account redemption as described herein. See "THE 2007 BONDS-Redemption Provisions."

§ _____*

CITY OF HAYWARD
2007 SEWER REVENUE REFUNDING BONDS

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the 2007 Bonds being offered, and a full review should be made of the entire Official Statement including the cover page, the table of contents and the appendices for a more complete description of the terms of the 2007 Bonds. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of provisions of, any other documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions of such documents.

General; Purpose

The purpose of this Official Statement, including the cover page through the appendices hereto, is to furnish information in connection with the sale and delivery by the City of Hayward (the "City") of \$ _____* aggregate principal amount of City of Hayward 2007 Sewer Revenue Refunding Bonds (the "2007 Bonds").

The 2007 Bonds are issued pursuant to an Indenture of Trust, dated as of August 1, 2007 (the "Indenture"), by and between the City and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") to: (i) prepay the City's Certificates of Participation (1996 Sewer System Refunding and Improvement Project) in the outstanding principal amount of \$6,190,000 (the "1996 Certificates"); (ii) prepay the City's Certificates of Participation (1998 Sewer System Improvement Project) in the outstanding principal amount of \$4,835,000 (the "1998 Certificates" and together with the 1996 Certificates, the "Prior Certificates"); (iii) purchase a surety bond in the amount of the Reserve Requirement (defined herein) for deposit in the Reserve Fund established for the 2007 Bonds; and (iv) pay certain costs associated with the issuance of the 2007 Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS." The 2007 Bonds will mature in the years and amounts and bear interest at the rates set forth on the inside cover page.

Security and Sources of Payment for the 2007 Bonds

Pledge of Net Revenues. The 2007 Bonds are payable from and secured solely by Net Revenues (defined herein) derived from the operation of the sewer system operated by the City (the "Sewer System"). No funds or properties of the City, other than the Net Revenues, are pledged to secure the 2007 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS."

Any damage or destruction to the Sewer System could result in a decrease in Net Revenues (as more particularly described below and under "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS—Pledge of Net Revenues") pledged to the payment of the 2007 Bonds and may have an adverse impact on the ability of the City to pay debt service on the 2007 Bonds. See "CERTAIN RISKS TO BONDHOLDERS."

THE 2007 BONDS ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF, AND FIRST LIEN UPON NET REVENUES DERIVED BY THE CITY FROM THE OPERATION OF THE SEWER SYSTEM AND CERTAIN AMOUNTS HELD UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY OTHER POLITICAL SUBDIVISION IS

* Preliminary, subject to change.

PLEGGED TO THE PAYMENT OF THE 2007 BONDS. NEITHER PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR THE INTEREST ON THE 2007 BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH IT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Reserve Fund. A Reserve Fund is established for the 2007 Bonds pursuant to the Indenture in an amount equal to the Reserve Requirement. Amounts on deposit in the Reserve Fund will be used for the payment of debt service on the 2007 Bonds in the event that amounts on deposit in the Bond Service Fund are insufficient therefor. On the date of issuance of the 2007 Bonds, the City will deposit a reserve fund surety bond issued by _____ (the "Bond Insurer") in the amount of \$ _____ into the Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS-Reserve Fund" [and APPENDIX G-"SPECIMEN RESERVE FUND SURETY BOND."]

Outstanding Parity Obligations. In 2006, the City entered into a loan agreement (the "State Loan") with the State Water Resources Board to finance the cost of improvements to the City's existing water pollution control facilities. The loan agreement may not exceed \$54,550,018 and is secured by Net Revenues on a parity with the 2007 Bonds. As of June 30, 2007, the principal amount of the loan was \$38,000,000. Following the issuance of the 2007 Bonds and the prepayment of the Prior Certificates, the only outstanding parity obligations will be the State Loan. See also "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS-Outstanding Parity Obligations" and "THE SEWER SYSTEM-Capital Improvement Program" for a description of the improvements financed with the State Loan.

Bond Insurance

Payment of the principal and interest on the 2007 Bonds when due will be insured by a municipal bond insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of the 2007 Bonds by the Bond Insurer. See "MUNICIPAL BOND INSURANCE" and APPENDIX F-"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Certain Risks to Bondholders

Investment in the 2007 Bonds involves risk. For a discussion of certain considerations relevant to an investment in the 2007 Bonds, see "CERTAIN RISKS TO BONDHOLDERS."

Continuing Disclosure

The City has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository or the Municipal Securities Rulemaking Board and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. See "CONTINUING DISCLOSURE" and APPENDIX D-"FORM OF CONTINUING DISCLOSURE CERTIFICATE" for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

The City has never failed to comply in any material respect with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Additional Information

This Official Statement contains brief descriptions of the 2007 Bonds, the security for the 2007 Bonds, the Indenture, the City, the Sewer System and certain other information relevant to the issuance of the 2007 Bonds. All references herein to the Indenture are qualified in their entirety by reference to the complete text thereof and all references to the 2007 Bonds are further qualified by reference to the form thereof contained in the Indenture. The proposed form of legal opinion of Bond Counsel for the 2007 Bonds is set forth in APPENDIX C. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture. See APPENDIX B--“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The information set forth herein and in the Appendices hereto has been furnished by the City and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the City. Copies of documents referred to herein and information concerning the 2007 Bonds are available upon written request from the Finance Director of the City, 777 B Street, Hayward, California 94541-5007; telephone: (510) 583-4010. The City may impose a charge for copying, mailing and handling.

PLAN OF REFUNDING

The City will apply a portion of the proceeds from the sale of the 2007 Bonds, together with certain other available moneys, to establish separate escrow funds (the “1996 Escrow Fund” and the “1998 Escrow Fund,” respectively) to prepay, on a current basis, the Prior Certificates. The Prior Certificates to be prepaid are described in Table 1A and Table 1B below.

1996 Certificates

The 1996 Certificates to be prepaid with a portion of the proceeds from the sale of the 2007 Bonds consist of the following:

Table 1A
\$6,190,000
City of Hayward
Certificates of Participation
(1996 Sewer System Refunding and Improvement Project)
Dated Date: August 1, 1996

<u>Maturity Date</u> <u>(February 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(421209)†</u>	<u>Prepayment Date</u> <u>(September 14)</u>	<u>Prepayment</u> <u>Price</u>
2008	\$555,000	5.200%		2007	100%
2009	580,000	5.300		2007	100
2010	610,000	5.400		2007	100
2011	645,000	5.450		2007	100
2012	680,000	5.500		2007	100
2013	720,000	5.500		2007	100
2014	755,000	5.550		2007	100
2015	800,000	5.600		2007	100
2016	845,000	5.625		2007	100

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is *not* intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for reference only. Neither of the City nor the Financial Advisor take any responsibility for the accuracy of such numbers.

The 1996 Escrow Fund is established pursuant to Irrevocable Refunding Instructions dated August __, 2007 (the "1996 Escrow Instructions") given by the City to The Bank of New York Trust Company, N.A., as successor to Chemical Trust Company of California, as the trustee for the 1996 Certificates (the "1996 Trustee") under the Trust Agreement dated as of August 1, 1996 (the "1996 Trust Agreement"), by and between the City and the 1996 Trustee. The amounts deposited in the 1996 Escrow Fund, together with certain other available moneys, including funds currently held under the 1996 Trust Agreement, will be invested by the 1996 Trustee in noncallable United States Treasury Securities (as defined in the 1996 Trust Agreement), the principal of and interest on which, when received, will be sufficient to prepay the principal of and interest represented by the 1996 Certificates as the same shall become due at a redemption price equal to 100% of the principal amount of the 1996 Certificates.

The sufficiency of the amounts deposited with the 1996 Trustee under the 1996 Escrow Agreement to prepay the principal of and interest represented by the 1996 Certificates will be verified by Causey Demgen & Moore, Inc. Neither the United States Treasury Securities nor the interest thereon will be available for the payment of the 2007 Bonds. As a result of the deposit and application of the funds provided in the 1996 Escrow Instructions, the lien of the 1996 Certificates on the Net Revenues will be defeased and discharged. See also "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

1998 Certificates

The 1998 Certificates to be prepaid with a portion of the proceeds from the sale of the 2007 Bonds consist of the following:

Table 1B
\$4,835,000
City of Hayward
Certificates of Participation
(1998 Sewer System Improvement Project)
Dated Date: January 1 1998

<u>Maturity Date</u> <u>(February 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(421209)†</u>	<u>Prepayment Date</u> <u>(September 14)</u>	<u>Prepayment</u> <u>Price</u>
2008	\$340,000	4.550%		2007	100%
2009	355,000	4.650		2007	100
2010	375,000	4.750		2007	100
2011	390,000	4.800		2007	100
2012	410,000	4.875		2007	100
2015	1,370,000	5.000		2007	100
2018	1,595,000	5.000		2007	100

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is *not* intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for reference only. Neither of the City nor the Financial Advisor take any responsibility for the accuracy of such numbers.

The 1998 Escrow Fund is established pursuant to Irrevocable Refunding Instructions dated August __, 2007 (the "1998 Escrow Instructions" and together with the 1996 Escrow Instructions, the "Escrow Instructions") given by the City to The Bank of New York of Trust, N.A., as successor trustee to Chemical Trust Company of California, as the trustee for the 1998 Certificates (the "1998 Trustee" and together with the 1996 Trustee, the "Prior Certificates Trustee") under the Trust Agreement dated as of August 1, 1998 (the "1998 Trust Agreement"), by and between the City and the 1998 Trustee. The amounts deposited in the 1998 Escrow Fund, together with certain other available moneys, including funds currently held under the 1998 Trust Agreement, will be invested by the 1998 Trustee in noncallable United States Treasury Securities (as

defined in the 1998 Trust Agreement), the principal of and interest on which, when received, will be sufficient to prepay the principal of and interest represented by the 1998 Certificates as the same shall become due at a redemption price equal to 100% of the principal amount of the 1998 Certificates.

The sufficiency of the amounts deposited with the 1998 Trustee under the 1998 Escrow Agreement to prepay the principal of and interest represented by the 1998 Certificates will be verified by Causey Demgen & Moore, Inc. Neither the United States Treasury Securities nor the interest thereon will be available for the payment of the 2007 Bonds. As a result of the deposit and application of the funds provided in the 1998 Escrow Instructions, the lien of the 1998 Certificates on the Net Revenues will be defeased and discharged. See also "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

ESTIMATED SOURCES AND USES OF FUNDS

The anticipated sources and uses of funds relating to the 2007 Bonds are as set forth in the following table.

Table 2
Estimated Sources and Uses of Funds

Sources:

Principal Amount of the 2007 Bonds
Funds from the 1996 Trust Agreement
Funds from the 1998 Trust Agreement
Net Original Issue Premium/Discount
TOTAL SOURCES

Uses:

Deposit to 1996 Escrow Fund⁽¹⁾
Deposit to 1998 Escrow Fund⁽²⁾
Deposit to Costs of Issuance Fund⁽³⁾
Deposit to Reserve Fund
Purchaser's Discount
TOTAL USES

(1) To be used to prepay the 1996 Certificates. See "PLAN OF REFUNDING—1996 Certificates."

(2) To be used to prepay the 1998 Certificates. See "PLAN OF REFUNDING—1998 Certificates."

(3) Includes the fees and expenses of Bond Counsel, Disclosure Counsel and Counsel to the City, fees and expenses of the Trustee, the Escrow Bank, the Financial Advisor, the Verification Agent, printing costs, rating agency fees, bond insurance premium and other costs related to the issuance of the 2007 Bonds.

THE 2007 BONDS

Description

The 2007 Bonds will be dated the date of delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on February 1 and August 1 (each, an "Interest Payment Date"), commencing February 1, 2008, and will mature on the dates and in the amounts set forth on the inside cover page. The 2007 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no 2007 Bond shall have more than one maturity date. The 2007 Bonds will be issued only as one fully registered 2007 Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Bonds. See

APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM." Ownership may be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

Each 2007 Bond shall bear interest, calculated on the basis of a 360-day year of twelve 30-day months, from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event such 2007 Bonds bear interest from such Interest Payment Date; (ii) it is authenticated on or before the Record Date, in which event such 2007 Bonds will bear interest from the date of delivery; *provided, however*, that if, as of the date of authentication of any 2007 Bond, interest thereon is in default, such 2007 Bond will bear interest from the date on which interest has been paid in full, payable on each Interest Payment Date.

Interest on the 2007 Bonds is payable when due by check or draft of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owner thereof at such Owner's address as it appears on the Registration Books as of the close of business on the preceding Record Date; *provided, however*, that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of 2007 Bonds, which written request is on file with the Trustee as of any Record Date, interest on such 2007 Bonds shall be paid on the succeeding Interest Payment Date to such account in the United States as shall be specified in such written request.

So long as the 2007 Bonds are held in the book-entry only system of DTC, all such payments will be made to Cede & Co., as the registered Owner of the 2007 Bonds. The principal of and any premium on the 2007 Bonds, are payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee. See APPENDIX E—"DTC AND THE BOOK ENTRY ONLY SYSTEM."

Redemption Provisions

No Optional Redemption. The 2007 Bonds are *not* subject to optional redemption prior to their respective stated maturities.

Mandatory Sinking Account Redemption. The 2007 Bonds maturing on February 1, 20__ and February 1, 20__ (collectively, the "2007 Term Bonds") are subject to mandatory sinking fund redemption in whole, or in part by lot, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on August 1 in the years as set forth in the following tables; *provided however*, that if some but not all of the 2007 Term Bonds are redeemed, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such 2007 Term Bonds so redeemed, to be allocated among such sinking fund payments on a *pro rata* basis, as determined by the Trustee:

2007 Term Bonds Maturing August 1, 20__

Sinking Fund Account	
Redemption Date	
<u>(August 1)</u>	<u>Principal Amount</u>

† Maturity.

2007 Term Bonds Maturing August 1, 20__

Sinking Fund Account

Redemption Date

(August 1)

Principal Amount

† Maturity.

Special Mandatory Redemption from Insurance and Sale Proceeds. The 2007 Bonds are also subject to redemption as a whole or in part, on any Interest Payment Date, from and to the extent of the proceeds of disposition of Sewer System properties or the proceeds of hazard insurance not used to repair or rebuild the Sewer System, which proceeds are required to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

Purchase in lieu of Redemption. In lieu of redemption of 2007 Bonds as provided in the Indenture, amounts in the Redemption Account of the Debt Service Fund may also be used and withdrawn by the Trustee at any time, upon the Request of the City filed with the Trustee no later than [April 1] in any year, for the purchase of 2007 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Debt Service Fund) as the City may in its discretion determine, but not to exceed the principal amount of such 2007 Bonds. The City shall, at the time of any such purchase, the City will pay to the Trustee for deposit in the Debt Service Fund the amount of any deficiency in such Fund which may be caused by such purchase.

Redemption Procedures

Notice of Redemption. The Trustee on behalf and at the expense of the City is required to mail, by first class mail, notice of any redemption to the Owners of any 2007 Bonds designated for redemption at their respective addresses appearing on the Registration Books and to the Bond Insurer, at least 30 but not more than 60 days prior to the dated fixed for redemption, *provided, however,* that neither the failure to receive such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2007 Bonds or the cessation of the accrual of interest thereon. Such notice is required to state the redemption date, the redemption place and the redemption price; designate the CUSIP numbers, the 2007 Bond numbers and the maturity or maturities (in the event of redemption of all of the 2007 Bonds of such maturity or maturities in whole) of the 2007 Bonds to be redeemed, and require that such 2007 Bonds be then surrendered at the Office of the Trustee identified in such notice of redemption at the redemption price, giving notice that further interest on such 2007 Bonds will cease to accrue from and after the redemption date.

Manner of Redemption. Whenever less than all of the 2007 Bonds are to be redeemed, the Trustee is required to select the 2007 Bonds to be redeemed, by lot, in such manner that the Trustee in its sole discretion deems appropriate. For purposes of such selection, all 2007 Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Bonds that may be separately redeemed.

Partial Redemption. If only a portion of any 2007 Bond is called for redemption, then upon surrender of such 2007 Bond the City is required to execute and the Trustee is required to authenticate and deliver to the Owner thereof, at the expense of the City, a new 2007 Bond or 2007 Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2007 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the 2007 Bonds so called for redemption have been duly provided, such 2007 Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date specified in such notice.

Right to Rescind. The City has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption is required be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2007 Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The City and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee is required to mail notice of such rescission of redemption in the same manner and to the same recipients as the original notice of redemption was sent.

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DEBT SERVICE SCHEDULE

The following table shows scheduled semiannual debt service on the 2007 Bonds, without regard to any optional redemption. See also "THE SEWER SYSTEM—Financial Information—Table 15—Projected Revenues, Expenses and Debt Service Coverage."

**Table 3
Debt Service Schedule**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Scheduled Debt Service</u>	<u>Fiscal Year Total</u>
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SECURITY AND SOURCES OF PAYMENT FOR THE 2007 BONDS

Pledge of Net Revenues

Pursuant to the Indenture the City pledges and assigns to the Trustee, for the benefit of the Owners, for as long as any 2007 Bonds remain Outstanding, on a parity with the pledge that secures all Outstanding Parity Obligations, if any, a first, direct and exclusive charge and lien on all Net Revenues necessary to pay the principal or Redemption Price of and interest on the 2007 Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund. Net Revenues is defined as Gross Revenues less Maintenance and Operations Costs.

“Gross Revenues” is defined in the Indenture as, for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Sewer System or otherwise arising from the Sewer System during such period, including but not limited to: (i) all fees, tolls, assessments, rates and charges prescribed by the City Council for the services and facilities of the Sewer System furnished by the City, including connection fees and capacity fees (collectively, the “Charges”) received by the City for use of the Sewer System; (ii) all receipts derived from the investment of funds held by the City or the Trustee under the Indenture; (iii) transfers from (but exclusive of any transfers to) any rate stabilization reserve accounts held under the Indenture; and (iv) all moneys received by the City from other public entities whose inhabitants are served pursuant to contracts with the City.

“Operation and Maintenance Costs” is defined in the Indenture as the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Sewer System, including, but not limited to: (i) the reasonable expenses of management, personnel, services, equipment, repair and other costs and expenses necessary to maintain and preserve the Sewer System in good repair and working order, and (ii) the reasonable administrative costs of the City attributable to the operation and maintenance of the Sewer System; but excluding in all cases (a) interest expense relating to subordinate obligations and unsecured obligations of the City; (b) depreciation, replacement and obsolescence charges or reserves therefor, and (c) amortization of intangibles or other bookkeeping entries of a similar nature.

The pledge of Net Revenues is on a parity with the pledge securing future Parity Bonds, if issued, and the State Loan.

The 2007 Bonds are limited obligations of the City and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the City or any of its income or receipts, except the Net Revenues. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2007 Bonds. No tax or other sources of funds, other than the Net Revenues, is pledged to pay the principal of, premium, if any, or interest on the 2007 Bonds. Neither payment of the principal or Redemption Price of, or the interest on the 2007 Bonds constitutes a debt, liability or obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which it has levied or pledged any form of taxation.

Deposit of Gross Revenues; Funds and Accounts

All Gross Revenues, when and as received, are required to be deposited in the Sewer Fund and applied, transferred and used solely for the purposes set forth in the Indenture and as set forth in the Parity Obligation documents. In addition to the withdrawals required to pay principal of and interest on the Parity obligations, the City is required under the Indenture to withdraw amounts on deposit in the Sewer Fund and apply such amounts in the following priority:

First: Bond Service Fund;
Second: Reserve Fund; and
Third: Redemption Fund

Bond Service Fund. On or before the 3rd Business Day of the month preceding each Interest Payment Date, so long as any 2007 Bonds remain Outstanding, the City is required withdraw from the Sewer Fund and transfer to the Trustee for deposit into the Bond Service Fund an amount which, together with other available amounts then on deposit in the Bond Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the 2007 Bonds on such Interest Payment Date, including the principal amount of the 2007 Term Bonds (if any) which are subject to mandatory sinking fund redemption on such Interest Payment Date under the Indenture.

The amounts in the Bond Service Fund will be applied by the Trustee solely for the purpose of: (i) paying the interest on the Outstanding 2007 Bonds when due and payable (including accrued interest on any 2007 Bonds purchased or redeemed pursuant to the Indenture), (ii) paying the principal of the 2007 Bonds at the maturity thereof, and (iii) paying the principal of the 2007 Term Bonds coming due and payable upon the mandatory sinking fund redemption thereof under the Indenture. Upon the payment of all Outstanding 2007 Bonds, the Trustee is required to transfer any moneys remaining in the Bond Service Fund to the City for deposit into the Sewer Fund.

Reserve Fund. If the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement, the Trustee is required to promptly notify the City of such fact and the City is required to promptly (i) withdraw the amount of such insufficiency from available Net Revenues on deposit in the Sewer Fund, and (ii) transfer such amount to the Trustee for deposit in the Reserve Fund. No deposit need be made in the Reserve Fund so long as the balance therein at least equals the Reserve Requirement. If the amount on deposit in the Reserve Fund exceeds the Reserve Requirement, the Trustee is required to transfer such excess amount to the Bond Service Fund.

If the amounts on deposit in the Bond Service Fund on any Interest Payment Date are insufficient to pay the principal of and interest on the 2007 Bonds then coming due, including the principal of the 2007 Term Bonds coming due and payable upon the mandatory sinking fund redemption thereof under the Indenture, the Trustee is required to: (i) immediately notify the City and the Bond Insurer in writing of such fact, and (ii) withdraw the amount of such insufficiency from the Reserve Fund and transfer it to the Bond Service Fund. On the date on which all 2007 Bonds are retired, any moneys then on deposit in the Reserve Fund will be withdrawn by the Trustee and paid to the City.

Redemption Fund. If the City elects to effect an optional redemption of Outstanding Bonds under the Indenture, the City is required to transfer to the Trustee for deposit into the Redemption Fund an amount at least equal to the redemption price of the 2007 Bonds, excluding accrued interest, which is payable from the Bond Service Fund. In addition, the City is required to transfer or cause to be transferred to the Trustee all amounts required to redeem any 2007 Bonds that are subject to special mandatory redemption from insurance and sale proceeds under the Indenture, when and as such amounts become available. Amounts in the Redemption Fund are required by the Indenture be applied by the Trustee solely for the purpose of paying the redemption price of 2007 Bonds subject to optional redemption or special mandatory redemption from insurance and sale proceeds as provided in the Indenture. Following any such redemption of the 2007 Bonds, any moneys remaining in the Redemption Fund will be transferred by the Trustee to the City for deposit in the Sewer Fund.

Application of Surplus Net Revenues. So long as no Event of Default has occurred and is continuing under the Indenture, the City may at any time and from time to time use and apply such remaining Net Revenues on deposit in the Sewer Fund for: (i) deposits into the Rate Stabilization Account, (ii) the acquisition and construction of extensions and betterments to the Sewer System; (iii) the redemption of any of the 2007 Bonds which are then subject to redemption or the purchase from time to time in the open market of any Outstanding Bonds whether or not then subject to redemption (irrespective of the maturity or number of such Bonds) at prices and in such manner, either at public or private sale, or otherwise, as the City in its discretion may determine; (iv) payment of debt service on any outstanding bonds or other obligations incurred to finance improvements to the Sewer System; or (v) any other lawful purpose of the Sewer System.

Reserve Fund

A Reserve Fund is established under the Indenture and is required to be maintained in an amount equal to "Reserve Requirement" which is defined, as of any date of calculation, as the maximum amount principal of and interest on the 2007 Bonds coming due and payable in the current or any future Bond Year. Upon the issuance of the 2007 Bonds, proceeds will be used to purchase a reserve fund surety bond in the amount of \$ _____ issued by _____ (the "Bond Insurer") for deposit in the Reserve Fund, which amount is equal to the Reserve Requirement. See also "MUNICIPAL BOND INSURANCE."

Rate Stabilization Account

The City is permitted under the Indenture to create a separate rate stabilization reserve account, which, if created, will be held and maintained by the City. From time to time the City may deposit therein from such remaining Net Revenues such amounts as the City in its sole discretion may determine for any lawful purpose of the City relating to the Sewer System.

Rate Covenant; Collection of Rates and Charges

The City covenants under the Indenture to fix, prescribe, revise and collect rates, fee and charges during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- First:* all Maintenance and Operation Costs estimated by the City to become due and payable in such Fiscal Year;
- Second:* the Debt Service on the Parity Obligations becoming due and payable during the Fiscal Year, without preference to priority;
- Third:* all payments coming due and payable during the Fiscal Year and required for compliance with the Parity Obligation Documents; and
- Fourth:* all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues during the Fiscal Year.

In addition, the City is required under the Indenture to fix, prescribe, revise and collect rates, fee and charges during each Fiscal Year which are sufficient to yield estimated Net Revenues at least equal to 115% of the Debt Service payable in such Fiscal Year, which, (together with existing unreserved, unrestricted working capital balances in the Sewer Fund, and taking into account allowances for contingencies), are sufficient to yield estimated Net Revenues at least equal to 115% of Debt Service coming due and payable during such Fiscal Year.

Parity Obligations

Outstanding Parity Obligations. The City entered into a loan agreement for the State Loan with the State Water Resources Board to finance the cost of improvements to the City's existing water pollution control facilities. The State Loan bears no interest, may not exceed \$54,550,018 and is due and payable in equal annual installments commencing on the earlier of one year following substantial completion of the Phase I Project or September 30, 2009 and ending September 30, 2028. Repayment of the State Loan is secured by Net Revenues on a parity with the 2007 Bonds. As of June 30, 2007, the principal amount of the loan was \$38,000,000.

Issuance of Parity Obligations. The City may at any time issue or incur other loans, Government Loans, advances or indebtedness payable from Net Revenues (collectively, the "Parity Bonds") on a parity with the 2007 Bonds to provide financing for the Sewer System, *provided that*, among other requirements:

(a) The City is not in default under the Indenture.

(b) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or as shown by the books of the City for any more recent 12 month period selected by the City, which books have been verified by an Independent Accountant employed by the City, plus (at the option of the City) the Additional Revenues, at least equal 115% of the amount of Maximum Annual Debt Service.

"Additional Revenues" is defined in the Indenture as any of the following (i) an allowance for Net Revenues from any additions or improvements to or extensions of the Sewer System to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which were not in service during all or any part of the most recently completed Fiscal Year for which audited financial statements are available, in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36 month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent accounting or consulting firm employed by the City; and (ii) an allowance for Net Revenues arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such Parity Obligations but which were not in effect during all or any part of the most recently completed Fiscal Year for which audited financial statements are available, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year, all as shown by the certificate or opinion of a qualified independent accounting or consulting firm employed by the City.

Further, any Supplemental Indenture providing for the issuance of such Additional Bonds must require that the balance in the Reserve Fund, upon the receipt of the proceeds of the sale of such Additional Bonds, be increased, if necessary, to an amount at least equal to the Reserve Requirement, taking into account the Debt Service on all Outstanding Bonds, including such Parity Bonds.

Amounts borrowed pursuant to State Loans may be treated as a Parity Obligation for purposes of the Indenture. If the Sewer Fund does not contain sufficient funds to make the full amount of payments on the 2007 Bonds and such State Loan in any Fiscal Year, the City is required to make payments on the 2007 Bonds and such State Loan on a *pro rata* basis.

No Senior Debt

The City covenants in the Indenture that it will not issue or incur any additional bonds or other obligations having any priority in payment of principal or interest out of Gross Revenues or Net Revenues superior to the Bonds.

MUNICIPAL BOND INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to APPENDIX F for a specimen of the Municipal Bond Insurance Policy to be issued by the Bond Insurer. The City makes no representations as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

[TO COME]

THE SEWER SYSTEM

Overview

The City of Hayward Sewer System (the "Sewer System") is one of three enterprises managed, operated and maintained by the City. The other enterprises are the water and airport enterprises. The Sewer System is comprised of a collection system, and treatment and disposal facilities located at 3700 Enterprise Avenue.

The City's first wastewater treatment plant was constructed in 1954. Since that time, a number of improvements and facilities have been constructed and installed including a new headworks, and sludge drying beds to manage the increasing volumes that came with development within the City's residential, commercial, and industrial sectors and to meet increasingly stringent discharge requirements from the California Regional Water Quality Control Board (the "RWQCB"). The City is currently constructing improvements to increase the efficiency, reliability and redundancy of the treatment processes. See also "Capital Improvement Program—WPCF Master Plan."

Service Area

The Sewer System serves essentially all the developed areas within the City as well as a limited portion of adjacent unincorporated areas (collectively, the "Service Area") which comprises approximately 61 square miles. A small section in the northern part of the City, consisting of approximately 2,000 homes with a population of about 6,000, is served by Oro Loma Sanitary District. The Sewer System provides sewage collection, primary and secondary treatment and disposal services for customers within the Service Area. The City is also a member of a joint powers authority, the East Bay Dischargers Authority (the "EBDA"), which provides dechlorination and outfall facilities to convey treated water from member agencies' treatment plants to a discharge point in the San Francisco Bay.

The City is studying the feasibility of annexing the unincorporated Mt. Eden area, comprised of three pockets completely surrounded by the City. The area encompasses approximately 138 acres in the western portion of the City. Should this annexation occur, it is estimated that residential and non-residential development within the area would generate about 186,000 gallons of wastewater discharge per day.

Facilities

Collection System. The collection system consists of more than 375 miles of underground sanitary sewer lines and trunk lines of up to 48-inches, 2.5 miles of force mains, two major lift stations, and seven smaller lift stations. Recent improvements to the collection system include replacement and upgrade of two lift stations and major line replacements and repairs. Ten employees perform maintenance and repair of the sewer collection system.

Wastewater Pollution Control Facility. The Wastewater Pollution Control Facility (the "WPCF") is located on an approximately 350-acre site in the western part of the City. Operation of the sewer treatment facilities is a 24-hour, seven-days a week, 365-day a year activity. The average of 13.4 million gallons per day ("mgd") of wastewater originating from residential, commercial, industrial and institutional customers within the service Area was treated and discharged at the WPCF in 2006. The permitted capacity of the WPCF is 16.5 mgd.

A staff of 30 City employees, including a WPCF manager, a WPCF operations and maintenance manager, an operations supervisor, a maintenance supervisor, a lab supervisor, 12 facility operators, three mechanics, three electricians, three lab technicians, and two laborers oversee the operation, maintenance and repair of the WPCF equipment and facilities

Primary and secondary wastewater treatment is provided at the WPCF. Effluent from the WPCF is disinfected with hypochlorite and discharged to the EBDA "super sewer" line for final disposal. The treated wastewater is dechlorinated and then discharged into the deeper water of the San Francisco Bay. The WPCF treats wastewater in two steps: primary and secondary, each of which is required to meet environmental standards.

Primary Treatment. Primary treatment is comprised of preliminary, floatation and sedimentation processes. Preliminary treatment consists of processing the wastewater through grinders to reduce the size of large solids and relying on gravity to remove the solids from the wastewater. The wastewater is then subjected to a vacuator process to separate oils and greases by floatation in addition to removing heavier grit in order to protect equipment from abrasion and wear. The last stage of solids removal is primary clarification where additional solids settle in open clarifier tanks by gravity sedimentation.

Secondary Treatment. Secondary treatment consists of trickling filter and a final clarifier processes. The trickling filter removes organic materials in the primary effluent through the use of biological growth attached to media inside the filter tower. As the biological growth consumes the organic material in the primary effluent, solids thicken and precipitate from the media, pulling down additional solids in the final clarifier. The final clarifier effluent is then chlorinated and discharged from the WPCF to the EBDA super sewer.

Biosolids Management. The solid, stabilized organic materials removed from wastewater are called "biosolids." The WPCF generates approximately 4,500 yards (4,000 dry metric tons) per year of biosolids during the wastewater treatment process. The WPCF has capacity to store digested sludge for one year but ultimately disposes of all the dewatered biosolids offsite.

All the biosolids from the WPCF are currently removed by Waste Management of Alameda County ("Waste Management"), who is also the franchised hauler for solid waste collection and recycling services in the City. The City entered into a new 10-year contract with Waste Management effective June 1, 2007, with three, one-year extensions at the option of the City. Biosolids are transported by Waste Management to the Altamont Landfill, a permitted Class A landfill in Alameda County.

Methane Management. Methane gas is one of the by-products formed during the stabilization process of biosolids. All of the methane gas is used as fuel to generate electricity using two cogeneration engines. Approximately 5,000,000 cu/Ft of methane gas is produced a month and used as fuel in the cogeneration systems.

Seismicity. In 1995, Dames & Moore prepared a "Seismic Retrofit Study for City of Hayward Utility Structures," which included evaluation of WPCF structures. This work consisted of: (i) development of seismic performance requirements for each component of the Sewer System; (ii) seismic and geologic hazard evaluation; (iii) seismic evaluation of the components of the Sewer System; and iv) identification of deficiencies, retrofit recommendations and preliminary cost estimates. The City has embarked on a seismic improvement program to upgrade critical Sewer System structures that are vulnerable to seismic activity. Critical equipment, including the pumps and electrical systems and several buildings, including the digesters have been reinforced. The trickling filter is scheduled to be updated in the next phase of WPCF improvements, which the City expects to undertake in the next five years. Two digesters have been upgraded as part of capital improvement efforts and one has been taken out of service for analysis.

Insurance on the Sewer System. The City uses a combination of self-funding and commercial coverage to provide insurance for the Sewer System, equipment and vehicles. For a description of the City's risk management program, see APPENDIX A—"GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF HAYWARD—Risk Management."

Regulatory Compliance

The construction and operation of wastewater treatment facilities and the discharge of sewage are highly regulated by State and federal laws to meet various requirements for the operation, treatment, monitoring, maintenance and disposal/discharge of wastewater. The two principal laws governing wastewater treatment are the federal Clean Water Act enacted in 1972, and the State's Porter-Cologne Act first enacted in 1969. These laws require that policies, plans, requirements and standards for discharges of wastewater be developed in order to protect the beneficial uses of the water. The United States Environmental Protection Agency, the federal agency charged with implementation and enforcement of the Clean Water Act, has delegated much of the planning, permitting and enforcement activities to the states. In California, the SWRCB develops policies, plans, requirements and discharge standards for the three types of State waters: inland surface waters, enclosed bays and estuaries, and the ocean. The RWQCB is the enforcement arm for the State and federal water pollution control programs, issuing the discharge permits and establishing the waste discharge requirements.

The discharge standards are set forth in NPDES permits issued and modified every five years by the RWQCB. The City discharges wastewater pursuant to the terms of an NPDES permit issued to EBDA. The current NPDES permit (the "Permit") for EBDA was issued in 2006 and rescinded the prior permit issued in 2001. The Permit prescribes wastewater discharge requirements for the WPCF. The Permit expires in 2011 and continues in full force until the RWQCB issues a new permit.

The other regulatory agency that issues a permit necessary for construction or operation of the Sewer System is the Bay Area Air Quality Management District, which is responsible for establishing air emissions standards for the WPCF and the issuance of air emission permits.

Capital Improvement Program

Overview. The City prepares a five-year Sewer System Capital Improvement Program (the "CIP") to keep pace with the increasing compliance standards for wastewater treatment facilities imposed by State and federal regulatory agencies and to provide for maintenance and improvement of the Sewer System. The CIP is reviewed and updated annually by the Department of Public Works and approved by the City Council following public hearings. The most recent CIP was approved by the City Council on June 12, 2007.

The CIP generally includes projects that have been identified in the WPCF Master Plan and the Wastewater Collection System Master Plan. Also included in these master plans are replacement and improvement projects.

WPCF Master Plan. In 2001, a comprehensive analysis of the primary and secondary treatment processes was prepared to determine whether the existing Sewer System was adequate to efficiently and reliably meet the City's current and future needs. Two significant conclusions were reached: a) the then existing fixed film reactor alone was not capable of providing complete treatment at projected future flows and load; and b) the fluidized bed reactor could not provide the necessary additional treatment of the fixed film reactor effluent. Other limitations in meeting the City's future needs were also identified. This analysis resulted in development of a master plan for the WPCF (the "WPCF Master Plan") to correct these deficiencies. The recommended projects have been grouped into two phases, with the most pressing projects assigned to the first phase.

Brown & Caldwell Engineering was retained by the City to design of the first phase of projects (the "Phase I Projects") identified in the two-phase WPCF Master Plan. The design was completed in 2003. The Phase I Projects, which are currently under construction, consist of the construction of (i) a second trickling filter to increase treatment reliability and odor control measures for the existing trickling filter; (ii) two final clarifiers to replace the existing final clarifier; (iii) a solids contact tank; (iv) solids thickening facilities; and (v) a control structure to direct influent flows to the existing primary clarifiers and are budgeted to cost \$57.2 million, including approximately \$5.2 million for design, \$48.8 million for construction costs and \$3.3 million for construction management.

The second phase of WPCF Master Plan Projects (the "Phase II Projects") includes enclosure of the effluent channel and effluent contact channel, and rehabilitation of an existing trickling filter. Design of these projects is expected to be completed during Fiscal Years 2007-08 and 2008-09 with construction expected to commence during Fiscal Years 2008-09 and 2009-10.

Projects undertaken by the City, including the Phase I Projects, are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) ("CEQA"). Under CEQA, a public agency is required, following preparation of an initial assessment, to determine whether an environmental impact report (an "EIR"), a negative declaration or a mitigated negative declaration is required for a project. If there is substantial evidence that significant environmental effects may occur, an EIR is required to be prepared. For the Phase I Projects, the City Department of Public Works conducted a CEQA Environmental Assessment and made a mitigated negative declaration finding that was as approved by the City Council on January 14, 2003 and recorded with the County of Alameda in 2003.

Management and Operations

The Sewer System is operated by the City on a self-supporting basis under the authority of the City Council. Day-to-day operations of the Sewer System are under the supervision of the City's Public Works Director. Brief resumes for management personnel of the WPCF are set forth below:

Robert Bauman, Director of Public Works. Mr. Bauman was appointed as Director of Public Works in September 2005 and is responsible for the management of the Public Works Department of the City. Prior to this appointment, he served as the Deputy Director of Public Works where he was responsible for transportation and engineering projects. Prior to joining the City in 1991 as an engineer, Mr. Bauman worked for the Army Corps of Engineers managing construction projects in California and three other states. Mr. Bauman is a graduate of the U.S. Military Academy at West Point and holds a Bachelors of Science, a Master of Science and a PhD in Civil Engineering. Mr. Bauman is also a retired lieutenant colonel in the U.S. Army.

Alex Ameri, Deputy Director of Public Works/Utilities. Mr. Ameri was appointed as Deputy Director of Public Works/Utilities in 1993. He is responsible for the management of construction, operation and maintenance of the City's utilities systems, including the Sewer System and the water distribution and storage facilities. He is also responsible for preparing and implementing the CIP and managing the preparation of budgets for the Sewer System and the water and stormwater system. Prior to this appointment, Mr. Ameri was a Development Services Engineer with the City from 1989 to 1993, and was employed with the City of Santa Barbara as a Land Development Engineer from 1987 to 1989. Mr. Ameri holds a Bachelors of Sciences in Civil Engineering, a Masters of Sciences in Civil Engineering and a Masters of Engineering. Mr. Ameri is also a Registered Professional Engineer in California, New York and New Jersey.

Greg Shreeve, Water Pollution Control Facility Manager. Mr. Shreeve was appointed as WPCF Manager in 2004. He is responsible for the overall activities related to NPDES, federal, State and local compliance and regulatory policies for the WPCF, providing oversight to three WPCF divisions; Laboratory, Maintenance, Operations, planning, implementing and scheduling the budgets for Operations and the CIP, and overseeing the WPCF safety program. From 1998 to 2004, Mr. Shreeve was employed by the City as the WPCF Operation and Maintenance Manager where he was responsible for the day-to-day operational and maintenance activities at the WPCF. Prior to joining the City, from 1993 to 1998 he worked for the Union Sanitary District as an Operation Supervisor and from 1988 to 1992 he worked as an Operator III for the City of South San Francisco. Mr. Shreeve holds a Bachelors of Public Administration from the University of San Francisco, completed the Ken Kerri Wastewater Courses at California State University Sacramento and is certified by the State of California SWRCB as a Wastewater Treatment Plant Operator Grade V.

Jesse Ochoa – Water Pollution Control Facility Operations Supervisor. Mr. Ochoa was appointed Operations Supervisor in May 2007. He is responsible for the day-to-day operations at the WPCF, providing direct supervision to 12 plant operators; with regard to safety, work assignments, discipline, scheduling, and required reporting, and coordinating WPCF operations with other City departments, outside local and State agencies, contractors and vendors. Mr. Ochoa has been employed at the WPCF since 1995. From 1999 to 2007, he was a Lead Operator at the WPCF, from 1995 to 1999 he was a WPCF Operator II and from 1991 to 1995 he was a WPCF OIT (Operator In Training). Mr. Ochoa has completed the Ken Kerri Wastewater Course at California State University Sacramento, is certified by the State of California SWRCB as a Wastewater Treatment Plant Operator Grade V and has completed computer technology courses at Chabot College Hayward.

SEWER SYSTEM FINANCES

Rates, Fees and Charges

The Sewer System receives moneys from two primary sources; sewer service charges and connection fees.

Rate Setting Procedure. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Sewer System. No other governmental authority, board, body or commission has jurisdiction over or is required to approve the Sewer System rates established by the City Council.

Sewer rates are reviewed annually by City staff and revisions are presented to the City Council for approval. Following work City Council sessions and appropriate noticing, public hearings are held regarding the proposed rates. If approved by the City Council, the master fee schedule of the City is amended to reflect the new rates as part of its the budget process. The new sewer rates become effective as of October 1 of the year in which they are approved. Connection fees are set and adjusted in a using similar process. See also “– Connection Fees.”

As a condition for receipt of federal and State grant funds, the City is required to establish and implement an annual sewer service revenue program and user charge system which will produce sufficient revenues to meet the ongoing costs of the system in accordance with federal regulations. These regulations require that the rates charged result in the equitable distribution of costs among all users and the establishment of rates and charges to users which are proportionate to their respective demands on the Sewer System.

The method of establishing Sewer System rates and charges is a four-step process: the *first* of which consists of estimating the annual costs of operating and maintaining the administrative overhead, debt service requirements on general obligation and sewer revenue bonds issued to finance any element of the Sewer System and an allowance for future capital outlays for replacement of facilities and equipment; the *second* is allocating the annual requirements to three or more costs allocation parameters (*i.e.*, wastewater flow, SS and BOD) which measure users' demands for wastewater collection, treatment and disposal; the *third* is determining the total number of units for each cost allocation parameter (*i.e.*, gallons of wastewater flow) with respect to each user category which in turn are used to calculate a cost per unit of cost-allocation parameter; and the *fourth* is application of the unit costs to each user's parameter units to determine a service charge for each user category.

Service Charges. Customers of the Sewer System are billed monthly sewer service charges based on a user classification system consisting of two categories: residential and commercial and industrial.

Residential. Residential users of the Sewer System are billed a flat monthly charge depending upon the classification. Multifamily residential users and mobile homes are billed a slightly lower amount per dwelling unit.

Commercial and Industrial. Commercial and industrial users of the Sewer System are billed on a volume charge based on one-hundred cubic feet of metered water consumption. Different volume charges are applied depending upon the user classification code. There are currently separate classification codes ranging from \$2.47 per 100 cubic feet for miscellaneous users, such as offices and retail establishments, to \$13.46 per 100 cubic feet for food manufacturing facilities.

Irrigation Water Meters. Customers who use significant quantities of water for landscape irrigation may install a separate irrigation water meter. Since none of this water is discharged to the Sewer System, sewer service charges are not applied to the billing for irrigation accounts.

Historical and Current Rates. The City's proposed Sewer System rates are scheduled to be considered by the City Council on July 10, 2007 and will remain in effect through June 2008. Table 4 sets for the historical and current Sewer System rates.

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Table 4
CITY OF HAYWARD
SEWER SYSTEM
Historical and Current Sewer System Rates⁽¹⁾
Fiscal Year 2003-04 through 2006-07 and Proposed Fiscal Year 2007-08

		Monthly Charge							
Type of Service		2004-05	2005-06	2006-07	2007-08 (Proposed)				
Residential									
Single Family ⁽²⁾		\$16.49	\$18.95	\$18.95	\$23.31				
Lifeline ⁽³⁾		5.07	5.63	5.63	6.82				
Multiple Residential Living Unit ⁽⁴⁾		14.67	16.87	16.87	20.74				
Mobile Home		11.54	13.27	13.27	16.31				
Economy ⁽⁵⁾		10.14	11.26	11.26	13.65				
Sewer Service Charge Per 100 Cubic Feet Water Use									
Commercial and Industrial ⁽⁶⁾		With Separate Irrigation Meters			Without Separate Irrigation Meters				
User Classification Code		2007-08 (Proposed)				2007-08 (Proposed)			
		2004-05	2005-06	2006-07	(Proposed)	2004-05	2005-06	2006-07	(Proposed)
Inorganic Chemicals		\$5.99	\$6.65	\$6.65	\$8.29	\$5.39	\$5.99	\$5.99	\$7.46
Leather Tanning		13.11	14.38	14.38	17.85	11.81	12.94	12.94	16.06
Industrial Laundries		5.19	5.84	5.84	7.20	4.68	5.27	5.27	6.48
Slaughterhouses		7.49	8.26	8.26	10.29	6.73	7.45	7.45	9.26
Food Manufacturers		13.46	14.78	14.78	18.29	12.10	13.30	13.30	16.46
Grain Mills		4.88	5.50	5.50	6.78	4.39	4.95	4.95	6.11
Eating Places		5.79	6.50	6.50	7.99	5.21	5.84	5.84	7.19
Meat Products		6.58	7.37	7.37	9.06	5.92	6.63	6.63	8.15
Paint Manufacturing		9.81	10.80	10.80	13.40	8.82	9.72	9.72	12.06
Fabricated Metals		1.45	1.84	1.84	2.17	1.30	1.65	1.65	1.95
Dairy Product Processors		5.33	6.01	6.01	7.37	4.80	5.40	5.40	6.63
Bakeries		5.79	6.50	6.50	7.99	5.21	5.84	5.84	7.19
Commercial Laundries		3.18	3.70	3.70	4.49	2.85	3.32	3.32	4.04
Canning and Packing		3.63	4.17	4.17	5.08	3.27	3.75	3.75	4.57
Pulp and Paper Product Manufacturers		4.22	4.79	4.79	5.90	3.79	4.30	4.30	5.31
Fats and Oils		3.40	3.92	3.92	4.78	3.05	3.52	3.52	4.30
Beverage Bottling		3.25	3.77	3.77	4.57	2.92	3.39	3.39	4.11
Others		2.47	3.03	3.03	3.73	2.23	2.73	2.73	3.36
Eating Places with Interceptor		4.35	4.95	4.95	6.06	3.92	4.45	4.45	5.46
		Per				Rate			
Parameter Unit Costs Industrial Dischargers		2007-08 (Proposed)				2007-08 (Proposed)			
		2004-05	2005-06	2006-07	(Proposed)	2004-05	2005-06	2006-07	(Proposed)
Flow	100 cubic feet	\$1.22428	\$1.58289	\$1.58289	\$1.86186	\$1.22428	\$1.58289	\$1.58289	\$1.86186
BOD	1,000 pounds	\$0.41402	\$0.45131	\$0.45131	\$0.55566	\$0.41402	\$0.45131	\$0.45131	\$0.55566
SS	1,000 pounds	\$0.52597	\$0.55787	\$0.55787	\$0.70878	\$0.52597	\$0.55787	\$0.55787	\$0.70878

⁽¹⁾ Pursuant to Resolutions of the City Council adopted June 8, 2004 for Fiscal Year 2004-05 rates, October 11, 2005 for Fiscal Year 2005-06 rates and June 13, 2006 for Fiscal Year 2006-07 rates. The rates for Fiscal Year 2007-08 will be considered by the City Council on July 10, 2007.

⁽²⁾ Includes single family residences, duplexes, triplexes, fourplexes and individual units of townhouses, planned developments and condominiums up to and including four units.

⁽³⁾ Applicable to residential users whose metered water use is 500 cubic feet or less for a regular, bimonthly billing period.

⁽⁴⁾ Includes apartments and condominiums having five or more units to a structure.

⁽⁵⁾ Applicable to residential users whose metered use is more than 500 cubic feet lifeline rate but less than 1,000 cubic feet for a regular, bimonthly billing period.

⁽⁶⁾ Non-residential users which are not grouped within a User Classification Code are billed in accordance with a formula established by Ordinance No. 75-004 of the City Council.

Source: City of Hayward.

Comparative Monthly Sewer Service Charges. The City's average residential charges as of October 1, 2007, assuming the proposed rates for Fiscal Year 2007-08 are approved by the City Council on July 10, 2007 are set forth in the table below with a comparison to other Bay Area cities.

Table 5
CITY OF HAYWARD
SEWER SYSTEM
Monthly Sewer Charge Comparison
Average Residential Service
As of Fiscal Year 2007-08

<u>City</u>	<u>Average Monthly Residential Charge</u>
Livermore	\$38.75
Pleasanton	31.50
Oakland ⁽²⁾	30.20
Dublin San Ramon Services District ⁽¹⁾	25.55
San Leandro	25.43
Hayward	23.31
Union Sanitary District ⁽³⁾	20.28
Castro Valley	17.50
Oro Loma	16.80

⁽¹⁾ Covers the cities of Dublin and San Ramon and the unincorporated area of Dougherty Valley.

⁽²⁾ Includes City and EBMUD charges.

⁽³⁾ Covers the cities of Fremont, Union City, and Newark.

Source: *City of Hayward*.

Connection Fees. Connection fees are one-time charges levied by the City to recover costs incurred by the Sewer System for providing capacity in the Sewer System required by new users. The collection of such fees is therefore subject to the pace of development in the Service Area.

In 1999, the City retained the services of a consultant to assist in the preparation of a connection fee study. This study is updated regularly by the City to incorporate the costs of new capital projects and actual costs of constructing Sewer System improvements. See "*Rate Setting Procedure*" for a description of the procedure for adjusting connection fees.

Sewer connection fees are collected at the time that a new connection is made to the public sanitary Sewer System, or when an existing commercial or industrial customer wishes to increase the volume and/or waste strength of wastewater discharge from its facility to the public Sewer System.

The following table sets forth the historical and current connection fees by type of use:

Table 6
CITY OF HAYWARD
SEWER SYSTEM
Connection Fees
(As of October 1)

Type of Use	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08†
Single Family, Duplex, Triplex and Fourplex	\$3,391	\$3,896	\$4,400	\$5,236	\$6,148	\$6,148
High Density and Mobile Homes						
Commercial, Industrial, Institutional and Other Connections	3,018	3,468	3,917	4,661	5,472	5,472
Per Gallon of Capacity	9.524	11.229	12.934	15.262	17.752	17.752
BOD per pound	6.643	7.326	8.008	8.568	9.071	9.071
Suspended Solids (ss) per pound	4.857	5.445	6.032	6.635	7.272	7.272
Minimum Charge	3,391	3,896	4,400	5,236	6,148	6,148

† The connection fee rates for Fiscal Year 2007-08 were adopted by the City Council on June 12, 2007.
 Source: City of Hayward.

The historical connection fee revenues based on received by the City are set forth in the table below.

Table 7
CITY OF HAYWARD
SEWER SYSTEM
Historical Connection Fee Revenues
(Fiscal Year Ended June 30)
(\$ in thousands)

Fiscal Year	Connection Fee Revenues
2002-03	\$1,304
2003-04	2,945
2004-05	2,792
2005-06	1,963
2006-07†	3,800
2007-08††	1,800

† Projected, based on actual connection fees collected through May 2007.

†† Projected.

Source: City of Hayward.

The City's current connection fee for single family residences is \$6,148. The current connection fees and a comparison of the City's Connection Fee to those of other Bay Area cities are set forth in the table below.

Table 8
CITY OF HAYWARD
SEWER SYSTEM
Connection Fees Comparison for Single-Family Residences
As of Fiscal Year 2007-08

<u>City</u>	<u>Connection Fee</u>
Dublin San Ramon Services District ⁽¹⁾	\$11,301
Pleasanton	10,400
Castro Valley	9,700
Oro Loma	6,739
Hayward	6,148
Livermore	4,000
Union Sanitary District ⁽²⁾	3,294
Oakland ⁽³⁾	1,757
San Leandro	1,250

⁽¹⁾ Covers the cities of Dublin, San Ramon, and Pleasanton and the unincorporated area of Dougherty Valley.

⁽²⁾ Covers the cities of Fremont, Union City, and Newark.

⁽³⁾ Includes City and EBMUD charges.

Source: *City of Hayward*.

Other Income. The Sewer System receives additional income from interest income earned on funds available for use in operations and for application to capital facilities projects.

Billing and Collection Procedures

Users of the Sewer System who are connected to the City's water system are billed separately for sewer service and water service, on a combined bill, by the City's Water Department. The fee for either service may not be paid separately from the other. Users of the City's Sewer System who are not connected to the City's water system are billed for sewer service only.

Bills are issued bi-monthly and are due and payable within 15 days of the billing date. Section 11-3.457 of the City Code provides that in the event any bill for both water service and Sewer Service remains unpaid for 15 days after its due date, the Director of Public Works is required to initiate the actions necessary to disconnect the premises from the City's water system and he may also disconnect the premises from the Sewer System. Premises disconnected for the non-payment of water or Sewer Service fees are not reconnected until all delinquent fees and penalties are paid. Enforcement effectively takes place at the time of the next billing cycle.

Users of the Sewer System

The Sewer System serves more than 31,000 residential, commercial and industrial units, made up primarily of residential customers. Table 2 sets forth a six year history of Sewer System users. The ten largest industrial users of the Sewer System by flow (mgd) are set forth below and the ten largest industrial users of the Sewer System by Revenue is set forth in the table below.

Table 9
CITY OF HAYWARD
SEWER SYSTEM
Customer Base by Type of Account

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
RESIDENTIAL					
Single Family Duplex, Triplex, Fourplex	25,257	25,762	26,243	26,362	26,406
Multi-Family	1,292	1,297	1,296	1,299	1,304
Mobile Home	9	9	9	9	9
COMMERCIAL AND INDUSTRIAL	<u>3,878</u>	<u>3,915</u>	<u>3,942</u>	<u>3,951</u>	<u>3,959</u>
TOTAL	30,436	30,983	31,490	31,621	31,678

Source: City of Hayward.

The following table represents the largest dischargers served by the Sewer System and their respective sewer service charges during Fiscal Year 2005-06.

Table 10
CITY OF HAYWARD
SEWER SYSTEM
Ten Largest Users by Flow
As of June 30, 2006

<u>User Name</u>	<u>Type of Use</u>	<u>Total Yearly Flow (MG)</u>
Berkeley Farms	Dairy Processing	90.0
Hayward Unified School District	Education	60.0
Kobe Precision	Electronics Manufacturing	56.0
Bottling Group LLC (Pepsi)	Beverage Manufacturing	52.0
Avalon Bay (Waterford Apts.)	Residential	45.0
Spanish Ranch Mobile Home Park	Residential	28.0
Rohm & Haas	Chemical Manufacturing	22.0
Kaiser Permanente	Medical Facility	20.0
Shasta Beverages	Beverage Manufacturing	11.0
Azuma Foods	Food Manufacturing	<u>6.0</u>
SUBTOTAL		390.0
All Others	Various	<u>4,500.0</u>
TOTAL		4,890.0

Source: City of Hayward.

Table 11
CITY OF HAYWARD
SEWER SYSTEM
Ten Largest Users by Revenues
As of June 30, 2006

<u>User Name</u>	<u>2005-06 Annual Revenue</u>	<u>Percent of 2005-06 Total Revenue[†]</u>
Berkeley Farms	\$342,443	2.67%
Bottling Group LLC (Pepsi)	252,225	1.96
Hayward Unified School District	195,120	1.51
Shasta Beverages	125,886	0.98
Best Express Foods	124,302	0.97
Henkel Adhesives	103,970	0.80
Avalon Bay (Waterford Apts)	101,527	0.79
Kobe Precision	98,349	0.76
Azuma Foods	76,080	0.59
Spanish Ranch Mobile Home Park	<u>68,302</u>	<u>0.53</u>
SUBTOTAL	1,488,204	11.56
All Others	<u>11,371,241</u>	<u>88.44</u>
TOTAL	\$12,859,445	100.00%

[†] Column does not total due to rounding.
Source: City of Hayward.

Finances, Revenues and Expenses

The Statement of Revenues, Expenditures and Changes in Fund Net Assets of the City's Sewer System for the Fiscal Years ended June 30, 2002 through 2006 as summarized from information presented in the City of Hayward Comprehensive Annual Financial Reports for those same Fiscal Years, are set forth in Table 12.

The City provides health and life insurance, and retirement benefits to all regular City employees scheduled to work more than 1,000 hours in a plan year, including the 12 full-time employees of the Sewer System. Retirement benefits are provided through a contract with the California Public Employees' Retirement Plan ("PERS"). PERS provides service and disability retirement benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. Because PERS provides actuarial information by employer only, see APPENDIX A—"GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF HAYWARD—Health and Insurance" "—Retirement Programs" and "—Post Employment Retirement Programs" for a description of the City's benefit programs.

Historical Revenues, Expenses and Debt Service Coverage. The Sewer System operations are accounted for as an enterprise fund of the City. The Statements of Revenues, Expenses, and Changes in Fund Net Assets of the City's Sewer System for the Fiscal Years ended June 30, 2002 through 2006 have been derived from the audited information presented in the City's Comprehensive Annual Reports for those same Fiscal Years, are set forth in the table below. Unaudited information is presented for Fiscal Year 2006-07. It is expected that audited information for Fiscal Year 2006-07 will be available on or about December 31, 2007. This Table 12 has not been audited by the City's auditors.

Table 12
CITY OF HAYWARD
SEWER SYSTEM
Historical Revenues, Expenses, Changes in Fund Net Assets
(Fiscal Year Ended June 30)

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
<u>Operating Revenues</u>					
Charges for services	\$13,253,774	\$13,125,343	\$15,030,091	\$15,115,651	\$14,822,748
Miscellaneous	<u>259,310</u>	<u>167,823</u>	<u>211,157</u>	<u>251,001</u>	<u>162,470</u>
TOTAL OPERATING REVENUES	13,513,084	13,293,166	15,241,248	15,366,652	14,985,218
<u>Operating Expenses</u>					
Salaries and Related Expenses	3,569,650	3,738,231	3,957,762	4,554,090	4,992,613
Repairs and Maintenance	829,995	744,371	767,211	822,868	832,832
Materials, Supplies and Services	2,859,263	3,156,566	3,770,812	3,591,899	3,996,401
Depreciation	<u>2,997,015</u>	<u>2,625,812</u>	<u>2,631,824</u>	<u>2,540,395</u>	<u>2,625,693</u>
SUBTOTAL OPERATING EXPENSES	10,235,923	10,264,980	11,127,609	11,509,252	12,447,539
Operating Income	3,277,161	3,028,186	4,113,639	3,857,400	2,537,679
<u>Nonoperating Revenue (Expenses)</u>					
Interest Income	1,549,810	1,007,027	634,428	855,547	912,976
Interest (Expense)	(857,319)	(780,582)	(746,918)	(709,883)	(670,256)
Loss from disposal of capital assets	(665,608)	-	-	-	-
Loss from Equity Investment	<u>(207,692)</u>	<u>(113,132)</u>	<u>(165,077)</u>	<u>(173,713)</u>	<u>(148,853)</u>
NET NONOPERATING REVENUE (EXPENSES)	(180,809)	113,313	(277,567)	(28,049)	93,867
Income Before Transfers	3,096,352	3,141,499	3,836,072	3,829,351	2,631,546
Contributions	-	-	-	2,543,407	1,690,000
Transfers (out)	(962,830)	(777,283)	(823,005)	(938,231)	(944,807)
Net Operating Transfers	(962,830)	(777,283)	(823,005)	1,605,176	745,193
Change in net assets	2,133,522	2,364,216	3,013,067	5,434,527	3,376,739
BEGINNING NET ASSETS	85,958,182	85,958,182	90,455,920	93,468,987	98,903,514
ENDING NET ASSETS	\$88,091,704	\$88,322,398	\$93,468,987	\$98,903,514	\$102,280,253

Sources: Compiled from City's Comprehensive Annual Financial Reports.

Balance Sheet. The Balance Sheet for the Sewer System for the five most recent Fiscal Years is set forth in the table below

Table 13
CITY OF HAYWARD
SEWER SYSTEM
Balance Sheet
(Fiscal Years Ended June 30)

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
ASSETS					
Cash and Investment Available for Operations	\$30,500,001	\$28,866,358	\$29,189,683	\$32,642,625	\$24,223,152
Restricted Cash and Cash Equivalents	211,066	307,306	442,398	369,599	1,478,209
Restricted Investments	1,492,469	1,491,273	1,491,273	1,491,273	1,434,824
Accounts Receivable (net of allowances for uncollectables)	2,315,013	2,265,964	2,426,591	2,418,232	2,621,459
Interest Receivable	194,390	122,944	116,679	101,066	136,792
Due from other governments	-	-	-	-	13,163,350
Long-term interfund receivables	1,248,741	3,191,953	2,770,976	2,350,000	2,232,500
Other	344,899	321,599	298,300	275,001	251,701
Land and construction in progress	-	-	-	13,078,181	20,286,013
Fixed asset, net accumulated depreciation	56,191,642	58,155,868	59,874,117	48,193,662	54,710,392
Investment in East Bay Dischargers Authority	<u>12,871,823</u>	<u>12,758,691</u>	<u>12,593,614</u>	<u>12,419,901</u>	<u>12,271,048</u>
TOTAL ASSETS	105,370,044	107,481,956	109,203,631	113,339,540	132,809,440
LIABILITIES					
Accounts Payable	454,356	1,032,633	572,701	269,995	745,424
Accrued Interest	327,498	305,800	291,364	275,999	259,569
Accrued Liabilities	20	-	81,125	169,921	2,041,609
Accrued Compensated Absences	134,198	134,198	134,198	183,483	281,099
Refundable Deposits	-	62,722	117,701	-	1,358,942
Other Accrued Expenses	-	-	-	-	-
Accrued Reclamation Costs	754,685	679,800	517,590	343,983	352,309
Certificates of Participation	15,607,583	14,810,883	13,192,645	-	-
Long Term Debt Due Within One Year	<u>-</u>	<u>-</u>	<u>827,320</u>	<u>13,192,645</u>	<u>25,490,235</u>
TOTAL LIABILITIES	17,278,340	17,026,036	15,734,644	14,436,026	30,529,187
NET ASSETS					
Invested in capital assets, net of related debt	40,584,059	41,546,406	45,854,152	48,079,198	49,506,170
Retained Earnings:					
Restricted for Debt Service	1,703,535	1,798,579	1,933,671	1,860,872	1,544,091
Unrestricted	<u>45,804,110</u>	<u>47,110,935</u>	<u>45,681,164</u>	<u>48,963,444</u>	<u>51,219,992</u>
TOTAL NET ASSETS	\$88,091,704	\$90,455,920	\$93,468,987	\$98,903,514	\$102,280,253

Sources: Compiled from City's Comprehensive Annual Financial Reports.

Statement of Cash Flows. The Statement of Cash Flows for Fiscal Years ended June 30, 2000 through 2003 is excerpted from the audited information presented in the City's Comprehensive Annual Financial Reports for those same Fiscal Years. Unaudited information is presented for Fiscal Year 2003-04. It is expected that audited information for the Fiscal Year 2006-07 will be available on or about December 31, 2007.

Table 14
CITY OF HAYWARD
SEWER SYSTEM
Statement of Cash Flows

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers	\$13,242,866	\$13,404,937	\$15,135,600	\$15,257,310	\$16,140,933
Payments to suppliers	(3,695,632)	(3,374,265)	(5,055,741)	(4,729,700)	(2,352,874)
Payments to employees	<u>(3,569,650)</u>	<u>(3,738,231)</u>	<u>(3,957,762)</u>	<u>(4,554,090)</u>	<u>(4,992,613)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,977,584	6,292,411	6,122,097	5,973,520	8,795,446
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts	351,259	(1,943,212)	420,977	420,976	117,500
Transfers (out)	<u>(962,830)</u>	<u>(777,283)</u>	<u>(823,005)</u>	<u>(938,231)</u>	<u>(944,807)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(611,571)	(2,720,495)	(402,028)	(517,255)	(827,307)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(1,547,451)	(4,590,039)	(4,350,073)	(1,394,714)	(14,660,255)
Proceeds from long term debt	702,583	-	-	-	-
Principal payments on capital debt	(1,447,500)	(796,700)	(790,918)	(827,320)	(865,760)
Interest paid	<u>(871,835)</u>	<u>(802,280)</u>	<u>(761,354)</u>	<u>(725,248)</u>	<u>(686,686)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(3,164,203)	(6,189,019)	(5,902,345)	(2,947,282)	(16,212,701)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Income	1,718,449	1,079,670	640,693	871,160	933,699
Purchase of investment securities	<u>77,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities	1,796,051	1,079,670	640,693	871,160	933,699
Net increase (decrease) in cash and cash equivalents	3,997,861	(1,537,403)	458,417	3,380,143	(7,310,863)
Cash and investments at beginning of period	<u>26,713,206</u>	<u>30,711,067</u>	<u>29,173,664</u>	<u>29,632,081</u>	<u>33,012,224</u>
CASH AND INVESTMENT AT END OF PERIOD	<u>\$30,711,067</u>	<u>\$29,173,664</u>	<u>\$29,632,081</u>	<u>\$33,012,224</u>	<u>\$25,701,361</u>

Sources: Compiled from City's Comprehensive Annual Financial Reports.

Pro Forma Debt Service Coverage. The following table summarizes the projected operating results for the Sewer System over the current and next five fiscal years. The projections below are based on several assumptions that the Sewer System regards as reasonable based on their current plans and knowledge of the activities of outside entities that impact the financial performance of the Sewer System. No assurance can be given, however, that such assumptions will be realized, and actual results may vary materially from those projected and produce substantially different financial results. Actual revenues and expenses may vary materially from these projections.

Table 15
CITY OF HAYWARD
SEWER SYSTEM
Projected Revenues, Expenses and Debt Service Coverage

	Unaudited <u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
<u>Operating Revenues</u>						
Sewer Service Fees ⁽¹⁾	\$13,200,000	\$15,100,000	\$15,600,000	\$17,800,000	\$18,300,000	\$21,000,000
Connection Fees	3,800,000	1,800,000	1,500,000	1,500,000	1,500,000	1,500,000
Interest	127,332	128,605	129,000	129,000	129,000	129,000
Other Revenues	<u>96,000</u>	<u>96,000</u>	<u>96,000</u>	<u>96,000</u>	<u>96,000</u>	<u>96,000</u>
Subtotal Operating Revenues	17,223,332	17,124,605	17,325,000	19,525,000	20,025,000	22,725,000
<u>Operating Expenses</u>						
Employee Services ⁽²⁾	4,643,875	4,932,986	5,230,000	5,540,000	5,870,000	6,220,000
Maintenance and Utilities ⁽³⁾	973,232	997,668	1,340,000	1,390,000	1,450,000	1,510,000
Supplies and Services ⁽⁴⁾	2,267,125	2,312,578	2,410,000	2,510,000	2,610,000	2,710,000
Franchise Fees ⁽⁵⁾	990,000	1,132,500	1,170,000	1,335,000	1,372,500	1,575,000
Interdepartmental Transfers ⁽²⁾	714,325	906,933	960,000	1,020,000	1,080,000	1,140,000
Bad Debt Expenses	23,750	23,750	23,750	23,750	23,750	23,750
Capital Acquisitions	27,500	0	0	0	0	0
Cost Allocation to General Fund ⁽⁶⁾	716,475	737,969	775,000	775,000	814,000	814,000
Insurance ⁽⁶⁾	<u>209,857</u>	<u>209,857</u>	<u>220,000</u>	<u>220,000</u>	<u>231,000</u>	<u>231,000</u>
Subtotal Operating Expenses	10,566,139	11,254,241	12,128,750	12,813,750	13,451,250	14,223,750
Net Operating Revenues, Including						
Connection Fees	\$6,657,193	\$5,870,364	\$5,196,250	\$6,711,250	\$6,573,750	\$8,501,250
<u>Debt Service</u>						
1996 Issue	\$890,701	-	-	-	-	-
1998 Issue	576,373	-	-	-	-	-
2007 Certificates (estimated) ⁽⁷⁾	0	\$1,079,332	\$1,235,973	\$1,233,237	\$1,233,930	\$1,237,736
SRF Loan Repayment	=	=	<u>2,727,500</u>	<u>2,727,500</u>	<u>2,727,500</u>	<u>2,727,500</u>
Total Debt Service	\$1,467,074	\$1,079,332	\$3,963,473	\$3,960,737	\$3,961,430	\$3,965,236
Coverage	4.54x	5.44x	1.31x	1.69x	1.66x	2.14x

⁽¹⁾ Assumes rate increases in October 2007 of 23%, in October 2009 of 23% and in October of 2011 of 23%. The increases for 2009 and 2011 have not yet been submitted to or approved by the City Council.

⁽²⁾ Employee service costs through Fiscal Year 2006-07 are based on the current Memoranda of Understanding, and thereafter assumed to increase by 6% annually.

⁽³⁾ Maintenance and Utilities costs are assumed to increase 4% per year over the Fiscal Year 2007-08 adopted budget. In addition, \$300,000 is added in Fiscal Year 2008-09 to cover energy demands from new WPCF facilities.

⁽⁴⁾ Supplies and services are increased by 4% annually over the Fiscal Year 2007-08 adopted budget.

⁽⁵⁾ Franchise fees are 7.5% of sewer service charge revenue.

⁽⁶⁾ Cost allocation and insurance are increased by 5% every other year over Fiscal Year 2007-08 adopted budget.

⁽⁷⁾ Assumes Municipal Market Data - California insured interest rate scale as of June 12, 2007 plus 0 basis points to refund the 1996 Certificates and the 1998 Certificates.

⁽⁸⁾ Assumes a reserve fund surety at 3.0% in lieu of a cash-funded debt service fund.

Sources: *City and Fieldman, Rolapp & Associates.*

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2007

NEW ISSUE-BOOK-ENTRY ONLYMoody's S&P

INSURED RATINGS: _____

UNDERLYING RATINGS: _____

(See "RATINGS" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the 2007 Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$ _____ *

CITY OF HAYWARD
2007 REFUNDING CERTIFICATES OF PARTICIPATION
(Civic Center and Capital Projects)
Evidencing Direct, Undivided Fractional Interests of the Owners
Thereof in Lease Payments to be Made by the
CITY OF HAYWARD
to the
HAYWARD PUBLIC FINANCING AUTHORITY

Dated: Date of Delivery

Due: August 1, as shown on inside cover page

The _____* principal amount of City of Hayward 2007 Refunding Certificates of Participation (Civic Center and Capital Projects) (the "2007 Certificates") are being authorized and executed pursuant to a Trust Agreement, dated as of August 1, 2007 (the "Trust Agreement"), by and among the Hayward Public Financing Authority (the "Authority"), the City of Hayward (the "City"), and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The 2007 Certificates are being executed and delivered to: (i) prepay all of the City of Hayward Revenue 1996 Certificates of Participation (Civic Center Project) in the Outstanding principal amount of \$26,740,000; (ii) prepay all of the City of Hayward Revenue 1997 Certificates of Participation (Capital Projects) in the Outstanding principal amount of \$4,245,000; (iii) pay the cost of a reserve fund surety policy that will be used to satisfy the Reserve Requirement (defined herein) for the 2007 Certificates; and (iv) pay certain costs associated with the delivery of the 2007 Certificates. See "PLAN OF REFUNDING."

The 2007 Certificates evidence direct, undivided fractional interests of the Owners thereof in Lease Payments made by the City to the Authority pursuant to a Lease Agreement, dated as of August 1, 2007 (the "Lease"), by and between the City and the Authority.

The 2007 Certificates will be initially delivered as fully registered certificates in book-entry form, registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest evidenced and represented by the 2007 Certificates is payable semiannually on February 1 and August 1, commencing February 1, 2008. Interest and principal with respect to the 2007 Certificates will be payable by the Trustee to DTC, which will in turn remit such principal or prepayment price and interest to the DTC participants, which will in turn remit such principal or prepayment price and interest to the Beneficial Owners of the 2007 Certificates, as described herein. DTC will act as securities depository for the 2007 Certificates. Individual purchases will be made in book-entry only form in the principal amount of \$5,000 or integral multiples thereof. Purchasers of the 2007 Certificates will not receive physical certificates representing their interests in the 2007 Certificates purchases. See APPENDIX F—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The 2007 Certificates are subject to extraordinary, optional and mandatory prepayment prior to their respective stated maturities as described herein. See "The 2007 Certificates—Prepayment Provisions."

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS 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 2007 CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The scheduled payment of principal and interest with respect to the 2007 Certificates when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the 2007 Certificates by _____. See "MUNICIPAL BOND INSURANCE."

[INSURER LOGO]

This cover page contains information for general reference only. It is *not* intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. See also "CERTAIN RISK FACTORS."

Maturity Schedule

(See inside cover)

The 2007 Certificates are offered when, as and if delivered by the City and accepted by the initial purchaser(s), subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney and by Lofton & Jennings, San Francisco, California, Disclosure Counsel. It is expected that the 2007 Certificates will be available for delivery in book-entry only form through the facilities of DTC in New York, New York on or about August 14, 2007.

Dated: _____, 2007

* Preliminary, subject to change.

CITY OF HAYWARD
County of Alameda, California

CITY COUNCIL

Michael Sweeney, *Mayor*
William Quirk, *Mayor Pro Tempore*
Kevin Dowling, *Councilmember*
Barbara Halliday, *Councilmember*
Olden Henson, *Councilmember*
Doris Rodriguez, *Councilmember*
William H. Ward, *Councilmember*

CITY STAFF

Fran David, *Acting City Manager*
Debra C. Auken, *Finance Director*
Michael O'Toole, Esq., *City Attorney*
Angelina Reyes, *City Clerk*

SPECIAL SERVICES

Jones Hall, A Professional Law Corporation
San Francisco, California
Special Counsel

Lofton & Jennings
San Francisco, California
Disclosure Counsel

Fieldman, Rolapp & Associates
Irvine, California
Financial Advisor

The Bank of New York Trust Company, N.A.
San Francisco, California
Trustee, Escrow Agent, 1996 Trustee and 1997 Trustee

Causey Demgen & Moore, Inc.
Denver, Colorado
Verification Agent

MuniFinancial, Inc.
Temecula, California
Dissemination Agent

OFFICIAL STATEMENT

§ _____ *

CITY OF HAYWARD
2007 REFUNDING CERTIFICATES OF PARTICIPATION
(Civic Center and Capital Projects)
Evidencing Direct, Undivided Fractional Interests of the Owners
Thereof in Lease Payments to be Made by the
CITY OF HAYWARD
to the
HAYWARD PUBLIC FINANCING AUTHORITY

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the 2007 Certificates to potential investors is made only by means of the entire Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Trust Agreement (defined below) or the Lease (defined below). See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions."

Purpose

The purpose of this Official Statement, which includes the cover page and the Table of Contents through the Appendices (the "Official Statement"), is to provide certain information concerning the sale and delivery of _____*principal amount of City of Hayward 2007 Refunding Certificates of Participation (Civic Center and Capital Projects) (the "2007 Certificates"). The 2007 Certificates are being authorized and executed pursuant to a Trust Agreement, dated as of August 1, 2007 (the "Trust Agreement"), by and among the City of Hayward (the "City"), the Hayward Public Financing Authority (the "Authority") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

The 2007 Certificates are being executed and delivered to: (i) prepay all of the City of Hayward 1996 Certificates of Participation (Civic Center Project) in the Outstanding principal amount of \$26,740,000 (the "1996 Certificates"); (ii) prepay all of the City of Hayward 1997 Certificates of Participation (Capital Projects) in the Outstanding principal amount of \$4,245,000 (the "1997 Certificates" and together with the 1996 Certificates, the "Prior Certificates"); (iii) pay the cost of a reserve fund surety policy that will be used to satisfy the Reserve Requirement (as defined herein) for the 2007 Certificates; and (iv) pay certain costs associated with the delivery of the 2007 Certificates. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

The City

The City was originally incorporated in 1876 and its present charter became effective in 1956. For certain demographic, economic and financial information, see APPENDIX A—"GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF HAYWARD" and APPENDIX B—"COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

* Preliminary, subject to change.

The Authority

The Authority is a joint exercise of powers authority created on May 16, 1989 for the purpose of facilitating the financing and refinancing of public improvement facilities within the City. See "THE AUTHORITY."

Security and Sources of Payment for the 2007 Certificates

General. The City owns real property (the "Site") that the City, as lessor, has leased to the Authority, as lessee, pursuant to a Site Lease, dated as of August 1 2007 (the "Site Lease"). The Site and the Improvements thereon (the "Leased Property") will be leased by the Authority to the City pursuant to a Lease Agreement dated as of August 1, 2007 (the "Lease"). The City will make payments to the Authority (the "Lease Payments") for the use and occupancy of the Leased Property. Under the Trust Agreement, the Authority assigns to the Trustee certain of its rights under the Lease, including, but not limited to all rights of the Authority to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund to secure payment of debt service on the 2007 Certificates. The Authority's obligation to pay debt service on the 2007 Certificates is limited exclusively to the payments and other moneys and assets received by the Trustee on behalf of the Authority under the Lease and the amounts held pursuant to the Trust Agreement. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT."

Under the Lease, the City is required to pay to the Trustee the Lease Payments for the beneficial use and occupancy of the Leased Property, which payments are scheduled in both time and amount to provide sufficient funds to pay, when due, the principal of and interest on the 2007 Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES—Lease Payments."

Covenant to Budget and Appropriate. The City covenants under the Lease to take such action as may be necessary to include all Lease Payments and Additional Payments in each of its final approved budgets, to make all necessary annual appropriations (including any supplemental appropriations) from any source of available funds of the City for all Lease Payments and Additional Payments coming due and payable. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES."

Right of Substitution. Pursuant to the Lease, the City may substitute other real property for the Leased Property or any portion thereof upon satisfaction of certain conditions. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT."

Abatement of Lease Payments. The obligation of the City to make Lease Payments under the Lease is subject to partial or complete abatement during any period in which, by reason of material damage, destruction (other than by eminent domain) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. See "CERTAIN RISK FACTORS" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES—Abatement." Abatement of Lease Payments under the Lease could result in Owners receiving less than the full amount of principal and interest on the 2007 Certificates, except to the extent proceeds of insurance (including rental interruption insurance) or condemnation awards or moneys in the Reserve Fund (defined herein) are available to make payments of principal of or interest on the 2007 Certificates (or the relevant portion thereof) during periods of abatement of Lease Payments.

The City may elect to use net insurance proceeds for repair, replacement or reconstruction of the Leased Property or may apply such proceeds to the prepayment of the 2007 Certificates. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT."

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS 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 2007 CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Reserve Fund

The Trust Agreement establishes a Reserve Fund, which is required to be funded in an amount equal to the Reserve Requirement, which is, as of any date of calculation, an amount equal to the lesser of: (i) \$ _____; or (ii) the maximum amount of Lease Payments (excluding certain Lease Payments for which the City has posted a security deposit pursuant to the Lease) coming due in the current or any Fiscal Year.

On the date of delivery of the 2007 Certificates, a reserve fund surety bond to be issued by _____ (the "Insurer") in the amount of the Reserve Requirement will be deposited in the Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES-Reserve Fund."

Certificate Insurance

As additional security for the 2007 Certificates, payment of the principal and interest with respect to the 2007 Certificates when due will be insured by a financial guaranty insurance policy to be issued by the Insurer simultaneously with the delivery of the 2007 Certificates. See "FINANCIAL GUARANTY INSURANCE" [and APPENDIX G-"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."]

Certain Risk Factors

An investment in the 2007 Certificates involves risk. Investors are advised to read the entire Official Statement to obtain information essential to making an informed decision to invest in the 2007 Certificates. See "CERTAIN RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, essential to making an informed decision to invest in the 2007 Certificates.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository or the Municipal Securities Rulemaking Board and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. See "CONTINUING DISCLOSURE" and APPENDIX E-"FORM OF CONTINUING DISCLOSURE CERTIFICATE" for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

The City has never failed to comply in any material respect with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Summaries Not Definitive

Brief descriptions of the 2007 Certificates, the Trust Agreement, the Lease, the Site Lease, the Escrow Instructions and the Continuing Disclosure Certificate, statutes, resolutions, opinions, agreements, financial and statistical data are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the 2007 Certificates, the Trust Agreement, the Lease, the Assignment Agreement, the Escrow Instructions and the Continuing Disclosure Certificate are qualified in their entirety by reference to the actual documents, or with respect to the 2007 Certificates, the form thereof included in the Trust Agreement. Copies of documents referred to herein and information concerning the 2007 Certificates are available upon written request from the Finance Director of the City, 777 B Street, Hayward, California 94541-5007; telephone: (510) 583-4010. The City may impose a charge for copying, mailing and handling.

PLAN OF REFUNDING

The City will apply a portion of the proceeds from the delivery of the 2007 Certificates, together with certain other available moneys, to establish separate escrow funds (the “1996 Escrow Fund” and the “1997 Escrow Fund,” respectively) to prepay the Prior Certificates. The Prior Certificates to be prepaid are described in Table 1A and Table 1B below.

1996 Certificates

The 1996 Certificates to be prepaid with a portion of the proceeds from the sale of the 2007 Certificates consist of the following:

**Table 1A
\$26,740,000
City of Hayward
1996 Certificates of Participation
(Civic Center Project)
Dated Date: October 1, 1996**

<u>Maturity Date (August 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>CUSIP†</u>	<u>Prepayment Date (September 14)</u>	<u>Prepayment Price</u>
2008	\$830,000	5.25%	421209EN	2007	100.5%
2009	875,000	5.30	421209EP	2007	100.5
2010	920,000	5.40	421209EQ	2007	100.5
2017	8,090,000	5.50	421209EW	2007	100.5
2026	16,025,000	5.25	421209EX	2007	100.5

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is *not* intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for reference only. None of the City, the Authority or the Financial Advisor take any responsibility for the accuracy of such numbers.

The 1996 Escrow Fund is established pursuant to Irrevocable Refunding Instructions dated _____, 2007 (the “1996 Escrow Instructions”) given by the City to The Bank of New York Trust Company, N.A., as successor to Chemical Trust Company of California, as the trustee for the 1996 Certificates (the “1996 Trustee”) under the Trust Agreement dated as of August 1, 1996 (the “1996 Trust Agreement”), by and between the City and the 1996 Trustee. The amounts deposited in the 1996 Escrow Fund will be invested by the 1996 Trustee in noncallable United States Treasury Securities (as defined in

the 1996 Trust Agreement), the principal of and interest on which, when received, will be sufficient to prepay the principal of, including premium and interest represented by the 1996 Certificates as the same shall become due at a prepayment price equal to 100.5% of the principal amount of the 1996 Certificates.

The sufficiency of the amounts deposited with the 1996 Trustee under the 1996 Escrow Agreement to prepay the principal of, interest represented by and premium on the 1996 Certificates will be verified by Causey Demgen & Moore, Inc. Neither the United States Treasury Securities nor the interest thereon will be available for the payment of the 2007 Certificates. As a result of the deposit and application of the funds provided in the 1996 Escrow Instructions, the lien of the 1996 Certificates on the Net Revenues will be defeased and discharged. See also "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

1997 Certificates

The 1997 Certificates to be prepaid with a portion of the proceeds from the sale of the 2007 Certificates consist of the following:

Table 1B
\$4,245,000
City of Hayward
1997 Refunding Certificates of Participation
(Capital Projects)
Dated Date: October 1, 1997

<u>Maturity Date</u> <u>(August 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>CUSIP†</u>	<u>Prepayment Date</u> <u>(September 14)</u>	<u>Prepayment</u> <u>Price</u>
2008	\$340,000	4.600%	421209FJ	2007	100.0%
2009	355,000	4.700	421209FK	2007	100.0
2010	370,000	4.750	421209FL	2007	100.0
2011	390,000	4.875	421209FM	2007	100.0
2012	410,000	5.000	421209FN	2007	100.0
2013	430,000	5.000	421209FP	2007	100.0
2014	455,000	5.125	421209FQ	2007	100.0
2015	475,000	5.200	421209FR	2007	100.0
2017	1,020,000	5.200	421209FT	2007	100.0

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is *not* intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for reference only. None of the City, the Authority or the Financial Advisor take any responsibility for the accuracy of such numbers.

The 1997 Escrow Fund is established pursuant to Irrevocable Refunding Instructions dated _____, 2007 (the "1997 Escrow Instructions" and together with the 1996 Escrow Instructions, the "Escrow Instructions") given by the City to The Bank of New York Trust Company, N.A., as successor trustee to Chase Trust Company of California, as the trustee for the 1997 Certificates (the "1997 Trustee" and together with the 1997 Trustee, the "Prior Certificates Trustee") under the Trust Agreement dated as of October 1, 1997 (the "1997 Trust Agreement"), by and between the City and the 1997 Trustee. The amounts deposited in the 1997 Escrow Fund will be invested by the 1997 Trustee in noncallable United States Treasury Securities (as defined in the 1997 Trust Agreement), the principal of and interest on which, when received, will be sufficient to prepay the principal of and interest represented by the 1997 Certificates as the same shall become due at a prepayment price equal to 100% of the principal amount of the 1997 Certificates.

The sufficiency of the amounts deposited with the 1997 Trustee under the 1997 Escrow Instructions to prepay the principal of and interest represented by the 1997 Certificates will be verified by Causey Demgen & Moore, Inc. Neither the United States Treasury Securities nor the interest thereon will be available for the payment of the 2007 Certificates. As a result of the deposit and application of the funds provided in the 1997 Escrow Instructions, the lien of the 1997 Certificates on the Net Revenues will be defeased and discharged. See also "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

ESTIMATED SOURCES AND USES OF FUNDS

The anticipated sources and uses of funds relating to the 2007 Certificates are as set forth in the following table.

Table 2
Estimated Sources and Uses of Funds

Sources:

Principal Amount of the 2007 Certificates
Net Original Issue Premium/Discount
TOTAL SOURCES

Uses:

Deposit to 1996 Escrow Fund⁽¹⁾
Deposit to 1997 Escrow Fund⁽²⁾
Deposit to Costs of Issuance Fund⁽³⁾
Deposit to Reserve Fund
Purchaser's Discount
TOTAL USES

⁽¹⁾ To be used to prepay the 1996 Certificates. See "PLAN OF REFUNDING—1996 Certificates."

⁽²⁾ To be used to prepay the 1997 Certificates. See "PLAN OF REFUNDING—1997 Certificates."

⁽³⁾ Includes the fees and expenses of Bond Counsel, Disclosure Counsel and Counsel to the City, the premiums for the Insurance Policy and the reserve fund surety policy, fees and expenses of The Bank of New York, N.A., in its capacities as the Trustee, 1996 Trustee and 1997 Trustee, the Financial Advisor, the Verification Agent, printing costs, rating agency fees and other costs related to the delivery of the 2007 Certificates.

THE 2007 CERTIFICATES

General

The 2007 Certificates will be dated the date of delivery delivered in fully registered form without coupons, in denominations of \$5,000 each or any integral multiple of \$5,000, not exceeding the principal amount of 2007 Certificates maturing at any one time, and shall mature on the dates and in the principal amounts set forth on the inside cover page. Interest represented by the 2007 Certificates is payable semiannually on February 1 and August 1 in each year, commencing February 1, 2008 (each an "Interest Payment Date"), at the rates set forth on the inside cover page. Interest on the 2007 Certificates will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The 2007 Certificates will be issued in book-entry only form, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2007 Certificates. For so long as Cede & Co., as nominee of DTC, is registered owner of the 2007 Certificates, payments of the principal of,

premium, if any, and interest on the 2007 Certificates will be made directly to DTC. Disbursement of such payment to Direct Participants and Indirect Participants is the responsibility of the Direct Participants and the Indirect Participants, each such term as hereinafter defined. See APPENDIX F-“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Prepayment Provisions

Optional Prepayment. The 2007 Certificates maturing on before August 1, 2017, are not subject to optional prepayment prior to their respective stated maturities.

The 2007 Certificates are subject to prepayment prior to their respective stated maturities, at the option of the City, in whole, or in part among maturities on such basis as designated by the City and by lot within any one maturity, on or after August 1, 2017, or on any date thereafter, at a prepayment price equal to 100% of the principal amount of the Certificates to be prepaid, together with accrued interest to the prepayment date.

Sinking Fund Prepayment. The 2007 Certificates maturing August 1, 20__, August 1, 20__ and August 1, 20__, (collectively, the “Term Certificates”) are also subject to mandatory prepayment by lot on August 1, from the principal components of Lease Payments required to be paid by the City with respect to each such date, at a prepayment price equal to 100% of the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, as follows:

**Term 2007 Certificates
Maturing August 1, 20__**

Mandatory Prepayment Date
(August 1)

Principal Amount

† Maturity Date.

Prepayment from Net Proceeds of Insurance or Condemnation. The 2007 Certificates are subject to mandatory prepayment, in whole or in part on any Business Day from Net Proceeds of insurance or eminent domain proceedings credited towards the prepayment of the Lease Payments pursuant to the Lease, at a prepayment price equal to 100% of the principal amount thereof, together with accrued interest represented thereby to the date fixed for prepayment, without premium. If less than all of the Outstanding 2007 Certificates are called for optional prepayment, the City will determine the basis for selecting the 2007 Certificates to be prepaid among maturities.

Prepayment Procedures

Selection of 2007 Certificates to be Prepaid. If less than all of the Outstanding 2007 Certificates of any maturity are called for prepayment, the Trustee will select 2007 Certificates of such maturity for prepayment by lot in any manner which that the Trustee, in its sole discretion, deems appropriate. For purposes of such selection, 2007 Certificates will be deemed to be composed of \$5,000 portions and any such portion may be separately prepaid.

Notice of Prepayment. Notice of prepayment will be sent by the Trustee on behalf of and at the expense of the City by first-class mail with postage prepaid, at least 30 and not more than 60 days prior to the date fixed for prepayment, to the Information Services, the Securities Depositories and the Owner of the 2007 Certificates to be prepaid (at the addresses appearing on the Certificate Register maintained by the Trustee; *provided, however*, that neither the failure to receive such notice nor any defect in any notice will affect the sufficiency of the proceedings for the prepayment of such 2007 Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment. Each notice of prepayment is required to be dated, state the prepayment date, the prepayment price, the identification (and in the case of partial prepayment, the respective principal amounts) the series designation of the 2007 Certificates to be prepaid in part only, the respective the principal amounts), that on the prepayment date the prepayment price will become due and payable and interest with respect to each such series of Series 2007 Certificate or portion thereof will cease to accrue from and after such date; and the address of the Corporate Trust Office of the Trustee as the place such series of 2007 Certificates are to be surrendered for payment of the prepayment price.

Effect of Notice of Prepayment. If notice of prepayment has been duly given and money for the prepayment, including the interest to the applicable date of prepayment, and premium, if any, are held by the Trustee in the Lease Payment Fund, the 2007 Certificates will become due and payable on such date, said 2007 Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus interest accrued and unpaid to said date of prepayment and from and after the date so designated interest in the notice of prepayment, on such 2007 Certificates, or portions thereof, interest shall cease to accrue, and the Holders of such 2007 Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof.

Purchase in Lieu of Prepayment. In lieu of prepayment of the 2007 Certificates, amount held by the Trustee for such prepayment may, at the written request of the City Representative received by the Trustee at least 75 days prior to the selection of the 2007 Certificates for prepayment, be applied to the purchase of 2007 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 of such 2007 Certificates were prepaid.

SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES

Pledge Under the Trust Agreement

The 2007 Certificates represent a direct, undivided fractional interest in Lease Payments to be made by the City to the Authority under the Lease. The Authority, pursuant to the Assignment Agreement, assigns to the Trustee certain of its rights under the Lease, including, but not limited to, (i) all rights of the Authority to receive and collect all of Lease Payments from the City under the Lease; (ii) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease with respect to the Lease Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property ; and (iii) the right to exercise such rights and remedies conferred on the Authority under the Lease as may be necessary or convenient to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund established under the Trust Agreement, or otherwise to protect the interests of the Owners in the event of a default by the City under the Lease.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS 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 2007 CERTIFICATES NOR THE

OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Deposit of Lease Payments

The Trustee is required under the Trust Agreement to deposit the Lease Payments as received into the Lease Payment Fund. All moneys deposited in the Lease Payment Fund are held in trust for the benefit of the City and the Owners of the 2007 Certificates and will be disbursed, allocated, and applied solely for the uses and purposes set forth in the Trust Agreement.

Application of Lease Payments. So long as any 2007 Certificates are Outstanding, the Trustee will apply amounts on deposit in the Lease Payment Fund solely for the purpose of paying the principal, interest and prepayment premiums, if any, represented by the 2007 Certificates as the same become due and payable.

Surplus. Any surplus remaining in the Lease Payment Fund, after prepayment and payment of all 2007 Certificates, including premiums and accrued interest, if any, and payment of any applicable fees and expenses to the Trustee, or provision for such prepayment or payment is made to the satisfaction of the Trustee, will be withdrawn by the Trustee and remitted to the City.

Reserve Fund; Reserve Policy

General. A Reserve Fund is established by the Trust Agreement and is required to be funded in the amount of the Reserve Requirement, which is, as of any date of calculation, an amount equal to the lesser of: (i) \$ _____; or (ii) the maximum amount of Lease Payments (excluding certain Lease Payments for which the City has posted a security deposit pursuant to the Lease) coming due in the current or any Fiscal Year.

Under the Trust Agreement, the Trustee is required retain in the Reserve Fund all earnings on the investment of amounts therein to the extent required to maintain the full amount of the Reserve Requirement on deposit therein. All amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement, and all amounts derived from the investment of amounts in the Reserve Fund which are not required to be retained therein to maintain the Reserve Requirement, are required to be transferred by the Trustee to the Lease Payment Fund semiannually on or before each Lease Payment Date.

Application of Reserve Fund. If on any Interest Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the Lease Payment then coming due and payable, the Trustee is required to apply the moneys available in the Reserve Fund to make such payments on behalf of the City by transferring the amount necessary for such purpose to the Lease Payment Fund. Upon receipt of any delinquent Lease Payment with respect to which moneys have been advanced from the Reserve Fund, such Lease Payment is required be deposited in the Reserve Fund to the extent of such advance.

If on any Interest Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal, interest and prepayment premium, if any, represented by any 2007 Certificates theretofore having come due but not presented for payment) are sufficient to pay or prepay all Outstanding 2007 Certificates, including all principal, interest and prepayment premiums (if any) represented thereby, the Trustee is required, upon the written request of the City, to either (i) transfer all amounts then on deposit in the Reserve Fund to the Lease Payment Fund to be applied for such purpose to the payment of the Lease Payments on behalf of the City, or (ii) transfer

such funds to the Rebate Fund if and to the extent the Trustee receives written directions from a City Representative to do so in accordance with the Trust Agreement.

Any amounts remaining in the Reserve Fund on the date of payment of the 2007 Certificates in full, or provision for such payment as provided in the Trust Agreement of all obligations represented by the Outstanding 2007 Certificates and all fees and expenses then due and owing to the Trustee, are required to be withdrawn by the Trustee and at the written request of the City applied towards such payment or paid to the City.

Covenant to Budget and Appropriate

The City covenants in the Lease to make all necessary appropriations (including any supplemental appropriations) from any source of legally available funds of the City for all the actual amount of Lease Payments and Additional Payments which come due and payable during the period covered by each such budget. The Authority will pledge the Lease Payments to the Trustee for the benefit of the Owners of the 2007 Certificates. By the 5th Business Day of the month immediately preceding each Interest Payment Date, the City must pay to the Trustee Lease Payments (to the extent required under the Lease) which will be sufficient to pay, when due, the scheduled principal of and interest on the 2007 Certificates. Lease Payments are not subject to acceleration.

Under the Lease, the City agrees to pay Additional Payments for the payment of all costs and expenses incurred by the City under the Lease or the Trust Agreement, or incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation, annual compensation due to the Trustee and all of its reasonable costs and expenses (including amounts payable to the Trustee by virtue of indemnification) payable as a result of the performance of and compliance with its duties under the Trust Agreement, and all reasonable costs and expenses of attorneys, auditors, engineers and accountants engaged by the Authority or the Trustee in connection with the Leased Property or the performance of their duties hereunder or under the Trust Agreement. The City is responsible for maintenance, utilities, taxes and insurance of the Leased Property during the term of the Lease.

The obligation of the City under the Lease to appropriate funds to pay Lease Payments and Additional Payments is not limited to any particular source of funds; and the City is required to pay the Lease Payments and Additional Payments due thereunder from any lawfully available funds of the City including, without limitation, amounts available from the City's General Fund. See also APPENDIX A—"GENERAL, ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF HAYWARD—FINANCIAL INFORMATION—Direct and Overlapping Debt."

Insurance

Public Liability and Property Damage Insurance. The City is required under the Lease to maintain or cause to be maintained, comprehensive general insurance in protection of the Authority, the City and their respective members, officers, agents, employees and assigns. Such insurance is required to provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property in such liability limits and subject to such deductibles as the City deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of a program of self-insurance by the City subject to the provisions of the Lease, or in the form of the participation by the City in a joint powers authority or other program providing pooled insurance. The City is required to apply the proceeds of such insurance toward extinguishment or satisfaction of the liability with respect to which the net proceeds are paid.

Casualty Insurance. The Lease requires the City to procure and maintain, or cause to be procured and maintained, at all times throughout the term of the Lease, casualty insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount at least equal to the lesser of (i) the replacement value of such buildings, facilities and improvements, or (ii) the aggregate principal amount of the Outstanding 2007 Certificates.

Such insurance is required, as nearly as practicable, to cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the reasonable determination of the City, whose determination is final and conclusive, and may be subject to such deductibles as the City deems prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The City is required to apply the Net Proceeds of such insurance as provided in the Lease.

Rental Interruption Insurance. The City is further required under the Lease to procure and maintain, or cause to be procured and maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased Property, as a result of any of the hazards covered by casualty insurance, in an amount at least equal to the maximum Lease Payments coming due and payable during any Fiscal Year during the remaining term of the Lease.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, is required to be paid to the Trustee and deposited in the Lease Payment Fund, and be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Title Insurance. The City is required to provide a CLTA title policy insuring the City's leasehold estate in the Leased Property hereunder, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the 2007 Certificates. All Net Proceeds received under such title insurance policy are required to be deposited with the Trustee in the Lease Payment Fund and credited towards the prepayment of the Lease Payments under the Lease.

Application of Net Proceeds. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Property by fire or other casualty are required to be paid to the Trustee, as assignee of the Authority under the Assignment Agreement, and deposited in the Insurance and Condemnation Fund established under the Trust Agreement to be applied as set forth herein. The City is required to pay the Net Proceeds of any eminent domain award with respect to the Leased Property resulting from a termination or abatement of the lease due to eminent domain to the Trustee for deposit in the Insurance and Condemnation Fund, to be applied as set forth in the Trust Agreement.

Abatement

The Lease Payments will be abated proportionately during any period in which by reason of any damage to or destruction of the Leased Property (other than by eminent domain), there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The amount of such abatement will be determined by the City such that the resulting Lease Payments

represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed, and such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease will continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage or destruction. See "CERTAIN RISK FACTORS—Abatement of Lease Payments."

Eminent Domain

If the whole of the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Lease will cease with respect thereto as of the day possession is so taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then (i) the Lease will continue in full force and effect, will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (ii) there will be a partial abatement of Lease Payments in an amount to be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property. Notwithstanding the foregoing, the Lease Payments will not be abated to the extent that amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated

Default

If the City defaults under the Lease, the Authority may exercise any and all remedies available pursuant to law or granted pursuant to the Lease. In the event of default, the Authority may (i) terminate the Lease and re-lease all or a portion of the Leased Property to another tenant or (ii) maintain the Lease in effect, lease the Leased Property to another tenant, and collect from the City the difference between the new tenant's payments and the Lease Payments. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—LEASE." See "CERTAIN RISK FACTORS—Limitations on Exercise of Remedies" for a discussion on the limitations on the Trustee's ability to exercise certain remedies if the City defaults under the Lease.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS 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 2007 CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Bond Insurance

As additional security for the 2007 Certificates, payment of the principal component of and interest represented by the 2007 Certificates when due will be insured by an Insurance Policy to be issued by the Insurer simultaneously with the delivery of the 2007 Certificates. See "FINANCIAL GUARANTY INSURANCE" and APPENDIX G—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

Substitution of Property

The City may substitute other real property (the "Substitute Property") for any property that constitutes all or any portion of the Leased Property (the "Former Property") for purposes of the Lease, but only after the City satisfies all of the following requirements:

- (i) No Event of Default under the Lease has occurred and is continuing.
- (ii) The City files with the Authority and the Trustee, and causes to be recorded in the office of the Alameda County Recorder sufficient memorialization of, an amendment hereof which adds to a description of such Substitute Property and deletes therefrom the description of such Former Property.
- (iii) The City obtains a CLTA policy of title insurance which insures the City's leasehold estate hereunder in such Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- (iv) The City certifies in writing to the Authority and the Trustee that such Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.
- (v) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made in the Lease or in the Trust Agreement.
- (vi) The City files with the Authority and the Trustee an appraisal or other written documentation establishing that the estimated value and the fair rental value of the Substitute Property are at least equal to the estimated value and the fair rental value, respectively, of the Former Property, and that the useful life of the Substitute Property at least equals the lesser of the useful life of the Former Property, or the final Lease Payment Date of the Lease Payments allocable thereto.
- (vii) The City mails written notice of such substitution to each rating agency which then maintains a rating on the 2007 Certificates.

MUNICIPAL BOND INSURANCE

The following information has been provided by _____ (“_____”) for use in this Official Statement. None the City, the Underwriter or the Financial Advisor makes any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

[TO COME]

THE LEASED PROPERTY

Description

The City will lease the Leased Property to the Authority pursuant to the Site Lease. The Authority will lease the Leased Property back to the City pursuant to the Lease. The City represents and warrants in the Lease that the Leased Property is essential to the fulfillment of governmental purposes and that it will only be used for performing governmental functions consistent with the scope and authority of the City. The Leased Property consists of the Civic Center which is owned by the City and further described below. For the location of the Leased Property, see the map on page _____.

The City may, upon satisfaction of certain requirements described in the Lease, substitute other real property for one or more of the Leased Property.

Civic Center. The Civic Center is located at 777 B Street in downtown Hayward adjacent to the Hayward station of the San Francisco Bay Area Rapid Transit District. The Civic Center is comprised of the approximately 104,000 square foot, four-story, steel frame, City Hall building and an approximately 2.16 acre plaza. City Hall was completed in 1997, opened to the public in January 1998 and was designed with base isolators and hydraulic viscous dampers that permit the building to move up to 22 inches horizontally to reduce seismic stress and allow the building to remain operational following a seismic event measuring a magnitude of 7.5 on the Richter scale. The principal municipal functions of the City are located in City Hall, including the chambers for the City Council. The plaza features a sensory garden, fountains and terraced lawn areas.

The following is a summary of location, completion date, size and structure value of the leased assets.

<u>Facility</u>	<u>Address</u>	<u>Original Completion Date</u>	<u>Approx. Acreage of Site</u>	<u>Approx. Building Square Footage</u>	<u>Term of Lease Agreement</u>	<u>Estimated Structure Value†</u>
Civic Center	777 B Street	1997	3.65	104,000	_____	\$39,700,000
TOTAL		_____	_____	_____	_____	\$ _____

† Based on _____.
Source: City of Hayward.

Seismicity

Generally, within the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to the property located at or near the center of such seismic activity. The Leased Property was designed to the seismic standards existing at the time of original construction. The Lease does not require the City to obtain earthquake insurance with respect to the Leased Property. See also "CERTAIN BONDOWNERS' RISKS-Abatement" and "-Risk of Earthquake and Other Natural Disasters-Earthquake."

Flood Risk

None of the City is currently located within the boundaries of a 100-year flood plain. A 100-year floodplain is an area which is expected to be inundated during a flood event of the magnitude for which there is a 1% (or 1-in-100) probability in any year. See also "CERTAIN BONDOWNERS' RISKS-Abatement" and "-Risk of Earthquake and Other Natural Disasters-Risk of Flooding."

~~DRAFT~~
DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 07-

Introduced by Council Member _____

me
11/2/07

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
HAYWARD AUTHORIZING DELIVERY AND SALE OF
REFUNDING CERTIFICATES OF PARTICIPATION IN THE
PRINCIPAL AMOUNT OF NOT TO EXCEED \$ _____ TO
REFINANCE 1996 AND 1997 CERTIFICATES OF
PARTICIPATION, AND APPROVING RELATED
DOCUMENTS AND ACTIONS

WHEREAS, the Hayward Public Financing Authority (the "Authority") and the City of Hayward (the "City") have previously entered into Lease Agreement, dated as of October 1, 1996, as amended by a First Amendment and Supplement to Lease Agreement, dated as of October 1, 1997 (the "Prior Lease"), under which the City has agreed to pay semiannual lease payments which are evidenced by 1996 Certificates of Participation (Civic Center Project) in the aggregate principal amount of \$32,595,000 (the "1996 Certificates") and 1997 Refunding Certificates of Participation (Capital Projects) in the aggregate principal amount of \$7,045,000 (the "1997 Certificates"); and

WHEREAS, in order to take advantage of favorable interest rates prevailing in the municipal bond market, the City wishes at this time to provide for the refinancing of its obligations under the Prior Lease and the 1996 Certificates and 1997 Certificates from the proceeds of 2007 Refunding Certificates of Participation to be delivered in the maximum principal amount of \$ _____ (the "Refunding Certificates"); and

WHEREAS, the City Council wishes at this time to authorize and approve all proceedings for the refinancing of the Prior Lease and the 1996 Certificates and 1997 Certificates, the delivery and sale of Refunding Certificates for such purpose, and all related documents and actions, in furtherance of the public purposes of the City;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward as follows:

Section 1. Approval of Refinancing Plan and Related Documents. The City Council hereby approves the refinancing plan outlined above. To that end, the City Council hereby approves each of the following financing documents in substantially the respective forms on file with the City Clerk, together with any changes therein or additions thereto approved by the Mayor, the City Manager, the Assistant City Manager or the Director of Finance of the City (each, an "Authorized Officer"):

Site Lease dated as of August 1, 2007, between the City as lessor and the Authority as lessee, whereby the City leases certain real property consisting generally of the land and improvements constituting the Civic Center located at 777 B Street(the "Leased Property") to the Authority.

Lease Agreement dated as of August 1, 2007, between the Authority as lessor and the City as lessee, whereby the Authority leases the Leased Property back to the City in consideration of the payment by the City of semiannual lease payments.

Trust Agreement dated as of August 1, 2007, between the City, the Authority and the Trustee, whereby the Trustee agrees to execute and deliver the Refunding Certificates.

Irrevocable Refunding Instructions given by the City to The Bank of New York Trust Company, N.A., as successor trustee for the 1996 Certificates, relating to the administration of funds to refinance the 1996 Certificates.

Irrevocable Refunding Instructions given by the City to The Bank of New York Trust Company, N.A, as successor trustee for the 1997 Certificates, relating to the administration of funds to refinance the 1997 Certificates.

The Director of Finance is hereby authorized and directed on behalf of the City to execute the final form of each of the foregoing documents, and the City Clerk is hereby authorized and directed to attest to the final form of each of the foregoing documents. Execution of each of the foregoing documents by the City Manager shall be conclusive evidence of the approval of any changes therein or additions thereto by an Authorized Officer. The schedule of lease payments attached to the Lease Agreement shall correspond to the payments of principal and interest represented by the Refunding Certificates, to be determined upon the sale thereof as set forth in Section 2.

Section 2. Sale of Refunding Certificates. The City Council hereby approves the competitive public sale of the Refunding Certificates through the on-line services of the Parity Bid Submission System. Bids shall be received, and the Refunding Certificates shall be sold, subject to the terms and conditions set forth in the Official Notice of Sale in substantially the form on file with the City Clerk together with any additions thereto or changes therein deemed advisable by the Director of Finance. The purchase price received by the City for the Bonds from the Underwriter, exclusive of original issue discount paid to the investors, shall be not less than 99% of the par amount thereof, and the net present value savings realized by the City by issuing the Bonds shall be at least 3% of the principal amount of the 1996 Certificates and the 1998 Certificates to be prepaid. The Director of Finance is hereby authorized and directed

to accept the best bid determined in accordance with this Resolution and the Official Notice of Sale on behalf of the City.

Jones Hall, A Professional Law Corporation, as bond counsel to the City, is hereby authorized and directed to cause an appropriate notice of the City's intention to sell the Certificates of Participation to be published once in *The Bond Buyer* as required by Section 53692 of the Government Code.

Section 3. Official Statement. The City Council hereby approves and deems final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the preliminary Official Statement describing the Refunding Certificates in the form on file with the City Clerk. An Authorized Officer is hereby individually authorized, at the request of the purchaser of the Refunding Certificates, to execute an appropriate certificate affirming the City Council's determination that the preliminary Official Statement has been deemed final within the meaning of such Rule. Distribution of the preliminary Official Statement to prospective purchasers of the Refunding Certificates is hereby approved. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The City Council hereby authorizes the distribution of the final Official Statement by the purchaser of the Certificates of Participation. The final Official Statement will be executed in the name and on behalf of the City by an Authorized Officer.

Section 4. Authorization to Obtain Municipal Bond Insurance. The City Council hereby authorizes an Authorized Officer to determine whether the Refunding Certificates are eligible for municipal bond insurance and reserve fund surety bond and, if so, whether it is in the best interests of the City to obtain such insurance or surety bond. An Authorized Officer is hereby authorized to execute a commitment for such insurance or surety bond and to take all actions required to implement the delivery of such municipal bond insurance policy or surety bond.

Section 5. Appointment of Professionals. The following professionals are hereby appointed to provide services relating to the Bonds: Jones Hall, A Professional Law Corporation, as bond counsel; Lofton & Jennings as disclosure counsel; Fieldman, Rolapp & Associates as financial advisor; The Bank of New York Trust Company, N.A. as trustee; Causey Demgen & Moore as verification agent; and MuniFinancial as dissemination agent. The Director of Finance, or an authorized representative or authorized designee of the Director of Finance, is hereby authorized to execute agreements for services with such professionals relating to the Bonds in substantially the forms presented at this meeting and on file with the Director of Finance.

Section 6. Official Actions. The Mayor, the City Manager, the Assistant City Manager or the Director of Finance, City Clerk, and all other officers of the City, are authorized and directed in the name and on behalf of the City to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants

and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this resolution any officer of the City is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

Section 7. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2007

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

DRAFT

HAYWARD PUBLIC FINANCING AUTHORITY

RESOLUTION NO. 07-

Introduced by Board Member _____

Wae
7/12/07

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
HAYWARD PUBLIC FINANCING AUTHORITY
AUTHORIZING DELIVERY AND SALE OF CERTIFICATES
OF PARTICIPATION IN THE PRINCIPAL AMOUNT OF
NOT TO EXCEED \$ _____ TO REFINANCE 1996 AND 1997
CERTIFICATES OF PARTICIPATION, AND APPROVING
RELATED DOCUMENTS AND ACTIONS

WHEREAS, the Hayward Public Financing Authority (the "Authority") and the City of Hayward (the "City") have previously entered into Lease Agreement, dated as of October 1, 1996, as amended by a First Amendment and Supplement to Lease Agreement, dated as of October 1, 1997 (the "Prior Lease"), under which the City has agreed to pay semiannual lease payments which are evidenced by 1996 Certificates of Participation (Civic Center Project) in the aggregate principal amount of \$32,595,000 (the "1996 Certificates") and 1997 Refunding Certificates of Participation (Capital Projects) in the aggregate principal amount of \$7,045,000 (the "1997 Certificates"); and

WHEREAS, in order to take advantage of favorable interest rates prevailing in the municipal bond market, the City wishes at this time to provide for the refinancing of its obligations under the Prior Lease and the 1996 Certificates and 1997 Certificates from the proceeds of 2007 Refunding Certificates of Participation to be delivered in the maximum principal amount of \$ _____ (the "Refunding Certificates"); and

WHEREAS, the Board of Directors wishes at this time to authorize and approve all proceedings for the refinancing of the Prior Lease and the 1996 Certificates and 1997 Certificates, the delivery and sale of Refunding Certificates for such purpose, and all related documents and actions, in furtherance of the public purposes of the Authority;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Hayward Public Financing Authority as follows:

Section 1. Approval of Refinancing Plan and Related Documents. The Board of Directors hereby approves the refinancing plan outlined above. To that end, the Board of Directors hereby approves each of the following financing documents in substantially the respective forms on file with the Secretary, together with any changes therein or additions thereto approved by the Executive Director, Secretary or the Treasurer (each, an "Authorized Officer"):

Site Lease dated as of August 1, 2007, between the City as lessor and the Authority as lessee, whereby the City leases certain real property consisting generally of the land and improvements constituting the Civic Center located at 777 B Street (the "Leased Property") to the Authority.

Lease Agreement dated as of August 1, 2007, between the Authority as lessor and the City as lessee, whereby the Authority leases the Leased Property back to the City in consideration of the payment by the City of semiannual lease payments.

Assignment Agreement dated as of August 1, 2007, between the Authority and the Trustee, whereby the Authority assigns substantially all of its rights under the Lease Agreement to the Trustee for the security of the Certificates of Participation.

Trust Agreement dated as of August 1, 2007, between the City, the Authority and the Trustee, whereby the Trustee agrees to execute and deliver the Refunding Certificates.

Termination Agreement dated as of August 1, 2007, between the Authority and The Bank of New York Trust Company, N.A, as successor trustee for the 1996 Certificates, whereby the Authority terminates the Assignment Agreement relating to the 1996 Certificates.

Termination Agreement dated as of August 1, 2007, between the Authority and The Bank of New York Trust Company, N.A, as successor trustee for the 1997 Certificates, whereby the Authority terminates the Assignment Agreement relating to the 1997 Certificates.

The Executive Director is hereby authorized and directed on behalf of the Authority to execute the final form of each of the foregoing documents, and the Secretary is hereby authorized and directed to attest to the final form of each of the foregoing documents. Execution of each of the foregoing documents by the Executive Director shall be conclusive evidence of the approval of any changes therein or additions thereto by an Authorized Officer. The schedule of lease payments attached to the Lease Agreement shall correspond to the payments of principal and interest represented by the Refunding Certificates, to be determined upon the sale thereof as set forth in Section 2.

Section 2. Sale of Refunding Certificates. The Board of Directors hereby approves the competitive public sale of the Refunding Certificates through the on-line services of the Parity

ABSTAIN: BOARD MEMBERS:

ABSENT: BOARD MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Council Member _____

man
7/12/07

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
HAYWARD AUTHORIZING THE ISSUANCE AND SALE OF
SEWER REVENUE REFUNDING BONDS IN THE
PRINCIPAL AMOUNT OF NOT TO EXCEED \$10,200,000,
AND APPROVING RELATED DOCUMENTS AND ACTIONS**

WHEREAS, The City entered into an Installment Sale Agreement, dated August 1, 1996 (the "1996 Installment Sale Agreement"), between the City and the Hayward Public Financing Authority (the "Authority") and issued its Certificates of Participation (1996 Sewer System Refunding and Improvement Project) in an aggregate principal amount of \$10,665,000 (the "1996 Certificates"), for the purpose of financing certain improvements to the City's municipal wastewater system (the "Sewer System") and refunding previous indebtedness of the City relating to the Sewer System; and

WHEREAS, the City entered into an Installment Sale Agreement, dated January 1, 1998 (the "1998 Installment Sale Agreement" and, together with the 1997 Installment Sale Agreement, the "Prior Installment Sale Agreements"), between the City and the Authority and issued its Certificates of Participation (1998 Sewer System Improvement Project) in an aggregate principal amount of \$7,300,000 (the "1998 Certificates" and, together with the 1996 Certificates, the "Prior Certificates"), for the purpose of financing certain improvements to the Sewer System; and

WHEREAS, in order to take advantage of favorable interest rates prevailing in the municipal bond market, the City wishes at this time to provide for the refinancing of its obligations under the Prior Installment Sale Agreements and the Prior Certificates from the proceeds of 2007 Sewer Revenue Refunding Bonds to be issued in the maximum principal amount of \$10,200,000 (the "Bonds"); and

WHEREAS, the City Council wishes at this time to authorize and approve all proceedings for the refinancing of the Prior Installment Sale Agreements and the Prior Certificates, the delivery and sale of Bonds for such purpose under Sections 53570 et seq. and 53584 et seq. of the California Government Code, and all related documents and actions, in furtherance of the public purposes of the City.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward as follows:

Section 1. Authorization of Bonds. The City Council hereby authorizes the issuance of the Bonds in the maximum principal amount of \$10,200,000, for the purpose of providing funds to refinance the Prior Installment Sale Agreements and the Prior Certificates. The Bonds shall be revenue bonds that are payable from and secured by a pledge of and lien on the net revenues of the Sewer System. The Bonds are authorized to be issued under Sections 53570 et seq. and 53584 et seq. of the California Government Code.

Section 2. Approval of Financing Documents. The Bonds shall be issued under an Indenture of Trust dated as of August 1, 2007, between the City and The Bank of New York Trust Company, N.A., as trustee, which is hereby approved in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the Director of Finance, whose execution thereof shall be conclusive evidence of the approval of any such changes or additions. The Director of Finance is hereby authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest and affix the seal of the City to, the final form of the Indenture of Trust on behalf of the City.

Section 3. Prepayment of Prior Installment Sale Agreements. The City council hereby approves the application of the portion of the proceeds of the Bonds to the prepayment in full of the Prior Installment Sale Agreements, thereby resulting in the prepayment in full of the Prior Certificates, on September 14, 2007.

Section 4. Competitive Sale of Bonds. The City Council hereby authorizes and directs the competitive sale of the Bonds in accordance with the Notice of Sale in substantially the form on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the Director of Finance. The purchase price received by the City for the Bonds from the Underwriter, exclusive of original issue discount paid to the investors, shall be not less than 99% of the par amount thereof, and the net present value savings realized by the City by issuing the Bonds shall be at least 3% of the principal amount of the 1996 Certificates and the 1998 Certificates to be prepaid. The Director of Finance is hereby authorized and directed to accept the best bid for the sale of the Bonds, as determined in accordance with this Resolution and the Notice of Sale.

Section 5. Publication of Notice. Jones Hall, A Professional Law Corporation, as bond counsel to the City, is hereby authorized and directed to cause a Notice of Intention to Sell Bonds, in form and substance acceptable to said firm, to be published once in *The Bond Buyer* in accordance with Section 53692 of the Government Code.

Section 6. Official Statement. The City Council hereby approves and deems final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the preliminary Official Statement describing the Bonds in the form on file with the City Clerk. The Mayor, the City Manager or the Director of Finance (each, an "Authorized Officer") is individually authorized, at the request of the purchaser of the Bonds, to execute an appropriate certificate affirming the City Council's determination that the preliminary Official Statement has been deemed final within the meaning of such Rule. Distribution of the preliminary Official Statement by the purchaser of the Bonds is hereby approved. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to a

final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The City Council hereby authorizes the distribution of the final Official Statement by the purchaser of the Bonds. The final Official Statement shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 7. Authorization to Obtain Municipal Bond Insurance. The City Council hereby authorizes the Director of Finance to determine whether the Bonds are eligible for municipal bond insurance and reserve fund surety bond and, if so, whether it is in the best interests of the City to obtain such insurance or surety bond. If the Director of Finance determines that it is in the best interests of the City to obtain municipal bond insurance or surety bond, the Director of Finance is authorized to determine which municipal bond insurer offers the most favorable terms and conditions, to execute a commitment for such insurance and to take all actions required to implement the delivery of such policy or surety bond.

Section 8. Appointment of Professionals. The following professionals are hereby appointed to provide services relating to the Bonds: Jones Hall, A Professional Law Corporation, as bond counsel; Lofton & Jennings as disclosure counsel; Fieldman, Rolapp & Associates as financial advisor; The Bank of New York Trust Company, N.A. as trustee; Causey Demgen & Moore as verification agent; and MuniFinancial as dissemination agent. The Director of Finance, or an authorized representative or authorized designee of the Director of Finance, is hereby authorized to execute agreements for services with such professionals relating to the Bonds in substantially the forms presented at this meeting and on file with the Director of Finance.

Section 9. Official Actions. The Mayor, the City Manager, the Director of Finance, the City Clerk, the City Attorney and all other officers of the City are each authorized and directed in the name and on behalf of the City to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the documents approved pursuant to this Resolution. Whenever in this resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

Section 10. Effective Date. This resolution shall take effect from and after the date of approval and adoption thereof.

IN COUNCIL, HAYWARD, CALIFORNIA, _____, 2007

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward