

Library Copy

**TAXABLE (FEDERAL)
TAX-EXEMPT (CALIFORNIA)
NEW ISSUE — BOOK-ENTRY ONLY**

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California ("Bond Counsel"), based upon existing laws, regulations, rulings and court decisions, interest on the 1997 Bonds is exempt from State of California personal income taxes, although INTEREST ON THE 1997 BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the 1997 Bonds.

\$73,725,000

**Sacramento City Financing Authority
1997 Lease Revenue Bonds
(ARCO Arena Acquisition)**

CUSIP No.: 785846 BR6

Dated: Date of Delivery

Due: July 15, 2027

Mandatory Tender Date: July 18, 2007

This cover page contains certain information for general reference only. It is not intended to be 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. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The 1997 Bonds are being issued by the Sacramento City Financing Authority (the "Authority") for the purpose of financing the acquisition by the City of Sacramento (the "City") of a sports and entertainment arena, commonly known as ARCO Arena, located on certain real property in the City (collectively, the "Facility" or the "Arena") and to pay costs of issuance of the 1997 Bonds, all as more fully described herein. See "PLAN OF FINANCE" and "THE ARENA" herein.

The 1997 Bonds are being issued pursuant to an Indenture dated as of July 1, 1997 (the "Indenture") by and between the Authority and the Trustee. The 1997 Bonds are limited obligations of the Authority payable solely from Revenues of the Authority, consisting primarily of Base Rental Payments to be received by the Authority from the City under a Facility Lease dated as of July 1, 1997 (the "Facility Lease") by and between the Authority and the City. The Base Rental Payments to be made by the City to the Authority pursuant to the Facility Lease will be in amounts calculated to be sufficient to pay principal of and interest on the 1997 Bonds when due. The Base Rental Payments to be made by the City pursuant to the Facility Lease are payable by the City from its General Fund to the Authority for the right to the use and possession by the City of the Facility. The City has agreed in the Facility Lease to make all Base Rental Payments, subject to the abatement of such Base Rental Payments in the event of material damage to or destruction of the Facility or a governmental taking of the Facility in whole or in part.

The 1997 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 1997 Bonds. Principal of and interest on the 1997 Bonds are payable by First Trust of California, National Association, as trustee (the "Trustee") to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 1997 Bonds, as described herein. Individual purchases of the 1997 Bonds will be made in book-entry form only in Authorized Denominations of \$1,000 and any integral multiple thereof.

Initially, the 1997 Bonds shall be sold and delivered in a Floating Rate Mode as LIBOR Bonds and will continue in such Mode until July 18, 2007. Interest on the LIBOR Bonds will accrue at a rate equal to three-month LIBOR plus 0.25 percent (provided such rate may at no time exceed 14 percent) and will be payable quarterly on each Interest Payment Date as described herein. On or after July 18, 2007, the 1997 Bonds may continue in a Floating Rate Mode (as LIBOR Bonds or Treasury Rate Bonds) or may be changed to a Unit Pricing Mode, a Discount Mode, a Term Rate Mode or a Fixed Rate Mode under the conditions described herein.

The 1997 Bonds are subject to optional redemption on any Interest Payment Date on or after July 15, 1998, at a price equal to 100% of the principal amount of the 1997 Bonds to be redeemed plus accrued interest thereon. The 1997 Bonds are also subject to extraordinary redemption and mandatory sinking fund redemption as described herein. See "THE 1997 BONDS — Redemption of 1997 Bonds" herein. The 1997 Bonds are also subject to mandatory tender and purchase on July 18, 2007 and on certain other dates prior to maturity under the circumstances described herein. See "THE 1997 BONDS — Mandatory Tender Provisions" herein.

Payment of the principal of and interest on the 1997 Bonds when due (not including redemption, except scheduled mandatory sinking fund redemption) and payment of the principal of all Outstanding 1997 Bonds, together with accrued interest thereon, due on July 18, 2007 (as more fully described herein) will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the 1997 Bonds.



The 1997 Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City or any Member of the Authority is pledged for the payment of the interest on or principal of the 1997 Bonds nor for the payment of Base Rental Payments under the Facility Lease. Neither the payment of the principal of or interest on the 1997 Bonds nor the obligation to make Base Rental Payments under the Facility Lease constitutes a debt, liability or obligation of the Authority, the City or any Member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Price: 100%

The 1997 Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Brown & Wood LLP, San Francisco, California. Certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City of Sacramento. It is expected that the 1997 Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about July 31, 1997.

Merrill Lynch & Co.

Stone & Youngberg LLC

E. J. De La Rosa & Co., Inc.

Sutter Securities Incorporated

July 17, 1997

LIBRARY COPY

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriters to give any information or to make any representations other than as contained in this Official Statement and, if given or made, any such other information or representations must not be relied upon as having been authorized by the Authority, the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 1997 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 1997 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority and the City and other official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

**CITY OF SACRAMENTO
CALIFORNIA**

Mayor and City Council and Authority Board of Directors

Joe Serna, Jr., Mayor
Heather Fargo, District No. 1
Robert Kerth, District No. 2
Steve Cohn, District No. 3
Jimmie Yee, District No. 4
Lauren R. Hammond, District No. 5
Darrell Steinberg, District No. 6
Robbie Waters, District No. 7
Samuel C. Pannell, District No. 8

City Staff

William H. Edgar, City Manager
Samuel L. Jackson, City Attorney
William P. Carnazzo, Assistant City Attorney
Thomas P. Friery, City Treasurer
Valerie A. Burrowes, City Clerk
Kenneth Nishimoto, Director of Administrative Services

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

First Trust of California, National Association
San Francisco, California

Paying Agent

First Trust of California, National Association
San Francisco, California

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose	1
The Authority	1
Authority for Issuance of the 1997 Bonds	1
Security for the 1997 Bonds	1
The Facility	2
Facility Insurance	2
Reserve Fund	2
Bond Insurance	2
Mandatory Tender on July 18, 2007	3
Continuing Disclosure	3
Summaries Not Definitive	3
Additional Information	4
PLAN OF FINANCE	4
ESTIMATED APPLICATION OF PROCEEDS	5
THE 1997 BONDS	5
General	5
Interest Rate Provisions	6
Interest Rate Modes	6
Mode Changes	8
Mandatory Tender Provisions	8
Redemption of 1997 Bonds	11
Non-Presentment of 1997 Bonds	14
SECURITY AND SOURCES OF PAYMENT FOR THE 1997 BONDS	14
Pledge Under the Indenture	14
The Facility Lease	15
Reserve Fund	17
Swap Agreement	17
BOND INSURANCE	18
The Policy and the Insurer	18
Substitute Insurance Policy	19
THE ARENA	20
Description of the Facility	20
Operations of the Arena	20
Seismic Considerations	21
RISK FACTORS	21
Base Rental Payments Not City Debt	21
Abatement Risk	22
Risks Related to the Arena Agreements	22
No Acceleration Upon Default	22
Limitation of Remedies	22
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS	23
Article XIII A of the State Constitution	23
Article XIII B of the State Constitution	24
Right to Vote on Taxes Act — Proposition 218	24
Statutory Spending Limitations — Proposition 62	26
Future Initiatives	27
THE CITY	27
THE AUTHORITY	27
THE TRUSTEE AND PAYING AGENT	27

	<u>Page</u>
TAX MATTERS	27
RATINGS	28
UNDERWRITING	28
INDEPENDENT ACCOUNTANTS	28
LITIGATION	28
APPROVAL OF LEGAL PROCEEDINGS	29
EXECUTION AND DELIVERY	30
APPENDIX A - CERTAIN INFORMATION WITH RESPECT TO THE CITY	A-1
APPENDIX B - GENERAL PURPOSE FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 1996	B-1
APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS	C-1
APPENDIX D - PROPOSED FORM OF THE CONTINUING DISCLOSURE CERTIFICATE	D-1
APPENDIX E - SPECIMEN MUNICIPAL BOND INSURANCE POLICY	E-1
APPENDIX F - BOOK-ENTRY SYSTEM	F-1
APPENDIX G - PROPOSED FORM OF OPINION OF BOND COUNSEL	G-1

OFFICIAL STATEMENT

\$73,725,000

**Sacramento City Financing Authority
1997 Lease Revenue Bonds
(ARCO Arena Acquisition)**

INTRODUCTION

This Introduction is qualified in its entirety to the more detailed information included and referred to elsewhere in this Official Statement, and the offering of the 1997 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction or elsewhere in this Official Statement and not otherwise defined herein shall have the respective meanings assigned to them in "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Exhibit A-Definitions" herein.

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the issuance by the Sacramento City Financing Authority (the "Authority") of its 1997 Lease Revenue Bonds (ARCO Arena Acquisition) (the "1997 Bonds") in the aggregate principal amount of \$73,725,000. The 1997 Bonds are being issued by the Authority to finance the acquisition by the City of Sacramento (the "City") of a sports and entertainment arena, commonly known as ARCO Arena, located on certain real property in the City (collectively, the "Facility" or the "Arena"), and to pay costs of issuance of the 1997 Bonds. See "PLAN OF FINANCE" and "THE ARENA" herein.

The Authority

The Authority is a joint exercise of powers agency organized under the laws of the State of California (the "State") and composed of the City and the Redevelopment Agency of the City (the "Agency"). The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City. The City and the Agency are each sometimes referred to herein as a "Member" of the Authority. See "THE AUTHORITY" herein.

Authority for Issuance of the 1997 Bonds

The 1997 Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Bond Act"), and an Indenture dated as of July 1, 1997 (the "Indenture") by and between the Authority and First Trust of California, National Association, as trustee (the "Trustee"). The City and the Authority will enter into the Facility Lease (as described below) pursuant to and in accordance with the Government Code of the State, other applicable laws of the State and resolutions adopted by the City and the Authority prior to the issuance of the 1997 Bonds.

Security for the 1997 Bonds

The 1997 Bonds are limited obligations of the Authority, payable solely from Revenues of the Authority, consisting primarily of Base Rental Payments to be received by the Authority from the City under a Facility Lease dated as of July 1, 1997 (the "Facility Lease") by and between the Authority and the City. **The Base Rental Payments to be made by the City to the Authority pursuant to the Facility Lease are payable by the City from its General Fund for the right to use and possession by the City of the Facility. The City has agreed in the Facility Lease to make all Base Rental Payments, subject to abatement of such Base Rental Payments in the event of material damage to or destruction of the Facility or a governmental taking of the Facility in whole or in part.** Pursuant to a Site Lease dated as of July 1, 1997 (the "Site Lease") by and between the City and the

Authority, the City will lease the site upon which the Facility is located to the Authority to be leased back by the City, together with the Facility thereon, pursuant to the Facility Lease.

The 1997 Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City or any Member of the Authority is pledged for the payment of the interest on or principal of the 1997 Bonds nor for the payment of Base Rental Payments under the Facility Lease. Neither the payment of the principal of or interest on the 1997 Bonds nor the obligation to make Base Rental Payments under the Facility Lease constitutes a debt, liability or obligation of the Authority, the City or any Member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

The Facility

The Facility is comprised of an 83-acre site upon which is situated a 17,300 seat indoor arena facility, commonly known as ARCO Arena. The Arena was originally constructed in 1988. Pursuant to an Arena Refinancing Agreement dated as of February 5, 1997 (the "Arena Refinancing Agreement") by and between the City and the current owner of the Arena (the "Arena Owner"), the City will acquire the Facility. Pursuant to a Arena Facility Sublease dated as of July 1, 1997 (the "Arena Facility Sublease") by and between the City and the Arena Owner, the City will sublease the Facility to the Arena Owner. The City has assigned to the Authority a portion of the rental payments (the "Sublease Rent") to be received by the City from the Arena Owner pursuant to the Arena Facility Sublease to be credited towards Base Rental Payments payable by the City to the Authority under the Facility Lease. **However, the obligation of the City to make Base Rental Payments under the Facility Lease is not contingent upon the performance by the Arena Owner, the Team Owner or any other party of their respective obligations under the Arena Agreements and no assurance can be given that any Sublease Rent will be available to the City for the purpose of making Base Rental Payments. See "PLAN OF FINANCE" and "THE ARENA" herein.**

Facility Insurance

Pursuant to the Facility Lease, the City is required to insure or have insured the Facility against loss or damage to the extent set forth in the Facility Lease. In addition to fire and extended coverage insurance against loss or damage to the Facility, the City is required pursuant to the Facility Lease to procure and maintain workers' compensation insurance and public entity liability insurance against damages for personal injury, death or property damage arising from the Facility. The City is also required pursuant to the Facility Lease to procure and maintain throughout the term of the Facility Lease rental income interruption insurance in an amount sufficient to pay the Base Rental Payments for a 24-month period. The City is not required to obtain or procure earthquake or flood insurance with respect to the Facility. See "SECURITY AND SOURCES OF PAYMENTS FOR THE 1997 BONDS - The Facility Lease -- Insurance" herein.

Reserve Fund

A Reserve Fund will be established pursuant to the Indenture in an amount equal to the Reserve Fund Requirement. Money in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the 1997 Bonds in the event amounts on deposit in the Revenue Fund are insufficient therefor. Upon the issuance of the 1997 Bonds, there will be credited to the Reserve Fund a surety bond (the "Surety Bond") to be issued by MBIA Insurance Corporation (the "Insurer") in the amount of the Reserve Fund Requirement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 1997 BONDS - Reserve Fund" herein.

Bond Insurance

Payment of the principal of and interest on the 1997 Bonds when due (not including redemption, except scheduled mandatory sinking fund redemption) and payment of the principal of all Outstanding 1997 Bonds, together

with accrued interest thereon, due on July 18, 2007 (as more fully described below) will be insured by a financial guaranty insurance policy (the "Policy") to be issued by MBIA Insurance Corporation (the "Insurer") simultaneously with the delivery of the 1997 Bonds. The Policy does not insure payments due with respect to the 1997 Bonds by reason of redemption (except scheduled mandatory sinking fund redemption) or purchase (except the mandatory purchase on July 18, 2007). See "BOND INSURANCE" herein.

Mandatory Tender on July 18, 2007

The 1997 Bonds are subject to mandatory tender and purchase on July 18, 2007 at a price equal to the principal amount thereof plus accrued interest. On or prior to the 90th day preceding July 18, 2007 (or such shorter time as may be agreed to by the Authority, the City, the Insurer, the Trustee, the Paying Agent and the Remarketing Agent), the Authority shall give notice of a Mode Change pursuant to the Indenture and will determine the Mode for the 1997 Bonds to commence as of such date. No later than fifteen (15) days prior to July 18, 2007 (or such shorter time as may be agreed to by the Insurer), the Authority shall enter into a binding commitment with the Remarketing Agent to purchase all of the Outstanding 1997 Bonds on such date, which commitment shall be acceptable to the Insurer. If the binding commitment is entered into and honored and if the conditions precedent to a Mode Change have been satisfied, then on July 18, 2007, the principal of and accrued interest on the 1997 Bonds shall be paid to the Owners from the proceeds of the remarketing and other amounts available under the Indenture. If for any reason remarketing proceeds and other amounts are not available to pay the principal of all Outstanding 1997 Bonds, together with accrued interest thereon, on or before 12:00 P.M., New York time, on July 18, 2007, the Trustee shall immediately declare the 1997 Bonds to be in default and to be immediately due and payable and shall immediately notify the Insurer of such acceleration and demand payment thereof. Under the terms of the Policy, the Insurer shall be required to pay the principal of the 1997 Bonds and accrued interest thereon on such date. See "THE 1997 BONDS - Mandatory Tender Provisions -- Mandatory Tender on July 18, 2007" herein.

If the Authority elects to provide a Liquidity Facility pursuant to the Indenture prior to July 18, 2007 (as described herein), then the 1997 Bonds shall be subject to mandatory tender and purchase on the date of delivery of the Liquidity Facility. Following the successful completion of such mandatory tender and purchase, the obligation of the Insurer to pay the principal of the 1997 Bonds plus accrued interest thereon on July 18, 2007 shall be of no further force and effect.

Continuing Disclosure

The City has covenanted for the benefit of the owners and beneficial owners of the 1997 Bonds to provide certain financial information and operating data relating to the City by not later than 210 days following the end of its Fiscal Year (presently June 30) (the "Annual Report") commencing with the report for Fiscal Year 1996-97, and to provide notices of the occurrence of certain enumerated events, if material under federal securities laws. The Annual Report and the notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in Appendix D hereto. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). See "APPENDIX D - PROPOSED FORM OF THE CONTINUING DISCLOSURE CERTIFICATE" herein.

Summaries Not Definitive

Brief description of the 1997 Bonds, the Authority, the City and the Facility are included in this Official Statement, including summaries of the Site Lease and proposed forms of the Facility Lease and the Indenture. Such descriptions and summaries do not purport to be definitive. All references herein to the 1997 Bonds, the Site Lease, the Facility Lease and the Indenture are qualified in their entirety by reference to the actual documents, or with respect to the 1997 Bonds, the forms thereof included in the Indenture, copies of all of which are available for inspection at the corporate trust office of the Trustee.

Additional Information

The City regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any Bondowner may obtain a copy of any such report, as available, from the Trustee or the City. Additional information regarding this Official Statement may be obtained by contacting the Trustee or:

Mr. Thomas P. Friery
City Treasurer
City of Sacramento
926 J Street, Suite 300
Sacramento, California 95814
(916) 264-5168

PLAN OF FINANCE

The 1997 Bonds are being issued by the Authority for the purpose of financing the acquisition by the City of the Arena and to pay costs of issuance of the 1997 Bonds.

The Arena is currently owned by the Kings ARCO Arena Limited Partnership, a California limited partnership (the "Arena Owner"). The Arena is the home of the Sacramento Kings (the "Kings" or the "Team"), a National Basketball Association ("NBA") franchise, as well as the Women's National Basketball Association's Sacramento Monarchs and the Continental Indoor Soccer League's Sacramento Knights. In addition to basketball and soccer, the Arena accommodates several other sporting and entertainment events, including hockey, conventions and major exhibits, certain types of musical and theatrical presentations, as well as community and civic functions. During the last five fiscal years, the Arena has hosted an average of approximately 190 event dates per year.

The Kings are owned by the Sacramento Kings Limited Partnership, a California limited partnership (the "Team Owner"), an affiliate of the Arena Owner. The City is acquiring the Arena in order to assist the Arena Owner and the Team Owner in refinancing certain debt of the Arena and the Team and to secure a commitment from the Team Owner to maintain the Kings in Sacramento for a minimum of 10 years, subject to certain terms and conditions.

Concurrently with the acquisition of the Arena by the City, the City will enter into an Arena Facility Sublease to sublease the Arena to the Arena Owner for the continued use by the Arena Owner and the Team Owner of the Arena for the Kings' operations and for other events. Pursuant to the Arena Facility Sublease, the Arena Owner will pay Sublease Rent to the City, a portion of which Sublease Rent has been assigned by the City to the Authority to be credited toward Base Rental Payments payable by the City to the Authority under the Facility Lease.

In addition, the City has agreed to defer a portion of the financial obligations of the Arena Owner to the City during the first seven years of the financing through the delivery of deferred capital notes ("Deferred Capital Notes") in scheduled annual amounts not to exceed a maximum cumulative amount of \$8,500,000. The Deferred Capital Notes are expected to be purchased by certain proprietary funds of the City. The Sublease Rent payable by the Arena Owner to the City pursuant to Arena Facility Sublease will provide for the amortization of the Deferred Capital Notes (which represent obligations of the Arena Owner deferred in the first seven years of the Arena Facility Sublease) in the eighth and succeeding years of the Arena Facility Sublease.

The obligations of the Arena Owner, the Team Owner, the City and the Authority in connection with these transactions (the "Arena Transaction") are evidenced in a series of agreements (the "Arena Agreements") by and among the Arena Owner, the Team Owner and the City. Among other things, the Arena Agreements obligate the Arena Owner to repay the 1997 Bonds and the Deferred Capital Notes in full upon the termination of the Arena Facility Sublease by the Arena Owner upon the occurrence of certain conditions described therein. In addition, the Arena Agreements grant to the City the option to put the Arena to the Arena Owner and the Team Owner for

purchase at a price equal to the Outstanding principal amount of the 1997 Bonds in the event the Kings are relocated to any venue other than the City and the 1997 Bonds are Outstanding.

The City considered a variety of possible scenarios in analyzing the potential financial impact of the Arena Transaction on the City, including the possibility of the failure of the Arena Owner and the Team Owner to perform their respective obligations under the Arena Agreements in the event the Team Owner were to relocate the Kings from Sacramento and the 1997 Bonds and the other obligations of the Arena Owner or the Team Owner to the City resulting from the Arena Transaction are not paid in full at such time. Although not obligated, legally or otherwise, to do so, in such event, the City could choose at such time to operate the Arena either itself or through a private management group. Additionally, in such event, the City might also choose to refinance the 1997 Bonds with obligations the interest on which would be exempt from gross income for purposes of federal income taxation. **The obligation of the City to make Base Rental Payments under the Facility Lease is not contingent upon the performance by the Arena Owner, the Team Owner or any other party of their respective obligations under the Arena Agreements.** See "RISK FACTORS - Risks Related to the Arena Agreements" herein.

ESTIMATED APPLICATION OF PROCEEDS

The proceeds to be received from the sale of the 1997 Bonds are expected to be applied as follows:

Deposit to Acquisition Fund ⁽¹⁾	\$70,000,000.00
Costs of Issuance ⁽²⁾	3,041,550.58
Underwriters' Discount	<u>683,449.42</u>
Total	<u>\$73,725,000.00</u>

⁽¹⁾ To be applied to the acquisition of the Arena by the City. See "PLAN OF FINANCE" herein.

⁽²⁾ Includes legal, financing and consulting fees, bond insurance and surety bond premiums, rating agency fees, title and recording costs, printing costs, litigation expenses, certain expenses of the Arena Owner and other miscellaneous expenses.

THE 1997 BONDS

General

General Terms. The 1997 Bonds will be dated their date of delivery and will have a stated maturity of July 15, 2027. Initially, the 1997 Bonds will be issued in a Floating Rate Mode as LIBOR Bonds and shall remain in such Mode until July 18, 2007. On or after July 18, 2007, the 1997 Bonds may continue in a Floating Rate Mode (as LIBOR Bonds or as Treasury Rate Bonds) or may be changed to a Unit Pricing Mode, a Discount Mode, a Term Rate Mode or a Fixed Rate Mode as described under "Interest Rate Modes" below. On or after July 18, 2007, the 1997 Bonds (other than 1997 Bonds in a Fixed Rate Mode) may be changed from one Mode to another Mode, in which case the interest rate or Discount Rate will be determined as provided in the Indenture. The 1997 Bonds may only be in one Mode at a time. Changes from one Mode to another Mode are subject to the terms and conditions provided in the Indenture.

The 1997 Bonds will be available only in Authorized Denominations of \$1,000 and any integral multiple thereof. The 1997 Bonds are subject to redemption prior to maturity as described under "Redemption of 1997 Bonds" below. The 1997 Bonds are also subject to mandatory tender and purchase on July 18, 2007 and on certain other dates prior to maturity under the circumstances described under "Mandatory Tender Provisions" below.

The 1997 Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the 1997 Bonds, references herein to the Bondowner, Owners or registered owners

shall mean Cede & Co., and not the beneficial owners of the 1997 Bonds. See "APPENDIX F - BOOK-ENTRY SYSTEM" herein.

Interest Rate Provisions

Payment of Interest. Initially, the 1997 Bonds will be issued in a Floating Rate Mode as LIBOR Bonds and will bear interest at the Initial Interest Rate (not to exceed 14% per annum, the Maximum Rate) determined as described herein prior to delivery of the 1997 Bonds. The 1997 Bonds will remain in the Floating Rate Mode until July 18, 2007 and will bear interest at an interest rate equal to three-month LIBOR plus 0.25 percent per annum (not to exceed the Maximum Rate). During that period, the interest rate on the 1997 Bonds will be reset quarterly and will be payable (i) on the third Wednesday of January, April, July and October of each year; and (ii) on each Mandatory Tender Date and on the maturity date. After July 18, 2007, the 1997 Bonds may be changed to any other Mode and interest thereon will be payable on the applicable Interest Payment Dates provided in the Indenture. The amount of interest payable with respect to the 1997 Bonds on each Interest Payment Date shall be calculated by First Trust of California, National Association, as paying agent (the "Paying Agent"), based solely upon information provided to the Paying Agent pursuant to the Indenture.

Interest Rate Modes

Floating Rate Mode. With respect to 1997 Bonds in a Floating Rate Mode, interest on such 1997 Bonds will be determined by reference to a Base Rate. The Base Rate will be based upon the Index Maturity and adjusted by a Spread and/or Spread Multiplier, if any. A 1997 Bond in a Floating Rate Mode may also have either or both of the following: (i) a maximum limit, or ceiling (the "Maximum Interest Rate"), on the rate of interest that may accrue during any Interest Period; and (ii) a minimum limit, or floor (the "Minimum Interest Rate"), on the rate of interest which may accrue during any Interest Period; and each 1997 Bond in a Floating Rate Mode will have specified by the Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the Remarketing Agent, the following terms: the Floating Rate Period, the Purchase Date, the Initial Interest Rate, the Base Rate, the Initial Interest Rate Reset Date, the Interest Rate Reset Dates, the Interest Rate Reset Periods, the Interest Payment Dates, the Index Maturity, the Maximum Interest Rate and/or Minimum Interest Rate, if any, and the Spread and/or Spread Multiplier, if any, for the initial Floating Rate Period and for each subsequent Floating Rate Period.

The interest rate in effect with respect to a 1997 Bond in a Floating Rate Mode during any Interest Period commencing as of an Interest Rate Reset Date shall be the rate determined on the related Interest Determination Date. The interest rate in effect with respect to a 1997 Bond in a Floating Rate Mode on each day that is not an Interest Rate Reset Date shall be the interest rate determined as of the Interest Determination Date pertaining to the immediately preceding Interest Rate Reset Date and the interest rate in effect on any day that is an Interest Rate Reset Date shall be the interest rate determined as of the Interest Determination Date relating to such Interest Rate Reset Date; *provided*, that the interest rate in effect with respect to a 1997 Bond in a Floating Rate Mode for the period from the date of execution, authentication and initial delivery of such 1997 Bond to the Initial Interest Reset Date shall be the Initial Interest Rate. Each 1997 Bond in a Floating Rate Mode shall bear interest from the date of initial delivery of such 1997 Bond in a Floating Rate Mode at the rates determined as specified in the Indenture until the principal amount thereof is paid or otherwise available for payment and shall be payable on each Interest Payment Date.

Accrued interest shall be calculated by multiplying the face amount of a 1997 Bond in a Floating Rate Mode by an accrued interest factor. The accrued interest factor shall be computed by adding the interest factor calculated for each day from and including the date of delivery of a 1997 Bond in a Floating Rate Mode, or from and including the last date to which interest has been paid to but excluding the date for which accrued interest is being calculated. The interest factor for each such day shall be computed by dividing the interest rate applicable to such day by three hundred sixty (360) (or in the case of Treasury Rate Bonds, by the actual number of days in the year). Upon the request of an Owner of a 1997 Bond in a Floating Rate Mode, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rates that will become effective as a result of each determination made for the next Interest Rate Reset Date with respect to such 1997 Bond in a Floating Rate Mode.

All percentages resulting from any calculation on 1997 Bonds while in a Floating Rate Mode will be rounded, if necessary, to the nearest one hundred-thousandths of a percentage point, with any five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) will be rounded upward to 9.87655% (or .0987655)), and all dollar amounts used in or resulting from such calculation of interest on 1997 Bonds while in a Floating Rate Mode will be rounded to the nearest cent (with any one-half cent being rounded upward).

The Initial Interest Rate for each 1997 Bond while in a Floating Rate Mode will be determined two Business Days prior to the date of initial delivery thereof. The interest rate that will become effective on each Interest Rate Reset Date will be determined by the Calculation Agent (calculated with reference to the Base Rate and the Spread, Spread Multiplier, Maximum Interest Rate and/or Minimum Interest Rate, if any, and as specified by the Remarketing Agent for subsequent Floating Rate Periods).

During the initial Floating Rate Period which continues until July 18, 2007, interest on the 1997 Bonds will be determined by reference to the following:

Base Rate:	LIBOR
Index Maturity:	3 months
Spread:	0.25% per annum
Maximum Rate:	14%
Minimum Rate:	None
Initial Interest Rate:	Second London Banking Day preceding the date of delivery of the 1997 Bonds
Initial Interest Rate Reset Date:	October 15, 1997
Interest Rate Reset Dates:	Third Wednesday of each January, April, July and October
Interest Determination Date:	Second London Banking Day preceding each Interest Rate Reset Date

LIBOR: LIBOR will be determined by the Calculation Agent in accordance with the following provisions:

(a) With respect to an Interest Determination Date relating to a LIBOR Bond (a "LIBOR Interest Determination Date"), LIBOR will be the rate for deposits in U.S. dollars for a period of the Index Maturity (3 months) (or for subsequent Floating Rate Periods, the Index Maturity designated by the Remarketing Agent), that appears on Telerate Page 3750 as of 11:00 A.M., London time, on such LIBOR Interest Determination Date ("LIBOR Telerate"); and for this purpose, "Telerate Page 3750" means the display page designated as page "3750" on the Dow Jones Telerate Service (or such other page as may replace the 3750 page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If such rate does not appear on the Telerate Page 3750, then LIBOR in respect of such LIBOR Interest Determination Date will be determined as if the parties had specified the rate described in (b) below.

(b) With respect to a LIBOR Interest Determination Date on which no rate appears on Telerate Page 3750, as specified above, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market (the "Reference Banks") at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date to prime banks in the London interbank market for a period of the Index Maturity (3 months) (or for subsequent Floating Rate Periods, the Index Maturity designated by the Remarketing Agent), commencing on the second London Banking Day immediately following such LIBOR Interest Determination Date and in an amount that is representative for a single transaction in such market at such time. The Calculation Agent will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR for such LIBOR Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR for such LIBOR Interest Determination Date will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 A.M., New York City time, on the Interest Rate Reset Date for loans in U.S. dollars to leading European banks, for a period of the Index Maturity (3 months) (or

for subsequent Floating Rate Periods, the Index Maturity to be designated by the Remarketing Agent), commencing on the second London Banking Day immediately following such LIBOR Interest Determination Date and in an amount that is representative for a single transaction in such market at such time.

In the event the 1997 Bonds continue in, or are subsequently changed to, a Floating Rate Mode after July 18, 2007, the interest rate on such 1997 Bonds will be determined by the Calculation Agent and the Remarketing Agent, for subsequent Floating Rate Periods by reference to the terms determined by the Calculation Agent and the Remarketing Agent at such time. See "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article II-The Bonds -- Section 2.04-Floating Rate Mode" herein.

Interest Rate Modes for Subsequent Interest Periods. On or after July 18, 2007, the 1997 Bonds may continue in a Floating Rate Mode or may be changed to a Unit Pricing Mode, a Discount Mode, a Term Rate Mode or a Fixed Rate Mode. The interest rate determined by the Calculation Agent and the Remarketing Agent on the dates and at the times set forth in the Indenture will be in effect for, and adjust at the expiration of, the periods (the "Interest Periods") applicable to the particular interest rate mode. Reference should be made to "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article II-The Bonds" herein and to the terms and provisions of the Indenture for a description of such Modes which may be applicable to the 1997 Bonds on or after July 18, 2007.

By acceptance of any 1997 Bond, the Owner thereof shall be deemed to have agreed to the interest rate, the Principal Amount, the Interest Period and the Purchase Date then applicable thereto and to have further agreed (unless the Owner duly waives such right) to tender such 1997 Bond to the Paying Agent for purchase on such Purchase Date, at the Purchase Price plus accrued interest. By such acceptance, such Owner further acknowledges that, if funds for such purchase are on deposit with the Paying Agent on such Purchase Date, such Owner shall have no rights under the Indenture other than to receive the payment of such Purchase Price plus accrued interest and that interest shall cease to accrue to such Owner on such Purchase Date.

The interest rate on the 1997 Bonds shall never exceed the Maximum Rate.

Mode Changes

The Authority may effect a change in Mode with respect to the 1997 Bonds on July 18, 2007, or on any date thereafter, upon the terms and conditions as described in "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article II-The Bonds -- Section 2.10-Mode Changes" herein. Prior to any such change, notice shall be given to the Owners of the 1997 Bonds and the Owners shall be required to tender their 1997 Bonds in accordance with the provision of the Indenture as described in APPENDIX C. See also "Mandatory Tender Provisions - On Mode Change Date" below.

Mandatory Tender Provisions

Mandatory Tender on July 18, 2007. Each 1997 Bond is subject to mandatory tender and purchase on July 18, 2007 at a Purchase Price equal to the principal amount thereof, plus accrued interest thereon. On or prior to the ninetieth (90th) day prior to July 18, 2007 (or such shorter time as may be agreed to by the Authority, the City, the Insurer, the Trustee, the Paying Agent and the Remarketing Agent), the Authority shall determine the Mode for the 1997 Bonds commencing on such date and shall give written notice to the Owners of the 1997 Bonds of a Mode Change not less than thirty (30) days prior to such date in accordance with the requirements of the Indenture. No later than fifteen (15) days prior to July 18, 2007 (or such shorter time agreed to by the Insurer), the Authority shall enter into a binding commitment with the Remarketing Agent to purchase all of the Outstanding 1997 Bonds on July 18, 2007, which commitment shall be acceptable to the Insurer. If the binding commitment is entered into and honored and if the conditions precedent to a Mode Change have been satisfied (see "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article II-The Bonds -- Section 2.10-Mode Changes" herein), then on July 18, 2007, the principal of and accrued interest on the 1997 Bonds shall be paid to the Owners from the proceeds of the remarketing and other amounts available under the Indenture.

If for any reason remarketing proceeds and other amounts are not available to pay the principal of all Outstanding 1997 Bonds, together with accrued interest thereon, on or before 12:00 P.M., New York time, on July 18, 2007, the Trustee shall immediately declare the 1997 Bonds to be in default and to be immediately due and payable and shall immediately notify the Insurer by 1:00 P.M., New York time, of such acceleration and demand payment thereof. Under the terms of the Policy, the Insurer shall be required to pay, by 5:00 P.M., New York time, on July 18, 2007, the principal of the 1997 Bonds plus accrued interest thereon due to the Owners.

If the Authority elects to provide a Liquidity Facility pursuant to the Indenture prior to July 18, 2007 (as described below), then the 1997 Bonds shall be subject to mandatory tender and purchase on the date of delivery of the Liquidity Facility. Following the successful completion of such mandatory tender and purchase, the obligation of the Insurer to pay the principal of the 1997 Bonds plus accrued interest thereon on July 18, 2007 shall be of no further force and effect.

On Mode Change Date. If, on or after July 18, 2007, the 1997 Bonds are changed from one Mode to another Mode, such 1997 Bonds shall be subject to mandatory tender and purchase on the Mode Change Date at a price equal to the principal amount thereof plus accrued interest. See "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article II-The Bonds -- Section 2.10-Mode Changes" herein.

Upon Effective Date of a Liquidity Facility or Substitution of Substitute Liquidity Facility. As described above, the Authority may elect to provide a Liquidity Facility prior to July 18, 2007. In such event, the 1997 Bonds shall be subject to mandatory tender and purchase on the date of delivery of such Liquidity Facility. If a Substitute Liquidity Facility is to be substituted for the initial Liquidity Facility so provided, the 1997 Bonds shall be subject to mandatory tender on the Substitution Tender Date. The Paying Agent shall give notice of such mandatory tender by mail to the Owners of the 1997 Bonds no less than five (5) days prior to the Mandatory Tender Date. The notice shall state the Mandatory Tender Date, the Purchase Price and that interest on the 1997 Bonds subject to mandatory tender shall cease to accrue from and after the Mandatory Tender Date and shall set forth the name and the rating of the provider of the Liquidity Facility or Substitute Liquidity Facility. Any notice mailed will be conclusively presumed to have been given. 1997 Bonds purchased shall be delivered by the Owners in accordance with DTC's standard procedures on the Mandatory Tender Date and payment of the Purchase Price of such 1997 Bonds shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Tender Date.

Following the successful completion of such mandatory tender and purchase, the obligation of the Insurer to pay the principal of the 1997 Bonds plus accrued interest thereon on July 18, 2007 shall be of no further force and effect.

The Authority may provide a Liquidity Facility on and after July 18, 2007 subject to the conditions described in "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article V-Funds and Accounts; Liquidity Facility -- Section 5.04--Liquidity Facility" herein.

Upon Termination Date of Liquidity Facility. If forty-five (45) days prior to the Expiration Date of any Liquidity Facility provided for the 1997 Bonds (the "Renewal Date"), an extension of such Liquidity Facility has not been delivered to the Paying Agent or an irrevocable written commitment to provide an Substitute Liquidity Facility has not been received by the Paying Agent, the 1997 Bonds shall be subject to mandatory tender and purchase on the Expiration Tender Date, subject to the terms and conditions described in "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article III-Purchase, Remarketing and Tender of Bonds -- Section 3.09-Mandatory Tender" herein.

Upon Substitute Credit Date. If the Authority elects to provide a Liquidity Facility, the 1997 Bonds shall be subject to mandatory tender and purchase on the date of delivery to the Trustee of a Substitute Insurance Policy (the "Substitute Credit Date," see "BOND INSURANCE - Substitute Insurance Policy" herein), subject to the terms

and conditions described in "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article III-Purchase, Remarketing and Tender of Bonds -- Section 3.09-Mandatory Tender" herein.

At End of Interest Period for Subsequent Floating Rate Periods Other Modes. Each 1997 Bond in a Floating Rate Mode for a subsequent Floating Rate Period commencing on or after July 18, 2007, or in a Unit Pricing Mode, a Discount Mode or a Term Rate Mode is subject to mandatory tender and purchase for each Floating Rate Period or Interest Period, respectively, on the dates and subject to the terms and conditions described in "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article III-Redemption; Purchase, Remarketing and Tender of Bonds -- Section 3.09-Mandatory Tender Provisions" herein.

Tender Procedures for 1997 Bonds

To receive payment of the Purchase Price plus accrued interest upon mandatory tender of the 1997 Bonds on July 18, 2007, or on any other Mandatory Tender Date, the Owner of any 1997 Bond must present such 1997 Bond to the Paying Agent in accordance with DTC's standard procedures on such Mandatory Tender Date. The Paying Agent shall cancel such tendered 1997 Bonds and shall deliver replacement 1997 Bonds to the new Owners; but the failure of the Owners to present such 1997 Bonds shall not affect the determination or applicability of such new Interest Period, interest rate and Purchase Date. The 1997 Bonds subject to such purchase will be deemed tendered and canceled regardless of whether such 1997 Bond is presented to the Paying Agent.

Sources of Payment Upon Tender; Remarketing of 1997 Bonds

The Remarketing Agent shall use its best efforts to remarket all 1997 Bonds required to be tendered pursuant to the Indenture. The 1997 Bonds which are subject to mandatory tender (other than upon the occurrence of the events described under "Mandatory Tender Provisions - Mandatory Tender on July 18, 2007" above) shall be purchased from the Owners thereof on the applicable Mandatory Tender Date at the Purchase Price plus accrued interest in accordance with the provisions of the Indenture. See "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article III-Redemption; Purchase, Remarketing and Tender of Bonds -- Section 3.11-Tender and Purchase of Bonds" herein. The 1997 Bonds which are subject to mandatory tender on July 18, 2007 shall be purchased from the Owners thereof as described under "Mandatory Tender Provisions - Mandatory Tender on July 18, 2007" above.

The Remarketing Agent shall not remarket 1997 Bonds which are subject to redemption on such Purchase Date.

If the Paying Agent has received sufficient funds by the close of business on July 18, 2007, or on any other Mandatory Tender Date, the Paying Agent shall pay the Purchase Price plus accrued interest for each 1997 Bond by wire transfer in immediately available funds in such manner as such Owner and the Paying Agent shall agree. If the Purchase Price plus accrued interest with respect thereto has been delivered to the Paying Agent, the 1997 Bonds shall be deemed tendered, interest with respect to such 1997 Bonds shall cease to accrue on the Mandatory Tender Date and the Paying Agent shall hold the Purchase Price thereof plus accrued interest through the Mandatory Tender Date for the benefit of such Owner pending such delivery. If such 1997 Bond has been properly delivered to the Paying Agent as above described, and the Purchase Price therefor has not been properly delivered and made available for payment, such 1997 Bond shall accrue interest from the proposed Mandatory Tender Date at the Alternate Rate on the Principal Amount thereof from the Mandatory Tender Date until paid.

Notices

So long as DTC is acting as securities depository for the 1997 Bonds, notice of mandatory tender will be mailed to DTC or its nominee, not to the beneficial owners of the 1997 Bonds. See "APPENDIX F - BOOK-ENTRY SYSTEM" herein.

Redemption of 1997 Bonds

Optional Redemption

Optional Redemption of 1997 Bonds in Floating Rate Mode. The 1997 Bonds in a Floating Rate Mode shall be subject to option redemption by the Authority on or after July 15, 1998, and on such other dates as specified by the Remarketing Agent, in whole or in part in the Principal Amount of \$100,000 and an integral multiple of \$1,000 in excess thereof, on any Interest Payment Date, at a Redemption Price equal to 100% of the Principal Amount of the 1997 Bonds being redeemed plus accrued interest to the date fixed for redemption.

Optional Redemption of 1997 Bonds in Other Modes. The 1997 Bonds, when changed to a new Mode, being a Unit Pricing Mode, a Discount Mode, a Term Rate Mode or a Fixed Rate Mode, shall be subject to optional redemption on the other dates and upon the terms and conditions and at the Redemption Prices set forth in "APPENDIX C - PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article III-Redemption; Purchase, Remarketing and Tender of Bonds -- Section 3.01-Optional Redemption of Bonds" herein.

Extraordinary Redemption

Redemption from Insurance or Condemnation or Title Insurance Awards. The 1997 Bonds shall be subject to extraordinary redemption by the Authority, in whole on any date or in part on any Interest Payment Date, in any integral multiple of an Authorized Denomination, to the extent of Net Proceeds of property or casualty insurance or a condemnation or title insurance award with respect to the Facility, which Net Proceeds are deposited in the Revenue Fund and credited towards the prepayment of the Base Rental Payments to be made by the City pursuant to the prepayment provisions of the Facility Lease, at a Redemption Price equal to the Principal Amount of the 1997 Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium. See "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Facility Lease -- Article IX-Prepayment of Base Rental Payments" herein for a description of such prepayment provisions.

Mandatory Redemption

Mandatory Sinking Fund Redemption. The 1997 Bonds shall be subject to mandatory redemption by the Authority, in part (i) on the third Wednesday of each July in each year set forth below while the 1997 Bonds are in a Floating Rate Mode or (ii) on July 15 in each year set forth below in any other Mode, from the principal components of scheduled Base Rental Payments required to be paid by the City pursuant to the Facility Lease with respect to each such redemption date, at a Redemption Price equal to the Principal Amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium in accordance with the following schedule (subject to modification in the event of optional or extraordinary redemption):

<u>Date</u>	<u>Principal Amount</u>
07/19/00	\$ 125,000
07/18/01	200,000
07/17/02	295,000
07/16/03	395,000
07/21/04	420,000
07/20/05	615,000
07/19/06	745,000
07/18/07	885,000
07/16/08	1,040,000
07/15/09	1,195,000
07/21/10	1,280,000
07/20/11	1,550,000
07/18/12	1,750,000
07/17/13	1,960,000
07/16/14	2,195,000
07/15/15	2,440,000
07/20/16	2,630,000
07/19/17	2,985,000
07/18/18	3,295,000
07/17/19	3,625,000
07/15/20	3,980,000
07/21/21	4,305,000
07/20/22	4,765,000
07/19/23	5,205,000
07/17/24	5,670,000
07/16/25	6,175,000
07/15/26	6,715,000
07/15/27†	7,285,000

† Maturity.

In the event that 1997 Bonds are redeemed in part but not in whole pursuant to the redemption provisions described above (other than mandatory sinking fund redemption), the amount of the 1997 Bonds to be redeemed in each subsequent year pursuant to the mandatory sinking fund redemption dates shall be reduced to correspond to principal components of the Base Rental Payments remaining following such redemption, determined as set forth in the Facility Lease.

The scheduled Base Rental Payments of the City may be amended from time to time in connection with a change in Mode with respect to all 1997 Bonds, provided that notice of such new mandatory sinking fund redemption dates has been given in accordance with the Indenture.

Purchase in Lieu of Redemption

In lieu of redemption of 1997 Bonds, amounts held by the Paying Agent for such redemption may also be used prior to the date fixed for redemption, upon receipt by the Paying Agent at least seventy-five (75) days prior to the date fixed for redemption of the written request of the Authority, for the purchase of 1997 Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the Authority may in its discretion direct, but not to exceed the Redemption Price which would be payable if such 1997 Bonds were redeemed. The aggregate Principal Amount of 1997 Bonds of the same maturity purchased in lieu

of redemption shall not exceed the aggregate Principal Amount of 1997 Bonds of such maturity which would otherwise be subject to such redemption.

Effect of Call for Redemption

On the date designated for redemption, the 1997 Bonds called for redemption in the notice of redemption shall become due and payable at the Redemption Price, together with accrued interest. If on the date fixed for redemption moneys for payment of the Redemption Price are held by the Paying Agent or the Trustee, as provided in the Indenture, interest on such 1997 Bonds so called for redemption shall cease to accrue, and such 1997 Bonds shall cease to be entitled to any benefit or security under the Indenture except the right of Owners to receive payment from such moneys held by the Paying Agent or the Trustee. Pursuant to an optional redemption, if Available Moneys sufficient for such redemption are not on deposit with the Paying Agent at least one Business Day prior to the redemption date, the 1997 Bonds shall not be redeemed and shall continue in the Mode in effect on such Business Day.

Method of Selecting 1997 Bonds for Redemption

If less than all of the Outstanding 1997 Bonds are to be redeemed: (i) if such 1997 Bonds are in a Unit Pricing Mode having two or more Purchase Dates or a Term Rate having two or more Purchase Dates or a Discount Mode having two or more Discount Maturity Dates, 1997 Bonds shall be selected by the Paying Agent for redemption as directed by the Authority at least fifteen (15) days prior to the date the Paying Agent shall make such selection or, if not directed otherwise, in direct chronological order of Purchase Dates (or Discount Maturity Dates), with the 1997 Bonds with the earliest Purchase Dates or Discount Maturity Dates to be redeemed first or, with respect to 1997 Bonds subject to purchase on the same Purchase Date or conversion on the same Mode Change Date by any method the Authority selects and directs the Paying Agent after consulting with the Remarketing Agent or at the direction of the Remarketing Agent and (ii) if such 1997 Bonds are in a Floating Rate Mode, a Fixed Rate Mode or a Mode with the same Purchase Date (or Discount Maturity Date), 1997 Bonds shall be selected for redemption by lot in such manner as the Paying Agent shall determine.

In the case of a 1997 Bond in a denomination larger than the minimum Authorized Denomination, a portion of such 1997 Bond may be redeemed, provided that the remaining principal amount of the 1997 Bond shall be in an Authorized Denomination.

Notice of Redemption

Official Notice. Unless waived by any Owner of 1997 Bonds to be redeemed, notice of any redemption shall be given by the Paying Agent on behalf of the Authority by mailing a copy of a redemption notice by first-class mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to the Owner of the 1997 Bond or 1997 Bonds to be redeemed at the address shown on the Registration Books. In addition to the foregoing notice, further notice shall be given by the Paying Agent at least thirty (30) days before the redemption date, by telecopy, registered, certified or overnight mail to the Securities Depositories and to at least one Information Service selected by the Authority. Failure by any Owner to receive notice as described above shall not affect the validity of any redemption.

All notices of redemption shall be dated and shall state: (i) the date fixed for redemption, (ii) the Redemption Price, (iii) if less than all Outstanding 1997 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective Principal Amounts) of the 1997 Bonds to be redeemed, (iv) that on the date fixed for redemption the Redemption Price will become due and payable upon each such 1997 Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after such date, (v) the place where such 1997 Bonds are to be surrendered for payment of the Redemption Price, which place of payment shall be the Principal Office of the Paying Agent, and (vi) in the event of an optional redemption, that if the Trustee does not receive Available Moneys from the Authority on the day prior to the optional redemption date, then the 1997 Bonds shall not be redeemed and shall continue in the current Mode.

So long as DTC is acting as securities depository for the 1997 Bonds, notice of redemption will be mailed to DTC or its nominee, not to the beneficial owners of the 1997 Bonds. See "APPENDIX F - BOOK-ENTRY SYSTEM" herein.

Non-Presentation of 1997 Bonds

If any 1997 Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, upon the Mode Change Date, purchase or otherwise, or at the date fixed for redemption thereof, and if money sufficient to pay such 1997 Bond shall have been deposited in the Revenue Fund or Purchase Fund, then all liability of the Authority to the Owner thereof for the payment of such 1997 Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such money, without liability for interest thereon, for the benefit of the Owner of such 1997 Bond who shall thereafter be restricted exclusively to such money, for any claim of whatever nature on his or her part under the Indenture or on, or with respect to, such 1997 Bond.

Any money so deposited with and held by the Trustee not so applied to the payment of 1997 Bonds within two (2) years after the date on which the same shall have become due shall be paid to the Authority and thereafter the Owners should look solely to the Authority as to any such money, and the Trustee shall have no further liability or responsibility to such Owners.

SECURITY AND SOURCES OF PAYMENT FOR THE 1997 BONDS

Pledge Under the Indenture

The Indenture provides that the 1997 Bonds are payable solely from, and are secured by a lien on, (a) (i) all Base Rental Payments paid by the City to the Authority under the Facility Lease as further described below, (ii) any amounts received by the Authority under the Facility Lease with respect to insurance proceeds and eminent domain and condemnation proceeds, (iii) all payments received by the City from the Arena Owner and assigned to the Authority under the Arena Facility Sublease and (iv) all amounts received by the Authority pursuant to the Swap Agreement as further described below (collectively, the "Revenues") and (b) the money in the Revenue Fund and the Reserve Fund held under the Indenture, all under the terms and conditions set forth in the Indenture. As and to the extent set forth in the Indenture, all the Revenues and all money in the Revenue Fund and the Reserve Fund are irrevocably pledged to the punctual payment of the 1997 Bonds, and the Revenues and such other money shall not be used for any other purpose while any of the 1997 Bonds remain Outstanding; subject to the provisions of the Indenture permitting the application thereof for the purposes and/or the terms and conditions set forth therein. The Revenues and amounts on deposit in the Revenue Fund are also pledged to regularly scheduled payments of the Authority under the Swap Agreement and certain amounts due by the Authority upon early termination thereof on a parity with the 1997 Bonds, and on a subordinate basis thereto, to other amounts owing by the Authority upon the early termination of the Swap Agreement. See "Swap Agreement" below.

The 1997 Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City or any Member of the Authority is pledged for the payment of the interest on or principal of the 1997 Bonds nor for the payment of Base Rental Payments under the Facility Lease. Neither the payment of the principal of or interest on the 1997 Bonds nor the obligation to make Base Rental Payments under the Facility Lease constitutes a debt, liability or obligation of the Authority, the City or any Member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

The Facility Lease

Base Rental Payments

General. As rental for the right to use and occupy the Facility, the City covenants to pay Base Rental Payments and also to pay Additional Rental Payments in amounts required by the Authority. The Base Rental Payments are payable by the City from its General Fund and are calculated to be sufficient to pay the principal of and interest on the 1997 Bonds and any amounts owing by the Authority under the Swap Agreement as the same become due and payable; provided, that the aggregate Base Rental Payment installments for any Rental Period shall not exceed \$11,038,750.

Sublease Rent. Under the Arena Facility Sublease, the Arena Owner is obligated to pay to the City Sublease Rent from the net operating income of the Arena, a portion of which Sublease Rent has been assigned by the City to the Authority to be credited toward Base Rental Payments payable by the City to the Authority under the Facility Lease. However, the obligation of the City to pay Base Rental Payments is not conditioned on the performance by Arena Owner under the Arena Facility Sublease. See "RISK FACTORS - Risks Related to the Arena Agreements" herein.

Covenant to Budget and Appropriate. Pursuant to the Facility Lease, the City covenants to take such action as may be necessary to include the amount of the Base Rental Payments and Additional Rental Payments due under the Facility Lease in its annual budget, and to make the necessary annual appropriations for such payments. Such covenant is deemed to be a ministerial duty imposed by law, and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenant.

Insurance

The Facility will be insured to the extent set forth in the Facility Lease. See "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Facility Lease -- Article IV-Maintenance; Taxes; Insurance and Other Matters -- Section 4.02-Insurance" herein. The Facility Lease requires the City to insure or have insured the Facility against loss or damage to the Facility by fire and lightning, with an extended coverage endorsement (which extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance) and vandalism and malicious mischief insurance and sprinkler system leakage insurance and boiler insurance. Such insurance shall be in an amount equal to the replacement (without deduction for depreciation) of all structures constituting any part of the Facility (excluding the cost of excavations, of grading and filling and of the land) and which such insurance may be subject to deductible clauses similar in amount and type to the deductible clauses applicable to insurance maintained by the City for other real property owned by it and which insurance shall explicitly waive any co-insurance penalty; provided, that such insurance shall in any event be in an amount sufficient, in the event of total or partial loss, to enable the City to restore the Facility to the condition existing before such loss or to permit the City to prepay the principal amount of all then unpaid Base Rental Payments. In addition, the City is required pursuant to the Facility Lease to procure and maintain workers' compensation insurance and public entity liability insurance against damages for personal injury, death or property damage arising from the Facility. Pursuant to the Facility Lease, the City may self-insure for such risks. The City is not required to obtain or procure earthquake or flood insurance with respect to the Facility.

The proceeds of such insurance are to be used for the replacement, repair, restoration, modification or improvement of the damaged or destroyed portion of the Facility. Alternatively, if the Authority notifies the Trustee, within 90 days following receipt of proceeds of such insurance, that the replacement, repair, restoration, modification or improvement of the Facility is not economically feasible or in the best interests of the Authority, such proceeds shall be applied to the redemption of 1997 Bonds; provided, that in the event of damage or destruction of the Facility in part, the resulting Base Rental Payments represent fair consideration of the remaining portions of the Facility.

Any balance of proceeds remaining after the work of replacement, repair, restoration or modification or improvement is completed shall be used to redeem 1997 Bonds.

The City is also required pursuant to the Facility Lease to procure and maintain throughout the term of the Facility Lease rental income interruption insurance against loss, total or partial, of the rental income from or the use of the Facility as a result of any of the hazards covered by the hazard insurance required by the Facility Lease, in an amount sufficient to pay the Base Rental Payments for a 24-month period.

Abatement

Use and Occupancy. Base Rental Payments are paid by the City in each rental payment period for and in consideration of the right of use and occupancy of the Facility during each such period for which said rental is to be paid. **The obligation of the City to make Base Rental Payments is not contingent upon the performance by the Arena Owner, the Team Owner or any other party of any of their respective obligations under the Arena Agreements. See "PLAN OF FINANCE" herein.**

Damage or Destruction or Condemnation. Base Rental Payments will be abated during each rental period in which by reason of any damage or destruction or condemnation of the Facility, there is substantial interference with the use and occupancy of the Facility by the City, in the proportion in which the cost of that portion of the Facility rendered unusable bears to the rest of the Facility. Such abatement shall be in an amount equal to the difference between the annual fair rental value of the portion of the Facility with respect to which there is no substantial interference, as set forth in a Certificate of the City accompanied by a written appraisal of a qualified appraiser acceptable to the Insurer (both delivered to the Trustee), and the amount of the Base Rental Payments and Additional Rental Payments becoming due in such rental period. Such abatement will continue for the period commencing with the date of the damage or destruction or condemnation of such portion of the Facility and ending with the substantial completion of the work of repair or replacement of such portion of the Facility so damaged or destroyed or condemned. In the event of any such damage or destruction or condemnation, the Facility Lease continues in full force and effect and the City waives any right to terminate the Facility Lease by virtue of any such damage or destruction or condemnation. In the event the Facility cannot be repaired during the period that proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments (a period of 24 months), or in the event that casualty insurance proceeds are insufficient to provide for complete repair of the Facility, there could be insufficient funds to cover payments to Bondowners in full. The Insurer's Policy will guarantee the scheduled payments of principal of and interest on the 1997 Bonds during any period in which Base Rental Payments are abated. See "BOND INSURANCE" herein. See also "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Facility Lease -- Article IV-Maintenance; Taxes; Insurance and Other Matters -- Section 4.02-Insurance" herein.

Default and Remedies

Upon an Event of Default described below, the City will be deemed to be in default under the Facility Lease and the Authority may exercise any and all remedies available pursuant to law or granted pursuant to the Facility Lease, subject to the Authority's assignment of the right to enforce certain of these remedies to the Trustee pursuant to the Indenture. The Facility Lease provides that upon any such default, including a failure to pay any Base Rental Payments or Additional Rental Payments, the Authority may either (1) terminate the Facility Lease and recover certain damages or (2) continue to collect rent from the City on an annual basis by seeking a separate judgment each year for that year's defaulted Base Rental Payments and/or (3) reenter the Facility and relet it, subject to the terms and conditions of the Arena Agreements. The enforcement of some or all of these remedies would be subject to limitations on legal remedies against public agencies in the State, statutory and judicial limitations on lessors' remedies under real property leases and to other terms of the Site Lease and the Facility Lease. The Trustee has no interest in Authority's leasehold interest in the Facility under the Site Lease, has no right to terminate the Facility Lease or reenter or relet the Facility and no possessory right to the Facility. **Upon the occurrence of an event of default, there is no remedy of the acceleration of the total Base Rental Payments due over the term of the**

Facility Lease, and the Trustee is not empowered to sell or lease a fee simple, leasehold or other interest in the Facility and use the proceeds of such sale to redeem the 1997 Bonds or pay debt service thereon.

Events of Default under the Facility Lease include (i) the failure of the City to pay any Base Rental Payment required to be paid under the Facility Lease at the time therein specified and (ii) the occurrence of an event of default under the Indenture. (See "APPENDIX C - PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS - The Indenture -- Article XII-Events of Default and Remedies of Owners" herein.)

Reserve Fund

Upon issuance of the 1997 Bonds, the Trustee shall deposit in or credit to the Reserve Fund established pursuant to the Indenture an initial amount equal to \$7,372,500 (the "Reserve Fund Requirement"). All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the 1997 Bonds or for the retirement of all the 1997 Bonds then Outstanding.

Application has been made to the MBIA Insurance Corporation (the "Insurer") for a commitment to issue a surety bond (the "Surety Bond") for the purpose of funding the Reserve Fund. The Surety Bond will provide that upon notice from the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Revenue Fund to pay the principal of (at maturity or pursuant to mandatory sinking fund redemption requirements) and interest on the 1997 Bonds, the Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and the interest on the 1997 Bonds or the available amount of the Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Surety Bond, duly executed by the Trustee; or (ii) the payment date of the 1997 Bonds as specified in the Demand for Payment presented by the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond coverage.

The available amount of the Surety Bond is the initial face amount of the Surety Bond less the amount of any previous deposits by the Insurer with the Trustee which have not been reimbursed by the Authority. The Authority, the City and the Insurer will enter into a Financial Guaranty Agreement dated as of July 1, 1997 (the "Agreement"). Pursuant to the Agreement, the Authority is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under the Surety Bond.

Swap Agreement

The Authority has entered into a swap agreement (the "Swap Agreement") with Merrill Lynch Capital Services, Inc. (the "Swap Provider") for purposes of converting the floating interest payments the Authority is obligated to make on the 1997 Bonds into fixed rate payments. In general, the terms of the Swap Agreement provide that, on a same-day net-payment basis determined by reference to a Notional Amount equal to the principal amount of the 1997 Bonds Outstanding, the Swap Provider will pay amounts based on a floating rate, and the Swap Provider will receive amounts based on a fixed rate. Amounts received by the Authority from the Swap Provider (or its successors or assigns) constitute "Revenues" under the Indenture and are pledged to the payment of the 1997 Bonds. The agreement by the Swap Provider to make payments under the Swap Agreement does not affect that Authority's obligation under the Indenture to pay the principal of and interest on the 1997 Bonds from the Revenues or the City's obligation to make Base Rental Payments under the Facility Lease.

Certain payments due to the Swap Provider from the Authority under the Swap Agreement, including without limitation, any regularly scheduled payments under the Swap Agreement and certain amounts due upon any early termination of the Swap Agreement, are payable from and secured by a lien on the Revenues and amounts on deposit in the Revenue Fund on a parity with the lien in favor of the 1997 Bonds; other amounts owing by the Authority under the Swap Agreement upon the early termination thereof are payable from and secured by a lien on the Revenues and amounts on deposit in the Revenue Fund subordinate to the lien in favor of the 1997 Bonds. Under the Facility Lease, any amounts payable by the Authority to the Swap Provider under the Swap Agreement

are included in the calculation of Base Rental Payments payable by the City to the Authority. Under certain circumstances, the Swap Agreement is subject to early termination prior to the maturity of the 1997 Bonds, in which event the Authority may be obligated to make a substantial payment to the Swap Provider.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the Authority or the City. No representation is made herein by the Authority or the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to APPENDIX E for a specimen of the Insurer's financial guaranty insurance policy (the "Policy").

The Policy and the Insurer

The Insurer's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 1997 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 1997 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 1997 Bond. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the Purchase Price of 1997 Bonds upon tender by an owner thereof (other than on July 18, 2007); or (iv) any Preference relating to (i) through (iii) above. The Insurer's Policy also does not insure against nonpayment of principal of or interest on the 1997 Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 1997 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a 1997 Bonds the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 1997 Bonds or presentment of such other proof of ownership of the 1997 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 1997 Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the 1997 Bonds in any legal proceeding related to payment of insured amounts on the 1997 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such 1997 Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer's Policy has been endorsed to provide for (a) cancellation of such Policy upon substitution of the Insurer in accordance with the terms of the Indenture and (b) payment of any unpaid Purchase Price of the 1997 Bonds due on July 18, 2007. The Insurer's Policy will, however, remain in effect with respect to claims for preferences resulting from payments made prior to the effective date of cancellation of the Policy.

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

As of December 31, 1996, the Insurer had admitted assets of \$4.4 billion (audited), total liabilities of \$3.0 billion (audited), and total capital and surplus of \$1.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 1997, the Insurer had admitted assets of \$4.5 billion (unaudited), total liabilities of \$3.0 billion (unaudited), and total capital and surplus of \$1.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service Inc. ("Moody's") rates the claims paying ability of the Insurer "Aaa".

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), rates the claims paying ability of the Insurer "AAA".

Fitch Investors Service, L.P. ("Fitch") rates the claims paying ability of the Insurer "AAA".

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

The above ratings are not recommendations to buy, sell or hold the 1997 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 1997 Bonds. The Insurer does not guaranty the market price of the 1997 Bonds nor does it guaranty that the ratings on the 1997 Bonds will not be revised or withdrawn.

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

Substitute Insurance Policy

In the event the Authority shall have provided a Liquidity Facility pursuant to the Indenture (in which event the 1997 Bonds will be subject to mandatory tender and purchase as described herein), then if the rating of the Insurer shall be lowered by Fitch, Moody's and Standard & Poor's below the two top rating categories assigned by such rating agencies (without giving effect to numeric or other qualifiers) the Authority may, at its option, but only with the prior written consent of the provider of such Liquidity Facility, and shall, upon receipt of a request from the provider of such Liquidity Facility, obtain a Substitute Insurance Policy. Any Substitute Insurance Policy shall be either a policy issued by an insurance company or an agreement of a financial institution and shall contain terms

which are in all material respects the same as or equivalent to those provided by the Policy. On or prior to the date of the delivery of the Substitute Insurance Policy, the Authority shall furnish to the Trustee (i) an opinion of Bond Counsel to the effect that the furnishing of such Substitute Insurance Policy is authorized under the Indenture and complies with the terms thereof, (ii) written evidence from Fitch, Standard & Poor's and Moody's, if the 1997 Bonds are then rated by each such rating agency, to the effect that each such rating agency has reviewed the proposed Substitute Insurance Policy, and that, taking into account the substitution of the proposed Substitute Insurance Policy for the Policy, the 1997 Bonds will be given a long-term rating which is not lower than the then-existing rating, and (iii)(a) prior to the earliest to occur of the Expiration Date, the Termination Date, the date upon which the Bonds are converted to a Fixed Rate Mode or the date upon which an Insurer Event of Termination occurs or (b) thereafter, if the provider of the Liquidity Facility is the registered owner of Bonds, the prior written consent of the provider of the Liquidity Facility (unless the provider of the Liquidity Facility has directed the Authority to obtain a Substitute Insurance Policy), which shall be within the provider of the Liquidity Facility's sole and absolute discretion, unless the Authority also provides an Substitute Liquidity Facility in accordance with the terms of the Indenture, effective on the date of delivery of the Substitute Insurance Policy, in which case such substitution shall not be subject to the provider of the Liquidity Facility's prior written consent. If the provider of the Liquidity Facility has directed the Authority to obtain a Substitute Insurance Policy, the provider of the Liquidity Facility may require that the rating on the 1997 Bonds, taking into account the Substitute Insurance Policy, be no lower than the top two rating categories assigned by Fitch, Moody's and Standard & Poor's.

THE ARENA

Description of the Facility

The Facility is comprised of a 83-acre site upon which is situated a 17,300 seat indoor arena facility, a floor of office space from which the Arena and the three athletic teams under common ownership operate and approximately 12,000 outdoor parking spaces.

The Arena is a multi-purpose facility accommodating several sporting and entertainment events, including basketball, soccer, hockey, conventions and major exhibits, certain types of musical and theatrical presentations, as well as community and civic functions. The Arena is home of the Sacramento Kings, which have the longest standing consecutive sell-out game record in the NBA. The Arena is also the home of the Women's National Basketball Association's Sacramento Monarchs (which began their inaugural season in June of 1997) and the Continental Indoor Soccer League's Sacramento Knights.

The Arena's seating sight lines are designed around the basketball court rather than the traditional hockey design of most multi-purpose arenas. This design is made possible by 3,000 retractable seats, evenly distributed on two ends of the Arena.

Since September 1988, when the Arena first opened, it has hosted over 1,500 events with a total attendance of approximately 15,000,000 patrons. During the last five fiscal years, the Arena has hosted an average of approximately 190 event dates per year.

The Arena is located approximately five miles north of downtown Sacramento and five miles southeast of Sacramento's international airport. It is traversed by two transcontinental freeways, Interstate 5 (Canada to Mexico) and Interstate 80 (San Francisco to New York), as well as State Route 99. It is geographically centered in the northern half of California creating access to it from Sacramento and neighboring cities and counties in all directions. The regional market area (55 mile radius) around the Arena encompasses more than 3 million people.

Operations of the Arena

The Arena Owner and the Team Owner are each California limited partnerships, with identical general partners and ownership groups. All aspects of the Arena's operations are fully controlled by its ownership and

management. The Kings, Knights, Monarchs and the Arena employ over 150 people on a full-time basis and approximately 1,400 on a part-time basis.

Seismic Considerations

Earthquake insurance is not maintained on the Arena and the Facility Lease does not require the City to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Facility. A geological report prepared for the Sacramento Area Commerce and Trade Organization in December 1991 opined that the Sacramento-Folsom Area was one of the most tectonically stable regions in the western United States.

Flood Risk Considerations

The Arena is located in the Natomas Basin. The Natomas Basin is included within a 100-year flood plain according to maps released by the U.S. Army Corps of Engineers in 1988. The Natomas Basin is potentially subject to flooding from four exterior sources: the Sacramento River, the American River, the Natomas East Main Drainage Canal, and the Natomas Cross Canal. Basin Flooding can also occur in certain specific areas from two interior sources: the East Drainage Canal and the West Drainage Canal. Potential flooding from these waterways result in two "layers" of the floodplain which are referred to as the overlying, for exterior, and the underlying, for interior, sources of flooding. The Arena is within the overlying flood plain, but is not within the underlying flood plain. The City has developed plans for improvements in the Natomas Basin which, when completed, the City believes will remove the Natomas Basin from the 100-year flood plain. See "APPENDIX A - CERTAIN INFORMATION WITH RESPECT TO THE CITY - Flood Risk Considerations" herein.

Appraisal

A Valuation Estimate of the Arena was prepared by Hospitality Valuation Services of San Francisco for the Arena Owner dated March 22, 1994. Based on the methodology set forth in such Valuation Estimate, and subject to the assumptions and limitations contained therein, the Arena was valued at \$88,200,000.

RISK FACTORS

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the 1997 Bonds. There can be no assurance that other risk factors will not become evident at any future time.

Base Rental Payments Not City Debt

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY, THE CITY OR ANY MEMBER OF THE AUTHORITY IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE 1997 BONDS NOR FOR THE PAYMENT OF BASE RENTAL PAYMENTS UNDER THE FACILITY LEASE. NEITHER THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 1997 BONDS NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS UNDER THE FACILITY LEASE CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE CITY OR ANY MEMBER OF THE AUTHORITY FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER. In the event that available Arena revenues paid to the City as Sublease Rent under the Arena Facility Sublease and assigned to the Authority are less than required to offset Base Rental Payments, and the City's other revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Base Rental Payments and other payments due under the Facility Lease. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Abatement Risk

Damage or Destruction. During any period in which, by reason of material damage or destruction or condemnation, there is substantial interference with the use and possession by the City of any portion of the Facility, Base Rental Payments due under the Facility Lease with respect to the Facility will be abated proportionately, and the City waives any and all rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect.

The City is not required to procure and maintain or cause to be procured and maintained, earthquake or flood insurance under the Facility Lease.

Risks Related to the Arena Agreements

In connection with the acquisition of the Arena by the City, the City has entered into a series of agreements with the Arena Owner and the Team Owner (herein referred to as the Arena Agreements). Pursuant to the Arena Facility Sublease, the Arena Owner will pay Sublease Rent to the City, a portion of which Sublease Rent has been assigned by the City to the Authority to be credited toward Base Rental Payments payable by the City to the Authority under the Facility Lease. **However, the obligation of the City to make Base Rental Payments under the Facility Lease is not contingent upon the performance by the Arena Owner, the Team Owner or any other party of their respective obligations under the Arena Agreements and no assurance can be given that any Sublease Rent will be available to the City for the purpose of making Base Rental Payments.** Among other things, the Arena Agreements obligate the Arena Owner to repay the 1997 Bonds and the Deferred Capital Notes in full upon the termination of the Arena Facility Sublease by the Arena Owner upon the occurrence of the conditions described therein. In addition, the Arena Agreements grant to the City the option to put the Arena to the Arena Owner and the Team Owner for purchase at a price equal to the Outstanding principal amount of the 1997 Bonds in the event the Kings are relocated to any venue other than the City and the 1997 Bonds are Outstanding. The City considered a variety of possible scenarios in analyzing the potential financial impact of the Arena Transaction on the City, including the possibility of the failure of the Arena Owner and the Team Owner to perform their respective obligations under the Arena Agreements in the event the Team Owner were to relocate the Kings from Sacramento and the 1997 Bonds and the other obligations of the Arena Owner or the Team Owner to the City resulting from the Arena Transaction are not paid in full at such time. Although not obligated, legally or otherwise, to do so, in such event, the City could choose at such time to operate the Arena either itself or through a private management group. Additionally, in such event, the City might also choose to refinance the 1997 Bonds with obligations the interest on which would be exempt from gross income for purposes of federal income taxation.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Facility Lease and the Trustee is not empowered to sell a fee simple, leasehold or other interest in the Facility and use the proceeds of such sale to prepay the 1997 Bonds or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, statutory and judicial limitations on lessors' remedies under real property leases, other terms of the Site Lease and the Facility Lease and limitations on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Limitation of Remedies

The enforcement of any remedies provided in the Facility Lease and the Indenture could prove both expensive and time consuming. The Trustee has no interest in Authority's leasehold interest in the Facility under the Site Lease, has no right to terminate the Facility Lease or reenter or relet the Facility and no possessory right to the Facility. Although the Facility Lease provides that if the City defaults the Authority may reenter the Facility and relet it, portions of the Facility may not be easily recoverable, and even if recovered, could be of little value to others because of the Facility's specialized nature. Any suit for money damages would be subject to statutory and

judicial limitations on lessors' remedies under real property leases, other terms of the Site Lease and Facility Lease and limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

In addition to the limitations on remedies contained in the Facility Lease and the Indenture, the rights and remedies provided in the Indenture and the Facility Lease may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Authority could be prohibited or severely restricted from taking any steps to enforce their rights under the Facility Lease and from taking any steps to collect amounts due from the City under the Facility Lease.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum *ad valorem* tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment could serve to reduce property tax revenues. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

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

Article XIII A has also been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, provided that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster. Because of the recent decrease in property values in certain areas of the State, certain counties have announced that they will review the assessed values of properties within those counties. See "APPENDIX A - CERTAIN INFORMATION WITH RESPECT TO THE CITY - City Finances -- Property Taxation" herein.

Article XIII B of the State Constitution

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-79 fiscal year, and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by these public agencies.

Appropriations of an entity of local government subject to Article XIII B include generally authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity and the proceeds of State subventions, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (2) the investment of tax revenues. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII B does not limit the appropriation of moneys to pay debt service or indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose. Furthermore, in 1990, Article XIII B was amended to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long-term General Fund lease obligations (including the Facility Lease) are generally excluded from the City appropriations limit.

Right to Vote on Taxes Act — Proposition 218

The "Right to Vote on Taxes Act" ("Proposition 218"), was approved by the voters of the State of California at the general statewide election on November 5, 1996. Proposition 218 limits the ability of local governments to impose taxes and property related assessments, fees and charges. Proposition 218 is effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions is deferred until July 1, 1997, and certain of its provisions purport to apply to any tax for general governmental purposes (*i.e.*, "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination. The provisions of Proposition 218, as so interpreted and applied, may adversely affect the City's ability to make Base Rental Payments under the Facility Lease.

Taxes. Proposition 218 prohibits a local government (including a charter city such as the City) from imposing, extending or increasing any "general tax" unless such tax is submitted to the electorate and approved by a majority vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

A general tax is defined under Proposition 218 as any tax imposed for general governmental services. Proposition 218 further requires majority voter approval for any general tax imposed, extended or increased without voter approval on or after January 1, 1995, and prior to the effective date of Proposition 218. Such approval is required to be obtained by November 6, 1998.

Proposition 218 further requires approval by two-thirds vote for the imposition, extension or increase in any "special tax" imposed by a local government. A special tax is defined under Proposition 218 as "any tax imposed for specific purposes including taxes imposed for specific purposes which are placed into a general fund."

The City currently imposes the following general taxes: business operations tax, utility users tax, real property transfer tax and transient occupancy tax. Since all of these taxes were imposed prior to January 1, 1995 and have not been extended or increased since such date, such taxes should be exempt from the requirements of Proposition 218. Any future increases in these taxes, however, would be subject to the voter requirement of Proposition 218.

Assessments. Proposition 218 makes several substantive and procedural changes for the imposition of any assessment, which include among other things, (1) a prohibition against assessments which exceed the reasonable cost of the proportional "special benefit" conferred on a parcel, (2) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (3) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that "majority protest" exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessment; (4) the requirement that the assessment be supported by an engineer's report; and (5) the requirement that the levying entity "separate the general benefits from the special benefits conferred on a parcel" of land (with only specific benefits being assessable).

Proposition 218 provides that all existing, new or increased assessments must comply with its provisions beginning July 1, 1997. However, certain existing assessments imposed on or before November 5, 1996 are exempt from the procedures and approval process under Proposition 218, although subsequent increases in such assessments will be required to comply.

The City currently levies assessments for four landscaping and lighting districts, five maintenance districts and one property and business improvement district. These assessments total approximately \$11.4 million annually. The City believes that each of such assessments complies with the requirements of Proposition 218. Subsequent increases of such assessments, if any, would be required to comply.

The City also levies assessments for 86 improvement districts under the California improvement district acts, which assessments total \$10.6 million annually. Each of such assessments, except one (which the City believes is otherwise exempt from the procedures and approval process under Proposition 218) secure bonded indebtedness payable from such assessment and have no claim on the City's General Fund.

Fees and Charges. Proposition 218 requires written notice by mail of the imposition, extension or increase of any "fee" or "charge" levied by a local government to the record owner of each parcel of real property upon which a fee or charge is imposed, to be imposed or increased. A "fee" or "charge" includes any levy, other than an *ad valorem* tax, special tax, or assessment, imposed by an agency upon a parcel of real property or upon a person as an incident of property ownership, including user fees or charges for a property related service. Proposition 218 prohibits, among other things, the imposition of any proposed fee or charge; and potentially, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge.

Proposition 218 also prohibits the extension, imposition or increase of any fee or charge unless it meets the following requirements: (i) revenues derived from the fee or charge do not exceed the funds required to provide the property-related service; (ii) revenues derived from the fee or charge cannot be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership cannot exceed the proportional cost of the service attributable to the parcel; (iv) no

fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property. Fees or charges based on potential or future use of a service are prohibited. In addition, no fees or charges may be imposed for general governmental services, including fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners. The City does not believe that it imposes any fees and charges for general governmental services within the meaning of Proposition 218.

In addition, Proposition 218 may be interpreted to prohibit certain transfers from City enterprise funds to the General Fund. In the current Fiscal Year, such transfers represent approximately 5% of the City's annual General Fund revenues. The City budget does provide for certain of such transfers. The City does not intend to alter its policies in this regard.

The Initiative Provisions. Proposition 218 also purports to extend the voters' initiative power to reduce or repeal previously authorized local taxes, assessments, and fees and charges. The extension of the initiative power is not limited by the terms of Proposition 218 to taxes, assessments, fees and charges imposed after November 6, 1996, and the exercise of such power could result in retroactive reduction in any existing taxes, assessments or fees and charges. The provisions of Proposition 218, including the initiative provisions, have not been construed by any California court. The City is therefore unable to predict the extent to which Proposition 218 may impact its General Fund revenues. **No assurance may be given that Proposition 218 will not have a material adverse impact on the City's General Fund revenues and therefore, its ability to pay Base Rental Payments due under the Facility Lease.**

Statutory Spending Limitations — Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively. The *Santa Clara* decision also did not decide the question of the applicability of Proposition 62 to charter cities.

Since November 5, 1986 (the effective date of Proposition 62), the City has increased the transit occupancy tax, utility users tax, business operations tax and real property transfer tax without voter approval. The City continues to collect such increased taxes. The City estimates that it collected approximately \$2.1 million from such taxes through June 30, 1996 and that it will collect approximately \$4.5 million from such taxes in Fiscal Year 1996-97. If a court were to determine that a jurisdiction imposed a tax in violation of Proposition 62, Proposition 62 would require that the portion of the 1% *ad valorem* property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the tax for each year that the tax is collected. The City does not believe that there is a significant risk of such a court decision.

Future Initiatives

Article XIII A, Article XIII B, Proposition 62 and Proposition 218 were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters. The future adoption of any such initiatives might place limitations on the ability of the City to increase revenues or to increase appropriations.

THE CITY

The City is a municipal corporation and charter city organized and existing under the laws of the State. The City is located at the confluence of the Sacramento and American Rivers in the south central portion of the Sacramento Valley, a part of the State's Central Valley. As of January 1, 1997, the City had an estimated population of 388,700. Additional information relating to the City is set forth in APPENDIX A hereto.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated as of October 1, 1989, between the City and the Agency. Such agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the State Government Code. The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City.

The Authority is governed by a nine-member Board which consists of the members of the City Council of the City.

Pursuant to the Act, the Authority is authorized to issue bonds for the purpose of financing, refinancing or providing reimbursement for costs incurred in connection with the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of public capital improvements of public entities such as the City and the Agency. The Act provides for the issuance of revenue bonds of joint exercise of powers authorities, such as the Authority, to be repaid from the proceeds of certain public obligations, such as the Facility Lease. The intent of the California legislature, as stated in the Act, is to assist in the reduction of local borrowing costs, help accelerate the construction, repair and maintenance of public capital improvements, and promote greater use of existing and new financial instruments and mechanisms such as bond pooling.

THE TRUSTEE AND PAYING AGENT

First Trust of California, National Association ("First Trust") is appointed Trustee and Paying Agent for the 1997 Bonds pursuant to the Indenture. First Trust is a national banking association organized and existing under the laws of the United States of America. First Trust maintains corporate trust offices in the Cities of San Francisco and Los Angeles, California.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California ("Bond Counsel"), based upon existing laws, regulations, rulings and court decisions, interest on the 1997 Bonds is exempt from State of California personal income taxes, **although interest on the 1997 Bonds is not excluded from gross income for federal income tax purposes.** Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the 1997 Bonds. The proposed form of the opinion of Bond Counsel is set forth in APPENDIX G hereto.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 1997 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than itself.

Although Bond Counsel has rendered an opinion that interest on the 1997 Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 1997 Bonds may otherwise affect the Bondowner's state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondowner or the Bondowner's other items of income or deduction, and Bond Counsel expresses no opinion regarding any such other tax consequences.

RATINGS

Moody's and Standard and Poor's have assigned the 1997 Bonds the ratings of "Aaa" and "AAA," respectively, with the understanding that upon delivery of the 1997 Bonds, a Policy insuring the payment of principal of and interest on the 1997 Bonds will be issued by the Insurer. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Service, 99 Church Street, New York, New York 10007-2796, and Standard and Poor's Ratings Services, 25 Broadway, New York, New York 10004. There is no assurance that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 1997 Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 1997 Bonds, at a price of \$73,041,550.58. The Purchase Contract for the 1997 Bonds provides that the Underwriters are obligated to purchase all of the 1997 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract.

INDEPENDENT ACCOUNTANTS

The general purpose financial statements of the City for the year ended June 30, 1996 included in APPENDIX B to this Official Statement have been audited by Arthur Andersen LLP, independent accountants, as stated in their report appearing therein.

LITIGATION

Other than as described below, no litigation is pending or threatened concerning the validity of the 1997 Bonds, the Site Lease, the Facility Lease or the Indenture. The Authority is not aware of any litigation pending or threatened questioning the political existence of the Authority or the City or contesting the City's ability to appropriate or make Base Rental Payments. There are a number of lawsuits and claims pending against the City. In the opinion of the City Attorney, the aggregate amount of liability that the City might incur as a result of adverse decisions in such cases would be covered under the City's self-insurance program.

On February 18, 1997, Erik Anderson, Gary Collier, Virginia Diebel and Carole Blalock (collectively, "Anderson") filed a complaint against the City of Sacramento, the Sacramento City Council, Mayor Joe Serna, and certain individual City Councilpersons in Sacramento County Superior Court challenging the Arena Transaction and

seeking to enjoin it. The defendants successfully demurred to the complaint and plaintiffs filed an amended complaint.

All of the issues raised by SCTRL and the Anderson suit were dealt with in the City's validation action. The issues raised by those suits are thus barred by the California Code of Civil Procedure Section 860 *et seq.* and the principles of plea in abatement. On July 25, 1997, the Court sustained the City's demurrer to Andersen's amended complaint and entered an interlocutory judgment against Andersen.

On March 25, 1997, the Sacramento City Taxpayers' Rights League and two individuals, on behalf of themselves and the public as Taxpayers (collectively, "SCTRL"), filed a lawsuit in Superior Court against the City, the City Council of the City and the members of the City Council, as individuals, alleging that (i) the Refinancing Agreement constituted a violation of Article XVI, Section 6 of the California Constitution as an illegal gift of public funds, (ii) the Refinancing Agreement violated California Constitution Article XIII C and D as a result of a requirement in the Refinancing Agreement that the Arena Owner impose a facility user charge on events at the Arena which the Owner deems appropriate for the imposition of such charge for the purposes of funding an Owner reserve account as security for the repayment of the Deferred Capital Notes (see "PLAN OF FINANCE" herein) and (iii) that the Refinancing Agreement constituted an illegal use of public funds. The SCTRL suit sought declaratory relief that the Refinancing Agreement was null and void and of no force and effect, and/or was invalid, and/or would prevent the City from taking further action in connection therewith, including the issuance of the 1997 Bonds.

On April 16, 1997, the City and the Authority filed an action pursuant to California Civil Procedure Code 860 to validate the financing of the acquisition and lease-leaseback of the Arena pursuant to the Refinancing Agreement, the Site Lease, the Facility Lease, the Facility Sublease and the Indenture. On May 7, 1997, SCTRL filed an answer and cross-complaint against the City and individual members of the City Council and dismissed their March 25, 1997 complaint. On May 12, 1997, J. Leonard Padilla ("Padilla"), a City resident, filed an answer and a motion to dismiss the City's validation action.

On June 9, 1997, a trial on the merits of the validation action commenced and was concluded on June 10, 1997. In a Statement of Decision entered on June 12, 1997, the Court denied Padilla's motion to dismiss and ruled that the City's actions were legal, that the proposed facility user charge does not violate California Constitution Article XIII C and D and on June 20, 1997 judgment was entered in favor of the City, the Authority and the Arena Owner and against SCTRL and Padilla. The period for appeal of the decision extends to July 21, 1997. On June 13, 1997, SCTRL waived its right to appeal. On July 15, 1997 Padilla filed a notice of appeal of the judgment.

Orrick, Herrington & Sutcliffe LLP, will render an opinion that (i) Padilla's appeal of the Superior Court's final judgment in the City's validation action is without merit and that the judgment in validation case will be affirmed and (ii) any appeal filed by Andersen of the interlocutory judgment entered in such case would also be without merit and the Court's decision would be affirmed.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the 1997 Bonds is subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, to be delivered in substantially the form set forth in APPENDIX G hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Brown & Wood LLP, San Francisco, California. Certain legal matters will be passed upon for the Authority and the City by the City Attorney of the City of Sacramento.

EXECUTION AND DELIVERY

The preparation and distribution of this Official Statement have been authorized by the Authority and the City.

SACRAMENTO CITY FINANCING AUTHORITY

By: /s/ Thomas P. Friery
Treasurer

CITY OF SACRAMENTO

By: /s/ Thomas P. Friery
City Treasurer

APPENDIX A

CERTAIN INFORMATION WITH RESPECT TO THE CITY

General

The City is located at the confluence of the Sacramento and American Rivers in the south central portion of the Sacramento Valley, a part of the State's Central Valley. Although the City is approximately 75 air miles northeast of San Francisco, its temperature range is more extreme than that of most Northern California coastal cities, ranging from a daily average of 45 degrees Fahrenheit in January to 75 degrees Fahrenheit in July. Average elevation of the City is 30 feet above sea level.

Population

The City's population as of January 1, 1997 was estimated to be 388,700. A comparison of the City's population growth to that of the County of Sacramento and the State is provided in Table 1.

TABLE 1

POPULATION COMPARISON

<u>Year</u>	<u>City of Sacramento</u>	<u>County of Sacramento</u>	<u>State of California</u>
1960	191,667	502,778	15,717,204
1970	257,105	643,373	19,935,134
1980	275,741	783,381	23,667,837
1981	281,100	796,600	23,992,900
1982	285,400	818,600	24,469,500
1983	292,640	840,100	24,944,700
1984	303,400	858,500	25,415,300
1985	309,352	875,881	25,856,464
1986	322,542	905,473	26,636,961
1987	327,200	928,700	27,292,300
1988	334,500	961,300	27,996,000
1989	339,900	988,300	28,662,000
1990	369,365	1,041,219	29,758,213
1991	373,600	1,064,300	30,296,000
1992	380,100	1,085,000	30,845,000
1993	383,800	1,100,200	31,303,000
1994	386,800	1,111,100	31,661,000
1995	384,300	1,115,100	31,910,000
1996	385,300	1,124,900	32,223,000
1997	388,700	1,140,600	32,609,000

Source: U.S. Bureau of Census and State of California Department of Finance.

Government

The City was incorporated in 1849, although it had been settled in the 1830's during which time Captain John A. Sutter acquired a 50,000-acre land grant. It was on Sutter's farm that the City was planned in 1848. The discovery of gold on the American River during that same year triggered the "Forty-Niner" gold rush which led to

the development of Sacramento as the supply center for the northern mines of the Mother Lode. Although less publicized, the agricultural potential of the Sacramento Valley was just as important to the future of the City. In 1854, Sacramento became the location of the Capitol of the State. Today, State government employees and governmental-related activities contribute substantially to the City's economy.

In 1856, the City was the western terminus of the State's first railroad, which ran a distance of approximately 25 miles to Folsom. Shortly thereafter, it provided the starting point for the first transcontinental railroad, the Central Pacific, which later became the Southern Pacific. Prior to completion of that railroad, Sacramento was the western-most station for the Pony Express.

The City operates under a Charter, adopted in 1921, that currently provides for a nine-member elected Council, including an elected Mayor. There are no other elected City officials. The Council appoints the City Manager, City Attorney, City Clerk and City Treasurer to carry out its adopted policies. Sacramento was one of the first cities to utilize the Council-Manager form of government which has since been recognized as an efficient and effective method of providing municipal services.

Members of the Council serve terms of four years. The Mayor is chairperson of the Council and is elected in at-large City elections. Councilmembers are elected by eight individual districts.

At present, the Mayor is Joe Serna, Jr. Mr. Serna was first elected to the Council in 1981 representing District 5, where he served until assuming his official duties as Mayor of the City in November 1991. Mr. Serna, a Professor of Government at California State University, Sacramento, is a graduate of Sacramento State College and attended graduate school at the University of California, Davis, School of Political Science. Mr. Serna is also a director on the Federal Home Loan Bank Board.

Councilmember Heather Fargo, elected in 1989, represents District 1. Ms. Fargo has worked for California's Department of Parks and Recreation since 1975. She has an extensive history of community involvement, including as a founding board member and past president of the Natomas Community Association. Ms. Fargo received a Bachelor of Science degree in Environmental Planning and Management in 1975 from the University of California at Davis.

Councilmember Robert Kerth, elected in 1992, represents District 2. Mr. Kerth is a native of Sacramento and graduate of Norte Del Rio High School and Stanford University where he earned a Bachelor's and a Master's Degree in Engineering. Councilmember Kerth is the owner of Ice Unlimited in North Sacramento and works as an employee of the family business, Kerth & Sons.

Councilmember Steve Cohn, elected in 1994, represents District 3. Mr. Cohn and his family have lived in East Sacramento for 15 years. He is currently employed as a Senior Attorney by the Sacramento Municipal Utility District, specializing in energy and environmental law. Mr. Cohn was born in Kansas City, Missouri. He received his Bachelor's Degree from Yale University and his law degree (magna cum laude) from the University of San Diego. Mr. Cohn was a Fulbright Scholar in France in 1975-76 and he also served for many years as a Judge Pro Tempore in the Sacramento Small Claims Court.

Councilmember Jimmie Yee, elected in 1992, represents District 4. Mr. Yee attended local public schools prior to graduating from the University of California at Berkeley with a Bachelor's Degree in Civil Engineering. In 1966, Mr. Yee started his own consulting structural engineering firm which designed many of the trade-mark buildings in the Sacramento Valley. He has since sold his interest in the firm and now works part-time as an independent consultant.

Councilmember Lauren R. Hammond, elected in March 1997, represents District 5. Ms. Hammond, who is a consultant for the California State Senate, is a graduate of C.K. McClatchy High School, Sacramento City College and California State University, Sacramento where she studied government. Ms. Hammond has served as Vice-Chair of the Sacramento County Project Planning Commission and on the Sacramento County Health Council.

Councilmember Darrell Steinberg, elected in 1992, represents District 6. Mr. Steinberg received his Bachelor's Degree in Economics from the University of California, Los Angeles, and his law degree from the University of California, Davis.

Councilmember Robbie Waters, re-elected in 1994, represents District 7. Mr. Waters is a native of Sacramento. After graduating from Sacramento High School he enlisted in the United States Air Force. Thereafter, he worked with the State Department of Highways as an IBM Operator before becoming a member of the Sacramento Police Department in the Patrol Division. Mr. Waters holds a Bachelor's Degree in Criminology from the California State University at Sacramento and a Master's Degree from the University of Southern California. He is also a graduate of the F.B.I. National Academy in Advanced Criminology. He was elected Sheriff of Sacramento County in 1982, holding that position until 1987. Currently, Mr. Waters is owner of several small businesses in the City.

Councilmember Samuel C. Pannell, elected in 1992, represents District 8. Mr. Pannell holds a Bachelor's Degree from California State University, Sacramento, and has been a teacher with the Sacramento City Unified School District for twenty-two years.

William H. Edgar was appointed City Manager for the City effective March 13, 1993. He had been Assistant City Manager since March 1977. In October 1980, he was assigned by the Council and the Sacramento County Board of Supervisors to administer and reorganize the Sacramento Housing and Development Agency where he served as Executive Director for nine years. In January 1989, Mr. Edgar was assigned to direct the Sacramento Area Flood Control Agency. Mr. Edgar holds a Bachelor of Arts Degree from Haverford College and a Masters of Government Administration from the University of Pennsylvania's Fels Institute of State and Local Government.

Samuel L. Jackson was named Sacramento City Attorney on April 5, 1994. He has worked for the City since 1979 when he was appointed as Deputy City Attorney. Mr. Jackson graduated from McGeorge Law School in 1977, and was Deputy District Attorney for Sacramento County until 1979.

The Assistant City Attorney, William P. Carnazzo, has been with the City since 1979. He has been an integral part of the City financing team for a number of years and continues to provide ongoing City-wide services to all City departments.

The City Treasurer, Thomas P. Friery, was appointed to that position in December 1978. Prior to that appointment, Mr. Friery was the Assistant Treasurer of the Washington Public Power Supply System from 1976 to 1978, a financial consultant to the State Legislature from 1974 to 1976, Senior Investment Officer for the Regents of the University of California from 1969 to 1974, Assistant Investment Officer for the State from 1968 until 1969, and Senior Systems Programming Analyst for the Federal Reserve Bank of Cleveland from 1962 to until 1968.

The City Clerk, Valerie A. Burrowes, was appointed to that position effective August 21, 1989. Prior to that appointment, she served as the City Clerk for Moreno Valley, California, from 1986 to 1989. Mrs. Burrowes also served as City Clerk/Treasurer for the City of Yuma, Arizona from 1984 to 1986, and previously served the City of El Segundo, California as the elected City Clerk from 1974 to 1984. She is a Municipal Clerk and a past president of the City Clerk's Association of California.

Retirement Programs

The City sponsors and administers a defined benefit contributory pension plan known as the Sacramento City Employees' Retirement System ("SCERS") for all full-time, non-safety City employees hired before January 29, 1977 (approximately 17 percent of employees). Employee contribution rates under this plan are frozen and the City, pursuant to a 1976 ballot measure ("Measure M"), is responsible for the actuarially determined unfunded obligation of the plan. The plan is currently fully funded. Measure M was adopted by the voters of the City authorizing the City to enter into a contract with PERS for participation in that system of the City and employees who are, as of the effective date of any such contract, safety members of the SCERS.

Contributions to SCERS for the year ending June 30, 1996 totalled \$1.2 million (6.5 percent of covered payroll) which was contributed totally by members.

City employees hired after January 28, 1977 and all Sacramento Housing and Redevelopment Agency and Safety employees, regardless of date of hire, participate in a pension plan which is administered in accordance with the PERS Contract. PERS is a state-wide retirement system governed and operated pursuant to the California Government Code. Rates charged contracting employers are based upon periodic actuarial studies. Net assets in excess of pension benefit obligation applicable to the City employees who are members of PERS was \$9.0 million as of June 30, 1995 (the most recent actuarial valuation). For the Fiscal Year ended June 30, 1996, the City contributed \$14.3 million to PERS as its actuarially determined pension contribution.

Labor Relations

Under the terms of the Meyers-Milias-Brown Act (California Government Code Section 3500 *et seq.*), the City is required to meet and confer with its employees on all matters concerning wages, hours, and working conditions.

City employees are represented in 12 bargaining units by eight labor organizations. The Stationary Engineers, Local 39 of the International Union of Operating Engineers is the largest labor organization representing approximately 36 percent of all City employees in a variety of classifications.

Since the adoption of a City Employer-Employee Relations Resolution in April 1970, the City has had a successful and positive employee relations program, including successful negotiations of cost effective agreements over the years. There have been no major work stoppages by City employees during this period, except for a 14-day strike by firefighters in October 1970. Approximately 85 percent of all City employees are covered under negotiated agreements.

All labor agreements expire on June 30, 2000.

THE CITY'S ECONOMY

Economic Structure

The Sacramento Metropolitan Statistical Area (the "Sacramento MSA") encompasses the three counties of Sacramento, El Dorado and Placer. Three major employment categories comprised 72.8% of the Sacramento MSA's workforce during 1996. They were government (27.4%), services (27.5%) and retail trade (17.9%). Between 1992 and 1996 the services sector grew by nearly 20%. Table 2 provides a summary of employment by industry in the Sacramento MSA for 1992 through 1996.

Approximately 7.1% of the labor force in the Sacramento MSA is involved in manufacturing. The computer and electronics production industry accounts for a major portion of this sector's employment in growth. In fact, employment in this sector has grown by over 18% from 1992 to 1996. The durable goods sector is expected to continue to grow while the nondurable sector, lead by the food processing industry is expected to continue to downsize as production becomes more automated.

TABLE 2
SACRAMENTO METROPOLITAN STATISTICAL AREA
ESTIMATED NUMBER OF WAGE AND SALARY WORKERS BY INDUSTRY
Annual Averages 1992-1996⁽¹⁾

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Agriculture	4,100	4,100	4,000	3,600	3,700
Mining	500	500	400	200	200
Construction	26,400	24,800	26,600	27,600	29,700
Manufacturing:					
Nondurable	15,000	14,700	13,800	14,100	14,100
Durable	21,900	21,300	22,600	26,600	29,100
Transportation and Public Utilities	24,000	23,800	24,400	25,000	25,300
Wholesale Trade	21,600	21,300	22,100	22,900	23,900
Retail Trade	104,300	104,000	106,000	108,300	109,600
Finance, Insurance and Real Estate	39,400	41,200	41,200	38,900	39,300
Services	140,200	143,300	149,500	157,700	167,500
Government	<u>160,500</u>	<u>159,300</u>	<u>162,600</u>	<u>165,800</u>	<u>167,000</u>
Total	557,800	558,300	573,200	590,600	609,400

⁽¹⁾ Totals may not add due to independent rounding.

Source: California Employment Development Department.

Table 3 presents the larger employers in the greater Sacramento area. Major private employers in the Sacramento area include those in medical services, food processing, media server, aerospace and railroads. Major public sector employers include the State of California, Sacramento County and the U.S. military.

TABLE 3
MAJOR EMPLOYERS

Name of Employer	Type of Business	No. of Employees
State of California	State Government	72,500
University of California at Davis	Education	15,260
McClellan Air Force Base	Military	10,230
San Juan Unified School District	Education	9,200
Sutter Health (Capitol Mall)	Healthcare	6,070
Kaiser Permanente Medical Care	Healthcare	5,690
Sacramento City Unified School District	Education	5,230
University of California, Davis Medical Center	Healthcare	5,130
Mercy Healthcare Sacramento	Healthcare	5,120
Raley's	Retail Grocery	4,900
United States Postal Service	Postal Service	4,860
Pacific Bell	Phone System	4,570
City of Sacramento	City Government	4,000
Hewlett-Packard Co.	Electronic Instruments	4,000
Packard Bell NEC	Electronic Instruments	3,800
Intel Corp.	Electronic Instruments	3,750
Elk Grove Unified School District	Education	3,340
United Parcel Service	Package Delivery	2,910
California State University Sacramento	Education	2,600
Foundation Health Corp.	Healthcare	2,420
Bank of America	Banking	2,340
Sacramento Municipal Utility District	Utility	2,240
The Money Store	Financial Services	2,100
NEC Electronics	Electronic Instruments	2,050

Source: Sacramento Business Journal, "All About Business", May 12, 1997.

During the past four years three of Sacramento's military bases were closed by the U.S. Department of Defense. Mather Air Force Base, which formerly employed 7,300, will contain a variety of uses, including air cargo facilities which are already in operation. The 485-acre Sacramento Army Depot was officially closed on March 3, 1995 and reopened on the same day as Packard Bell Technology Center, a personal computer manufacturing center which now employs approximately 3,800 people on a full-time basis. In May 1995 the Department of Defense announced the closure of McClellan Air Force Base. The last of Sacramento's military employers, McClellan, which currently employs 10,230, is projected to close by 2001. The Defense Commissary Agency is scheduled to begin a 50,000 square foot (approximately 200 employee) operation at McClellan in September 1997. In addition, the County has begun efforts to lease property at McClellan for private uses. On June 23, 1997, a defense authorization measure passed by the House of Representatives included language that would prohibit privatization of aircraft and aviation systems repair work at McClellan unless certain military bases performing such work are operating at specified levels of capacity. The Senate has not addressed this issue and President Clinton has indicated that he will veto any defense bill containing such provisions, however, it is not possible to predict at this time whether such a measure will ultimately be enacted into law, or if enacted, what impact such measure will have on the re-use of McClellan.

Employment

The labor force of the Sacramento MSA reached an average level of 724,900 in 1996, an increase of 10,200 since 1995. Employment also increased slightly during that period by 15,100 to a level of 681,600, while unemployment decreased by 4,900 to a level of 43,300. These developments brought the area's unemployment rate to 6.0 percent in 1996.

TABLE 4
SACRAMENTO METROPOLITAN STATISTICAL AREA
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT

	<u>1992⁽¹⁾</u>	<u>1993⁽¹⁾</u>	<u>1994⁽¹⁾</u>	<u>1995⁽²⁾</u>	<u>1996⁽²⁾</u>
Civilian Labor Force	704,400	693,700	708,600	714,700	724,900
Employment	647,000	636,600	658,400	666,500	681,600
Unemployment	57,400	57,100	50,200	48,200	43,300
Unemployment Rate ⁽³⁾	8.1%	8.2%	7.1%	6.7%	6.0%

⁽¹⁾ March 1995 Benchmark.

⁽²⁾ March 1996 Benchmark.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates developed from the rounded data presented in this table.

Source: California Employment Development Department.

Income

The following Table 5 shows a comparable record of effective buying income from 1991 through 1995.

TABLE 5
EFFECTIVE BUYING INCOME
(in thousands)

<u>Year</u>	<u>City of Sacramento</u>	<u>County of Sacramento</u>	<u>State of California</u>	<u>United States</u>
1991	\$5,538,272	\$16,821,845	\$490,749,649	\$3,728,967,043
1992	5,827,542	17,672,921	509,152,677	3,916,947,023
1993	5,942,349	18,401,217	528,958,745	4,169,724,052
1994	6,131,851	19,100,836	552,074,838	4,436,178,724
1995 ⁽¹⁾	5,236,976	16,857,115	477,640,503	3,964,285,118

⁽¹⁾ Not strictly comparable to previous years due to changes in method of calculation.

Source: Sales & Marketing Management Magazine "Survey of Buying Power."

Commercial Activity

Commercial activity is an important contributor to Sacramento's economy. Between 1991 and 1995 taxable retail sales increased 6.3 percent from \$2,276,289 to \$2,419,806 while total taxable sales rose by 5.2 percent from \$3,315,502 to \$3,489,153. Table 6 shows the City's taxable transactions for 1991 through 1995.

TABLE 6
CITY OF SACRAMENTO
TAXABLE TRANSACTIONS
(in Thousands)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Retail Stores					
Apparel stores	\$117,849	\$113,782	\$109,153	\$126,028	\$121,069
General merchandise stores	349,271	349,911	351,461	373,783	388,822
Drug stores	51,904	48,485	45,853	52,674	48,051
Food stores	221,853	234,936	193,268	187,717	192,352
Package liquor stores	18,688	17,700	14,784	14,679	15,818
Eating and drinking places	315,674	313,731	315,580	333,781	346,801
Home furnishing/appliances	96,051	88,181	85,999	102,115	143,847
Building materials/farm implements	192,717	163,195	153,421	163,085	167,721
Auto dealers and auto supplies	312,235	302,891	306,273	306,156	306,935
Service stations	182,058	185,629	177,533	187,529	175,570
Other retail stores	<u>394,157</u>	<u>388,239</u>	<u>395,294</u>	<u>428,742</u>	<u>512,820</u>
Total Retail Stores	\$2,252,457	\$2,206,680	\$2,148,619	\$2,276,289	\$2,419,806
All Other Outlets	<u>1,011,675</u>	<u>996,414</u>	<u>1,005,979</u>	<u>1,003,213</u>	<u>1,069,347</u>
Total - All Outlets	\$3,264,132	\$3,203,094	\$3,154,598	\$3,315,502	\$3,489,153

Source: State Board of Equalization.

Building and Construction

Table 7 presents building permit valuation for the City for the years 1992 through 1996. Residential building permit valuation increased by approximately 5.2 percent in 1996 from 1995.

TABLE 7
CITY OF SACRAMENTO
BUILDING PERMIT VALUATION AND NEW DWELLING UNITS

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Residential Permit Value (\$ in thousands):					
New single dwelling	\$53,863	\$48,492	\$42,723	\$39,553	\$35,168
New multi dwelling	<u>13,757</u>	<u>8,404</u>	<u>3,003</u>	<u>938</u>	<u>7,439</u>
Total	\$67,620	\$56,896	\$45,726	\$40,491	\$42,607
Percentage Change in Value	--	(15.9%)	(19.6%)	(11.5%)	5.2%
Number of New Dwelling Units (actual):					
Single Dwelling	629	544	439	391	412
Multi Dwelling	<u>221</u>	<u>120</u>	<u>45</u>	<u>18</u>	<u>130</u>
Total Units	850	664	484	409	542

Source: Economic Sciences Corporation.

Flood Risk Considerations

The Federal Emergency Management Agency ("FEMA"), which administers the federal government's disaster relief and flood insurance programs, contracted with the U.S. Army Corps of Engineers (the "Corps of Engineers") to develop new 100-year floodplain maps for the Sacramento River. In 1988, the Corps of Engineers released these maps, which included large areas of the City, including the Natomas Basin within the 100-year floodplain. A 100-year floodplain is the area expected to be inundated during a flood of the magnitude for which there is a 1% probability of occurrence in any year (and so otherwise expressed as a flood that occurs in average over millennia once every 100 years.)

The Natomas Basin is potentially subject to flooding from four exterior sources: the Sacramento River, the American River, the Natomas East Main Drainage Canal, and the Natomas Cross Canal. Basin Flooding can also occur in certain specific areas from two interior sources: the East Drainage Canal and the West Drainage Canal. Potential flooding from these waterways result in two "layers" of the floodplain which are referred to as the overlying, for exterior, and the underlying, for interior, sources of flooding.

These two layers of the floodplain in the Natomas Basin are delineated on the current effective Flood Insurance Rate Maps ("FIRMs") for the City of Sacramento dated November 15, 1989. The overlying floodplain is designated as an A99 risk premium rate zone. An A99 zone is defined as an area to be protected from the 100-year flood by a federal flood protection system under construction that is more than 50% complete. Although the Sacramento area did not then meet this criterion, FEMA placed this classification on the FIRMs in 1989 in response to special congressional legislation. This legislation expired in 1992, but the A99 designation has continued. Flood insurance is available to property within an A99 zone at rates subsidized by the federal government. ARCO Arena is located on a site within this A99 zone.

The underlying floodplain is designated as in AE zone. An AE zone is an area subject to flooding from the 100-year event. Flood insurance is available to property in an AE zone but at higher rates than in an A99 zone. Additionally, structures in an AE zone must be elevated above the 100-year flood level to qualify for flood insurance. The site on which ARCO Arena is located is not within the AE zone.

In order to provide additional flood protection to the Natomas Basin as well as the rest of Sacramento, in 1989 the City commenced a consolidated local flood control planning effort. This effort is now being led by the Sacramento Area Flood Control Agency ("SAFCA"), a joint powers authority formed in 1990 pursuant to the Sacramento Area Flood Control Agency Act (California Water Code Section 130-1).

The flood control strategy of SAFCA has been to do, in the short term, the projects necessary to provide at least 100-year flood protection to the community, while pursuing a federal project to provide at least 200-year flood protection to the region as a long-term solution.

The steps necessary to provide 100-year flood protection to the Natomas Basin from exterior sources were identified as: (i) stabilizing the Sacramento River levees; (ii) raising levees along the Natomas East Main Drain Canal and Cross Canal; and (iii) improving levees along the American River.

In the Spring of 1993, the Corps of Engineers completed a project to stabilize the levees along the Sacramento River. The Corps of Engineers has certified that the Sacramento River levees provide greater than 100-year flood protection. SAFCA's North Area Local Project, which (among other things) is designed to protect the Natomas Basin and parts of North Sacramento from flooding from the American River, Natomas East Main Drainage Canal and Cross Canal, commenced in 1993. The Corps of Engineers indicated in April 1997 that it will support certification of the American River, Natomas East Main Drainage Canal and Cross Canal levees protecting the Natomas Basin as providing 100-year flood protection.

The levee improvements included in this certification for the American River component of the North Area Local Project are based on a FEMA 100-year base flood water surface elevation of 36.3 at the mouth of the Natomas East Main Drainage Canal ("NEMDC"). This condition is produced by: (1) a release of 180,000 cfs from Folsom Dam (the FEMA 100-year base flood flow without Folsom reoperation); (2) a 100-year stage on the Sacramento River at the 1 Street gauge; and (3) 100-year flows in the NEMDC and its tributaries. The recent flood event in January 1997 could result in a re-evaluation of the American River hydrology. If a re-evaluation actually results in a change to the estimated FEMA 100-year base flood flows, the Corps of Engineers will continue to certify the levee improvements protecting the Natomas Basin as long as the releases from Folsom Dam do not exceed 180,000 cfs under existing flood control operations (*i.e.*, current Folsom operations pursuant to the existing agreement between SAFCA and the Bureau of Reclamation).

FEMA has approved a Conditional Letter of Map Revision ("CLOMR") for the Natomas Basin that provides that, upon the completion of the North Area Local Project, the present A99 flood zone would be revised to an X flood zone on the FIRMs. Flood insurance is optional rather than mandatory when a federally-insured lender is involved. However, one critical element of the North Area Local Project remains incomplete; before the pumping plant that has been constructed in the Natomas East Main Drainage Canal can be operated, a Habitat Conservation Plan ("HCP") will need to be approved and implemented. The HCP is a condition of the Corps of Engineers 404 Permit for the pumping plant. A draft of the HCP has been completed and has been forwarded by SAFCA to the City of Sacramento, the County of Sacramento, and the County of Sutter for their review and approval. It will be necessary to also approve an implementation agreement. As proposed, the HCP would be funded by a development fee. The City Council is scheduled to take action on the HCP on July 29, 1997.

Once the North Area Local Project is complete, including the approval of the Habitat Conservation Plan, the City will request a Letter of Map Revision ("LOMR") from FEMA based upon the CLOMR. FEMA regulations require that agency to notify the requester within 60 days as to the adequacy of the submittal and to respond to the request within 90 days of receipt of an adequate submittal. Until the LOMR has been approved, the A99 flood zone designation will remain. Because the City has now lifted the flood-related development restrictions it previously

imposed in the Natomas area, development may proceed while the LOMR request is pending, but flood insurance will remain mandatory for federally backed lenders until the A99 zone is officially revised to an X zone.

Agriculture

Agriculture continues to be an important factor in Sacramento's economy. Agricultural production and processing have been continually improved by the application of modern technological methods, keeping the industry's need for labor relatively low. This is demonstrated by the fact that although agricultural production and processing is a major factor in Sacramento's economic base, it ranks only tenth in terms of the number of people employed, even when the largest seasonal employment figures are used. The area's agricultural production is important on a national basis, with one or more of the nearby nine counties leading the nation in the production of various crops. These crops have traditionally been almonds, apricots, honeydew and Persian melons, olives, peaches, persimmons, plums, prunes, safflower, ladino clover seed, sugar beets, tomatoes for processing, rice and walnuts. Table 8 provides a record of the value of agricultural production for the years 1991 through 1995 in Sacramento County by product classification.

TABLE 8
AGRICULTURAL PRODUCTION
(in thousands)

	1991	1992	1993	1994	1995
Field Crops	\$41,713	\$ 49,302	\$ 55,097	\$ 56,440	\$ 55,272
Livestock & poultry products	34,754	36,220	35,711	37,426	37,935
Livestock & poultry	48,379	43,664	43,541	32,663	26,967
Vegetable crops	20,501	18,504	18,511	20,260	26,344
Fruit & nut crops	46,277	54,980	54,692	60,722	62,886
Nursery products	26,412	22,757	16,648	9,910	9,582
Seed crops	8,331	4,476	4,407	7,719	9,721
Apiary products	60	45	49	42	54
Total	<u>\$225,427</u>	<u>\$229,948</u>	<u>\$228,651</u>	<u>\$225,182</u>	<u>\$228,761</u>

Source: Sacramento County Department of Agriculture.

Community Facilities

The four-county Sacramento metropolitan area offers over 125 public parks, 200 tennis courts, 45 theaters and 53 golf courses. The Sacramento area's mediterranean climate encourages use of the many recreational opportunities along the American and Sacramento rivers including fishing, swimming, biking along the 22 mile bicycle trail, horseback riding and hiking. The area supports an equally impressive arts community. Professional symphony, opera, theater and ballet companies perform to sold-out crowds. Scores of multi-screen cinemas showing first-run films, museums, live theaters, and more than 100 traditional and modern art galleries, host hundreds of thousands of patrons year round.

Arco Arena, a 17,300-seat privately-owned sports arena located in the North Natomas area of the City adjacent to Interstate 5, is currently the home of the Sacramento Kings of the National Basketball Association. See "THE ARENA" herein. On the adjacent 100-acre parcel, a local development group obtained a special permit to construct a stadium of 65,000 seats. Construction of the stadium foundation was only partially completed. The site was donated to the City by a subsequent ownership group and is being considered for a sports-themed entertainment retail complex by the owner of the Arena.

Media outlets in the four-county area consist of more than 30 newspapers, nine television stations (four network, four independents and one public) and 30 radio stations.

Education

Public school education within the City is available through eight elementary, two high school and six unified school districts. There are approximately 84 private schools in Sacramento County and 70 industrial, technical trade schools. School enrollment during the 1996-1997 school year was approximately 51,039 in the City public schools.

The Los Rios Community College District serves the majority of Sacramento County, as well as portions of El Dorado, Placer, Yolo and Solano Counties. The Los Rios Community College District maintains three campuses in Sacramento County: American River College, located in the northeastern area of the City of Sacramento; Sacramento City College located in the City of Sacramento, and Consumnes River College, located in the southern area of the City. Fall 1996 enrollment at the three campuses totaled approximately 51,000.

California State University, Sacramento, offers four-year program in business administration, liberal arts, engineering, education and nursing, and masters degree programs in various fields. The average enrollment for the 1996-1997 school year was 23,420. Other higher education facilities located in Sacramento are McGeorge School of Law branch of the University of the Pacific; the Medical Center of the University of California, Davis; National University, Lincoln Law School; Golden Gate University; the University of Southern California (for public administration); and the University of Northern California (law).

Transportation

Sacramento's strategic location and broad transportation network have contributed to the City's economic growth. The City is traversed by the main east-west and north-south freeways serving northern and central California. Interstate 80 connects Sacramento with the San Francisco Bay Area, Reno, Nevada and points east. U.S. 50 carries traffic from Sacramento to the Lake Tahoe area. Interstate 5 is the main north-south route through the interior of California; it runs from Mexico to Canada. State 99 parallels Interstate 5 through central California and passes through Sacramento.

The Union Pacific railroad, a transcontinental line, has junctions in Sacramento and is connected to the Atchison, Topeka and Santa Fe via the Central California Traction Company. Passenger rail service is provided by AMTRAK. Bus lines offering intercity as well as local service include Greyhound, Trailways and the Sacramento Regional Transit District. The Sacramento Regional Transit District also provides light rail service within the City. The Port of Sacramento, located 79 nautical miles northeast of San Francisco, provides direct ocean freight service to all major United States and world ports. Via a deep water channel, ships can reach Sacramento from San Francisco in less than eight hours. The major rail links serving Sacramento connect with the Port, and Interstate 80 and Interstate 5 are immediately adjacent to it.

Trucking services are offered through facilities of interstate common carriers operating terminals in the area and by contract carriers of general commodities. Greyhound Bus Lines also provides passenger and package service stations located in Sacramento.

Sacramento International Airport is about 12 miles northwest of downtown Sacramento. The airport is served by eight major carriers, two regional carriers and three commuter carriers. Executive Airport, located in Sacramento, is a full-service, 680-acre facility serving general aviation. In addition to Sacramento International Airport and Mather Air Field, there are two other County operated general airports and numerous private airports.

Utilities

The City of Sacramento is unique among large California cities in that it has an abundant water supply delivered by two rivers within its boundaries. The City has rights to approximately 900 cubic feet per second from the Sacramento and American rivers through permits issued by the State Water Resources Control Board. These

water rights are supplemented with storage in Folsom Reservoir obtained through contract with the United States Bureau of Reclamation. The available supply is adequate to furnish the peak summer water demand for the population estimated to be within the service area by the year 2030. Currently, 118,042 residential and commercial water accounts are being served by the City through a 1,348-mile system of water mains. During Fiscal Year 1995-1996, almost 38.8 billion gallons of water were provided for domestic and industrial consumption. Two plants supply treated water to the service area south of the American River, portions of North Sacramento and the Natomas area. Ground water obtained from wells in the area north of the American River is of high quality and needs no treatment except for chlorination. Additionally, the City provides sewage collection service for most of the area. Sewage treatment is provided by the Sacramento Regional County Sanitation District.

In June 1990 the Regional Water Quality Control Board (the "Board") issued a Cease and Desist Order requiring the City to eliminate outflows from the combined sewer system (CSS). In July 1995 the Council authorized the Department of Utilities to submit the CSS Improvement Plan to the Board. In March 1996 the Board rescinded the Cease and Desist Order based upon the City's CSS Improvement Plan. The CSS Improvement Plan consists of rehabilitation and improvement of Sump 1/1A and Pioneer Reservoir, rehabilitation of Sump 2, and numerous in-ground improvements and upgrades. The sump rehabilitation and improvement projects are expected to be completed by the year 2000. The rehabilitation of the in-ground system will extend between 10 and 15 years.

The Sacramento Municipal Utility District ("SMUD") supplies electricity throughout Sacramento County. SMUD's electrical rates continue to be among the lowest in the nation. In the past, SMUD has operated the Rancho Seco Nuclear Power Unit ("Rancho Seco"). On June 6, 1989, voters within the District passed "Measure K" calling for the shutdown of Rancho Seco. SMUD began a cold shut down of the plant within 72 hours of passage of Measure K and has proceeded to "mothball" the plant. SMUD has contracts to purchase from outside utility providers the power that had formerly been produced by Rancho Seco. Additionally, SMUD is proceeding with the development and construction of co-generation facilities.

Pacific Gas and Electric Company ("PG&E") supplies natural gas throughout Sacramento County from sources in California, the Southwest and Canada. PG&E is one of the oldest public utility companies in California and is the largest in the United States. For many years it has provided adequate natural gas for the continually growing population in its area. Rates charged natural gas users in Sacramento are economical and special lower rates are available for industrial users under interruptible service arrangements. Such users must have emergency facilities and a fuel supply available in the event an interruption in service is necessary.

The City is served by Pacific Bell, a Pacific Telesis Company, which is the principal telephone utility in Sacramento County. However, several telephone firms are active in the area, including General Telephone of California, Citizen Utilities Company of California and the Roseville Telephone Company.

CITY FINANCES

City Budget

The City's operating and capital budgets are adopted annually for a single Fiscal Year beginning July 1 and ending July 30 in the subsequent calendar year.

To establish the annual budget, departments are tasked with developing a plan for expenditure of projected available resources for the coming Fiscal Year. Department Fund managers in coordination with Financial Management and Budget staff review actual revenue receipts, economic and revenue forecasts from an outside consultant and revenue forecasts to determine what resources will be available to support both operating and capital expenditures. This process takes place during the mid-year review (February/March) and is refined during the preparation of the proposed budget and up to the adoption of the budget.

The City Manager and Financial Management staff develop a strategy for budgeting that combines City Council and City Manager priorities with identified resources. This strategy is transmitted to department managers in early March as guidelines for the preparation of department budgets. Similarly, capital improvement program

priorities are married with available funds from over 22 different funding sources. Proposed operating and capital budget documents are prepared and are transmitted to the Mayor and City Council as required by City Charter on or before May 1st of each year.

The Mayor and Council in public hearings review the proposed operating and capital improvement budget. In order to address a projected deficit in the City's General Fund operating budget in Fiscal Year 1997-98, the City has engaged the public in its efforts to seek a fundamental change in its mix of services to help ensure greater long-term financial stability. This effort, known as Sacramento Decisions, is a comprehensive education and outreach project to obtain widespread community input on how the City can balance its budget and create a long-term funding strategy that is consistent with the community's priorities and needs.

Following the amendment of the budgets to incorporate changes engendered during the public forum process, the budget is formally adopted by the vote of City Council on or before June 30 of each year. The budget for 1997-1998 was adopted on June 24, 1997. The reserve for economic uncertainty, which in prior years was set at 4% of the budget (approximately \$10 million) was increased to 10% (\$20.22 million) for Fiscal Year 1997-98.

Each Fiscal Year, the City employs an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, examines the combined financial statements of the City. As soon as possible after the end of the Fiscal Year, a report is submitted by such accountant to the City Council and a copy of the financial statements, as of the close of the Fiscal Year, is published.

Table 9 shows the original approved budgets for Fiscal Years 1993-1994 through 1997-1998.

TABLE 9

GENERAL FUND BUDGETS
(in thousands)

	1993-94 Approved Budget	1994-95 Approved Budget	1995-96 Approved Budget	1996-97 Approved Budget	1997-98 Approved Budget
Available Funds:					
Property Taxes	\$ 53,661	\$ 45,019	\$ 42,237	\$ 40,399	\$ 41,265
Sales and Use Taxes	38,500	39,978	41,924	44,999	46,600
Utility Users Tax	38,158	39,086	38,407	37,391	39,240
Other Taxes	10,408	10,617	10,377	10,904	11,318
Licenses and Permits	12,696	14,049	17,971	17,784	18,395
Fines, Forfeitures and Penalties	3,411	4,531	4,974	5,073	5,186
Use of Money	1,492	1,342	853	1,290	1,142
Intergovernmental Revenue	20,638	21,924	20,091	21,314	22,485
Charges, Fees and Services	13,476	16,852	18,722	18,856	16,824
Other Revenues	948	679	1,168	1,048	3,215
Transfers from Other Funds	<u>30,143</u>	<u>28,256</u>	<u>30,382</u>	<u>31,404</u>	<u>0⁽¹⁾</u>
Total Resources	223,531	222,333	227,106	230,462	205,670
Requirements:					
Current Operations:					
Employee Services	163,158	163,787	170,428	171,823	173,766
Other Services and Supplies	61,764	49,787	53,626	55,594	60,465
Equipment	608	1,087	1,053	1,351	667
Debt Service	11,124	9,740	13,591	15,378	13,839
Labor/Supply Offset					(26,471) ⁽¹⁾
Operating Transfers	(5,230)	(6,189)	(11,646)	(13,088)	(20,742) ⁽¹⁾
	<u>175</u>	<u>479</u>	<u>500</u>	<u>0</u>	
Subtotal Current Operations	231,599	218,691	227,552	231,057	201,524
Capital Improvements:					
General Government	1,311	1,225	1,500	10,370	681
Public Safety	600	2,608	3,725	0	1,063
Public Facilities/Development	75	166	1,000	0	0
Culture and Leisure	<u>2,221</u>	<u>1,207</u>	<u>670</u>	<u>0</u>	<u>2,820</u>
Subtotal Capital Improvement	4,207	5,206	6,895	10,370	4,564
CIP Debt or Defunding	(975)	(554)	(5,895)	(9,189)	(2,820)
Total Requirements	234,831	223,343	228,552	232,238	203,268
Operational Surplus (Deficit)	<u>(11,300)</u>	<u>(1,010)</u>	<u>(1,446)</u>	<u>(1,776)</u>	<u>2,402</u>
Other Financing Sources:					
Beginning Undesignated Fund Balance	500	1,500	1,530	355	9,367
Other	<u>11,800</u>	<u>510</u>	<u>2,016</u>	<u>2,421</u>	<u>(10,120)</u>
Total Other Sources	<u>12,300</u>	<u>2,010</u>	<u>3,546</u>	<u>2,776</u>	<u>(753)</u>
Ending Undesignated Fund Balance	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 2,100</u>	<u>\$ 1,000</u>	<u>\$ 1,649</u>
Fund Balance Reserve for Economic Uncertainty	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 9,100</u>	<u>\$ 20,220</u>

⁽¹⁾ Beginning in 1997-98, Transfers from Other Funds have been netted with Labor/Supply Offset and Operating Transfers.
Source: City of Sacramento.

General Fund Financial Summary

The information contained in Table 10 is summarized from audited financial statements for Fiscal Years 1993-1994 through 1995-1996 of the City. Information for Fiscal Year 1996-97 is not yet available.

TABLE 10
STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
(in thousands)

	1993-94	1994-95	1995-96
Revenues:			
Property Taxes	\$ 41,709	\$ 40,919	\$ 41,075
Sales and Use Taxes	39,136	41,103	44,646
Utility Use Tax	35,109	35,860	35,146
Other Taxes	9,043	9,996	9,935
Licenses and Permits	13,487	13,803	17,488
Fines, Forfeitures and Penalties	3,842	4,497	4,982
Interest, Rents and Concessions	1,934	3,289	2,983
Intergovernmental Revenues	25,187	23,518	23,995
Charges, Fees and Services	14,703	13,355	18,052
Other Revenues	994	1,533	4,098
Total Revenues	<u>185,144</u>	<u>187,873</u>	<u>202,400</u>
Expenditures:			
General Government	18,161	17,950	12,238
Public Safety	108,667	112,523	121,163
Public Works and Development	23,515	19,339	16,884
Culture and Leisure	27,398	28,466	26,051
Non-Departmental	12,907	10,952	11,298
Capital Improvements	1,490	3,619	5,793
Debt Service	0	1,901	1,341
Total Expenditures	<u>192,138</u>	<u>194,750</u>	<u>194,768</u>
Excess (Deficiency)	(6,994)	(6,877)	7,632
Other Financing Sources (Uses):			
Transfers from Other Funds	16,943	16,023	221
Transfers to Debt Service Funds	(9,747)	0	0
Transfers to Other Funds	(10)	(13,562)	(14,668)
Proceeds from Long-Term Debt	760	9,989	794
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) over Expenditures	952	5,573	(6,021)
Fund Balance Previously Reported	25,451	26,403	31,976
Equity Transfers In (Out)	0	0	0
Ending Fund Balance	<u>26,403</u>	<u>31,976</u>	<u>25,955</u>
Less Reserves and Designations:			
Non-Current Assets	(4,704)	(4,846)	(2,656)
Delinquent Special Assessments	0	0	0
Economic Uncertainties	(10,000)	(10,000)	(9,500)
Encumbrances	(2,802)	(4,476)	(2,324)
Capital Improvement Projects	(3,676)	(10,420)	(4,803)
Contingency	0	0	0
Subsequent Years' Expenditures	0	0	(4,228)
Restricted Assets	<u>(3,044)</u>	<u>(1,851)</u>	<u>(363)</u>
Fund Balance Available for Appropriation	<u>2,177</u>	<u>383</u>	<u>2,081</u>

Source: City of Sacramento.

Financial Schedules

A copy of the City's Audited General Purpose Combined Financial Statements for the Fiscal Year ended June 30, 1996 is attached as APPENDIX B hereto. Audited financial statements for prior years are available upon request from the Finance Department of the City. Arthur Andersen LLP, San Francisco, California, performed the financial statement audit for the City for the Fiscal Year ended June 30, 1996. Effective commencing with the Fiscal Year which ended July 6, 1984, the general purpose financial statements for the City include the financial statements for the Sacramento Housing and Redevelopment Agency ("SHRA"), a separate legal entity.

City Independent Audit Policy

An annual audit of the City is required by the Charter. It is Council's policy to competitively select and retain independent accounting firms for five-year periods. Arthur Andersen LLP served as the City's accounting firm for a six-year period which ended with Fiscal Year 1995-96.

The City has selected KPMG Peat Marwick LLP to serve as its auditors for a five-year period commencing with Fiscal Year 1996-97.

Interfund Borrowing and Cash Flows

City General Fund expenditures tend to occur in level amounts throughout the Fiscal Year. Conversely, General Fund receipts have followed an uneven pattern primarily as a result of secured property tax installment payment due dates in December and April and as a result of delays in payments from other governmental agencies, which represent the largest sources of City revenues. As a result, General Fund cash balances have typically declined or been negative for part of the Fiscal Year and, if negative, have been covered by interfund borrowings pursuant to Section 6 of Article XVI of the California Constitution or Tax and Revenue Anticipation Notes. The State Constitution prohibits interfund borrowings by cities after the last Monday of April of each Fiscal Year of amounts that exceed 85 percent of taxes accrued.

City Investments

All funds of the City are invested by the Treasurer. The City's General Fund and trust fund account balances are invested in the City's Pool A ("Pool A"). Pool A is governed by the investment policy of the Treasurer which is annually presented to the City Council for approval. This policy provides the approved credit standards, investment objectives and specific constraints of the portfolios managed. On a monthly basis City investments are reviewed by the City's Investment Committee. The Investment Committee audits and reviews the investments to see that they are in compliance with Government Code and the investment policy. The Investment Committee also reviews the investment strategy and guidelines in relation to the changing financial markets. On a quarterly basis the Treasurer prepares an investment activity report for review by the City Council.

The basic investment strategy for Pool A is to provide adequate liquidity. This is achieved by covering the expected cash disbursements with revenues and maturities for the next rolling six-month period. After satisfying liquidity, any idle cash is used to prudently maximize yield. Longer term strategies are developed and followed, after considering long-term cash flow needs, current and projected economic conditions and the prudent diversification of maturities.

As of March 31, 1997, Pool A was invested in securities with an original cost of \$302,527,849 with an average of life of 2.5 years and an average weighted yield of 6.22%. As of March 31, 1997, the market value of the investments in Pool A was \$301,526,824.

Property Taxation

Prior to Fiscal Year 1981-82, property was assessed at 25 percent of full cash value, which under Article XIII A of the California Constitution (Proposition 13) resulted in a maximum tax rate of \$4.00 per \$100 of taxable value, except for taxes to meet debt service on indebtedness approved by the electorate prior to July 1, 1978.

Beginning with Fiscal Year 1981-82, property has been assessed at 100 percent of cash value and the maximum property tax rate is \$1.00 per \$100 of taxable value.

The taxable value reflects homeowner's and business inventory exemptions. Tax revenues lost as a result of the homeowner's exemption are reimbursed by the State based on the total taxes which would be due on the taxable value of the property qualifying for the exemption, without allowance for delinquencies. The homeowner's exemption is \$7,000 of the taxable value of an owner-occupied dwelling, provided the owner files for the exemption.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed real property and property on which the taxes are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Personal property is assessed on the "unsecured roll."

The Board of Supervisors of the County of Sacramento approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County of Sacramento apportions secured property taxes on an accrual basis (irrespective of actual collections) to local political subdivisions, for which the County of Sacramento acts as the tax-levying or tax-collecting agency. The Teeter Plan was effective for the Fiscal Year commencing July 1, 1993, and pursuant to the Teeter Plan the County of Sacramento purchased all delinquent receivables (comprised of delinquent taxes, penalties, and interest) which had accrued as of June 30, 1993, from local taxing entities and selected special assessment districts and community facilities districts. Under the Teeter Plan, the County of Sacramento distributes tax collections on a cash basis to taxing entities during the fiscal year and at year-end distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities and those special assessment districts and community facilities districts which the County of Sacramento determines are eligible to participate in the Teeter Plan.

Table 11 provides a summary of assessed valuations in the City for Fiscal Years 1986-1987 through 1995-1996.

TABLE 11

**GROSS ASSESSED VALUES, TAX ALLOCATIONS AND TAX COLLECTIONS
FOR ALL TAXABLE PROPERTY**

Fiscal Year	Assessed Value				Tax Allocation		
	Secured Roll	Unsecured Roll	Public Utility	Total	Total	Collected ⁽¹⁾	Percent
1986-87	\$ 8,845,203	\$ 715,671	\$750,171	\$10,311,045	\$33,356	\$33,135	99.3%
1987-88	9,841,722	748,772	690,113	11,280,657	35,686	36,396	102.6
1988-89	10,749,367	868,678	61,514 ⁽³⁾	11,679,359	37,460	39,143	104.5
1989-90	11,750,311	974,648	59,155	12,784,114	41,077	42,916	104.5
1990-91	13,064,686	1,039,177	54,921	14,158,784	45,126	47,781	105.9
1991-92	14,036,653	1,053,922	56,872	15,147,447	47,382	50,695	107.0
1992-93	15,397,363	1,188,080	55,421	16,640,864	44,670	50,462	112.9
1993-94	15,782,353	1,157,160	60,310	16,999,823	40,886	40,942	100.1
1994-95	15,875,732	1,190,319	63,997	17,130,048	40,161	46,211	100.1
1995-96	15,817,743	1,167,747	56,726	17,042,216	40,448	40,478	100.1

- ⁽¹⁾ Includes Supplemental Property Tax Roll collections. The Supplemental Property Tax Roll was adopted by the State Legislature in 1983. This legislation allows newly constructed or transferred real property to be revalued immediately, rather than waiting for the following March 1 as under prior law. The tax on the assessment speedup is collected separately from the general property tax. The 1983-84 revenue was allocated to school districts. The 1984-85 Governor's Budget directed this revenue to cities beginning in 1984-85.
- ⁽²⁾ May exceed 100% due to Supplemental Tax Roll and penalties and interest collections. County collections distributed according to allocation formula, not according to actual property tax collections.
- ⁽³⁾ The method of reporting assessed value of public utility property changed on January 1, 1988, pursuant to State of California Revenue and Taxation Code Section 98.9.

Because of the recent decrease in real property market values in certain areas of the State, certain counties have announced that they are reviewing the assessed values of properties within those counties. Such a review has resulted in a decrease in assessed values which has in turn resulted in a decrease in revenue collections of the one percent property tax by such counties. Approximately 25% of the properties in the County have been reviewed. Sacramento County is continuing to review the assessed values of properties within Sacramento County which is expected to result in a decrease in property tax revenues, the extent of which is not currently known.

Table 12 provides a list of the City's largest taxpayers as shown in the City's comprehensive audited financial report as of June 30, 1996.

TABLE 12
PRINCIPAL TAXPAYERS
(in thousands)

Taxpayer	Business	Assessed Valuation	Percentage of Total Assessed Valuation
McClatchy Newspapers, Inc.	Newspaper	\$107,607	0.65%
Capitol Mall Executive Center	Office Building	104,525	0.63
Arden Fair Associates	Shopping Center	103,614	0.62
Proctor Gamble MFG.	Chemical Products	84,881	0.51
Spieker Properties LP	Commercial/Industrial Property	68,689	0.41
California Almond Growers Exchange	Commercial/Industrial Property	66,647	0.40
ARCO Arena ⁽¹⁾	Sports Complex	64,812	0.39
Downtown Plaza Associates	Shopping Center	59,813	0.36
Capitol Bank of Commerce	Office Building	57,518	0.35
LPT Associates	Office Building	57,141	0.34
Sacramento Renaissance	Office Buildings	<u>54,309</u>	<u>0.33</u>
		829,556	5.00
All other taxpayers		<u>15,749,478</u>	<u>95.00</u>
Total		<u>\$16,579,034</u>	<u>100.00%</u>

⁽¹⁾ Subsequent to the date of this information, ARCO Arena has been reassessed resulting in a reduction in the assessed valuation.

Source: County of Sacramento.

Other Taxes

On November 8, 1988, the voters approved Measure A to increase the sales and use tax rate in Sacramento County by ½ of 1 percent for a period of 20 years. With this increase and the 1¼ percent increase implemented pursuant to the 1993-1994 State Budget, the sales and use tax rate in the County is now 7.75 percent. The proceeds of the Measure A tax increase are administered by the Sacramento Transportation Authority and must be used to fund public road improvements (35 percent of the revenue), public road maintenance (28 percent), public transit functions (35 percent) and elderly and handicapped transportation functions (2 percent). Over the 20-year period that the tax will be in effect, an estimated \$1.1 billion will be generated. Of this amount, approximately \$216 million will be for maintenance and new projects within the City. The funds from Measure A can only be used for increased services and will not supplant existing City appropriations. The City budget funds road improvements and maintenance from two special funds: the Gas Tax Fund and Traffic Safety Fund.

Proposition 172 was approved by the voters to permanently extend the one-half cent sales tax beyond December 21, 1993. The legislation requires that the sales tax will continue to be deposited to the Public Safety Augmentation Trust Fund for distribution to the County and Cities based on the sales tax allocation percentages previously calculated. In Fiscal Year 1996-97, the maximum estimate for the City of Sacramento is \$2 million.

Measure C was also approved by the voters on November 8, 1988. The Measure was presented in the form of an advisory vote asking the question: "Should the utility users tax rate be maintained at 7.5 percent in order to provide additional General Fund revenues to augment City services such as public safety?"

The City policy prior to the vote was to reduce the tax rate from its high in 1985-86 of 9 percent to a rate of 5 percent by 1993-94. This reduction would have been accomplished by reducing the rate of $\frac{1}{2}$ of 1 percent each year. Current City policy is to maintain the tax at 7.5 percent and to consider annually in its budget review how the additional funds generated from this change in policy might best be used. The Council has adopted certain public safety programs (police, fire and animal control) as programs which would have a high priority for use of these funds.

On May 22, 1990, Ordinance 90-024 was adopted which increased the transient occupancy tax to 11 percent effective July 1, 1990. Ordinance 90-024 provided for the tax to be raised to 11.5 percent effective January 1, 1992. On November 5, 1991, the City Council adopted an ordinance (passed for publication on October 29, 1991) to provide for the transit occupancy tax to be raised to 12.0 percent effective July 1, 1995. The transient occupancy tax revenues are designated for the City's Community Center Fund.

Intergovernmental Revenues

Revenues for the General Fund received from the federal and state governments totaled approximately \$16.2 million in 1995-1996, which amount represented approximately 8 percent of General Fund type revenues in 1995-1996.

No Default

The City has no record of having ever defaulted in the payment of principal or interest on any of its loans, bonds, notes or other debt obligations or on any of its lease obligations.

Debt Statement

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of July 1, 1997. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report and makes no representations as to its completeness or accuracy.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by property within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

TABLE 13

DIRECT AND OVERLAPPING BONDED DEBT

CITY OF SACRAMENTO

1996-97 Assessed Valuation: \$17,057,247,395
 Redevelopment Incremental Valuation: 1,580,371,647
 Adjusted Assessed Valuation: \$15,476,875,748

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/1/97</u>
Sacramento County Regional Sanitation District	35.441%	\$ 13,868,063
Elk Grove Unified School District Community Facilities District No. 1	18.728	11,709,515
Natomas Unified School District	70.014	38,392,177
Sacramento City Unified School District Community Facilities District No. 1	100.000	7,950,000
Rio Linda Union School District	0.632	114,424
Robla School District	74.098	5,636,237
City of Sacramento	100.000	1,135,000
City of Sacramento Community Facilities Districts	100.000	9,580,000
City 1915 Act Bonds	100.000	50,663,755
Sacramento Area Flood Control Agency, A.D. No. 2	89.113	<u>36,701,189</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$175,750,360
 <u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Sacramento County General Fund Obligations	30.575%	\$ 98,567,685
Sacramento County Pension Obligations	30.575	164,511,909
Sacramento County Board of Education Certificates of Participation	30.575	732,271
Elk Grove Unified School District Certificates of Participation	18.728	1,505,731
Sacramento Unified School District Certificates of Participation	79.743	23,755,440
San Juan Unified School District Certificates of Participation	3.314	374,648
North Sacramento School District Certificates of Participation	100.000	44,593
City of Sacramento General Fund Obligations	100.000	313,518,943 (1)
Arcade Creek and Fulton-El Camino Recreation and Park District Certificates of Participation	1.148 & 22.344	653,283
Elk Grove Community Services District Certificates of Participation	0.516	11,378
Sacramento Area Council of Governments Certificates of Participation	24.561	<u>579,640</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$604,255,521
Less: City of Sacramento self-supporting bonds		<u>208,629,707</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$395,625,814
 GROSS COMBINED TOTAL DEBT		 \$780,005,881 (2)
NET COMBINED TOTAL DEBT		\$571,376,174

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

Ratios to 1996-97 Assessed Valuation:
 Direct Debt (\$1,135,000) 0.01%
 Total Direct and Overlapping Tax and Assessment Debt 1.03%

Ratios to Adjusted Assessed Valuation:
 Gross Combined Direct Debt (\$314,653,943) 2.03%
 Net Combined Direct Debt (\$106,024,236) 0.69%
 Gross Combined Total Debt 5.04%
 Net Combined Total Debt 3.69%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/96: \$1,098,171

Source: California Municipal Statistics, Inc.

General Fund Obligation Debt Service

Table 14 sets forth a summary of the City's total annual General Fund obligation debt service payments. General obligation bonds as well as obligations represented by certificates of participation have historically been structured with equal annual debt service requirements. General obligation bonds are exempt from the tax rate limitations imposed under Article XIII A of the State Constitution. Obligations represented by certificates of participation are supported to a substantial degree from amounts budgeted from certain enterprise and other funds as indicated in the table below.

TABLE 14

GENERAL FUND OBLIGATION DEBT SERVICE

Fiscal Year	General Obligation Bonds	1968 Parking Rev.	1977 SHRA Les. Rev.	1991 COP Light Rail	1991 COP Pub. Fac.	1991 Marks Roos Rev.	1993A Lease Rev. Bonds	1993B Lease Rev. Bonds	1995 B of A Loan	1997 Lease Rev. Bondst	Capital Leases	Small Equipment Leases	Total Debt Service Obligations	Total Supported By Other Sources	Total Supported By General Fund
1997	\$299,125	\$1,019,225	\$221,500	\$2,765,728	\$3,838,416	\$1,452,310	\$8,419,531	\$5,995,288	\$1,490,146	\$	\$340,107	\$2,125,423	\$27,966,799	\$18,291,246	\$ 9,675,552
1998	301,500	1,023,325	223,100	2,769,828	3,837,276	1,432,886	8,414,854	5,995,065	1,490,146	4,836,206	273,600	2,399,036	33,014,822	22,743,853	10,270,969
1999	304,500	1,021,613	224,000	2,768,948	3,834,576	1,449,668	9,288,866	6,351,485	1,490,146	5,130,584	273,600	2,384,585	34,522,571	23,992,873	10,529,698
2000	308,200	485,275	224,200	2,777,958	3,834,433	1,447,593	9,285,960	6,350,608	1,490,146	5,143,440	273,600	2,391,024	34,012,438	23,464,386	10,548,052
2001	316,200		223,700	2,780,783	3,838,598	1,446,465	9,287,724	6,352,335	1,490,146	5,223,926	273,600	2,332,976	33,566,453	23,063,397	10,503,056
2002			222,500	2,788,568	3,846,053	1,445,619	9,278,430	6,346,750	1,490,146	5,205,274	273,600	2,249,645	33,246,586	23,136,866	10,109,719
2003			220,600	2,790,338	3,836,625	1,440,038	9,273,196	6,339,078	1,490,146	5,385,137	273,600	1,666,396	32,715,154	23,157,515	9,557,639
2004			223,000	2,789,088	3,835,125	1,439,535	9,262,076	6,333,755	1,490,146	5,466,124	273,600	738,937	31,851,386	23,066,829	8,784,557
2005			219,350	2,796,088	3,834,850	1,438,245	9,264,030	6,334,955	1,490,146	5,549,505	273,600	466,420	31,667,189	22,913,581	8,753,608
2006				2,795,325	3,825,150	1,435,695	9,253,106	6,327,065	1,490,146	5,637,526	273,600	188,619	31,226,233	22,743,782	8,482,451
2007				2,801,800	3,821,025	1,431,398	9,243,556	6,319,570	1,490,146	5,726,672	273,600	94,310	31,202,076	21,683,125	9,518,952
2008				2,799,500	3,816,500		9,240,229	6,316,555	1,117,610	5,807,944	273,600		29,371,938	21,117,746	8,254,192
2009				2,804,100	3,805,200		9,233,169	6,312,898		5,998,954			28,334,239	20,081,262	8,252,977
2010				2,805,900	3,804,300		9,222,142	6,313,885		6,173,171			28,145,181	20,165,059	7,980,122
2011				2,814,600	3,797,600		9,216,942	6,310,260		6,091,329			28,291,992	20,246,170	7,984,561
2012				2,814,300	3,794,800		9,206,961	6,302,760		6,276,071			21,768,607	17,793,289	4,063,201
2013							9,196,526	6,296,010		6,472,451			21,940,622	17,879,371	4,061,251
2014							9,189,698	6,289,510		6,560,508			21,998,443	17,946,869	4,051,574
2015							9,180,536	6,287,635		6,671,374			22,102,109	18,052,741	4,049,368
2016							9,167,380	6,270,555		6,777,618			22,186,593	18,142,571	4,044,022
2017							9,163,975	6,266,760		6,882,702			22,273,737	18,234,519	4,039,218
2018							9,150,050	6,258,925		6,981,875			22,351,765	18,317,910	4,033,855
2019							9,139,660	6,251,375		7,096,984			22,445,499	18,417,518	4,027,981
2020							9,126,590	6,243,300		7,209,727			22,531,227	18,512,469	4,018,758
2021							9,114,625	6,233,890		7,324,469			22,617,054	18,607,324	4,010,730
2022										7,429,262			22,702,286	18,702,262	4,000,024
2023										7,552,143			22,791,429	18,800,115	3,991,314
2024										7,670,638			22,881,067	18,900,000	3,981,067
2025										7,791,969			22,972,036	19,000,000	3,972,036
2026													23,063,000	19,100,000	3,963,000
2027													23,154,000	19,200,000	3,954,000

Support from other sources

VARIOUS

100.0%

100.0%

100.0%

52.2%

88.5%

87.0%

71.2%

0.0%

100.0%

100.0%

0.0%

The City levies an ad valorem tax for the 1965 General Obligation Bonds. City Council has imposed the tax override since Fiscal Year 1981-1982.

1968 Parking Revenue Bonds support: Parking Fund

1977 SHRA Lease Revenue Bond support: SHRA

1991 COP (Public Facilities) support: 71.2% Community Center Fund

1991 Marks Roos Revenue Bonds support: Packard Bell NEC Lease

1993A Lease Revenue Bonds support: 80.5% Community Center Fund, 8.0% Golf Fund

1993B Lease Revenue Bonds support: 30.2% Parking Fund, 13.0% Community Center Fund, 9.0% Storm Drainage Fund

1995 Bank of America Loan support: Packard Bell NEC Lease

1997 Lease Revenue Bonds support: ARCO Arena Sublease

Small Equipment Leases support: various levels from other City funds

† Assumes the fixed rate established pursuant to the Swap Agreement for the 1997 Bonds for the entire life of the 1997 Bonds.

Source: City of Sacramento.

APPENDIX B

**GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE CITY FOR THE YEAR ENDED JUNE 30, 1996**

THIS PAGE INTENTIONALLY LEFT BLANK

ARTHUR ANDERSEN LLP

Independent Auditor's Report on General Purpose Financial Statements

To the Honorable Mayor and
Members of the City Council
of the City of Sacramento:

We have audited the accompanying general-purpose financial statements of the CITY OF SACRAMENTO, CALIFORNIA (the City) as of and for the year ended June 30, 1996. These general-purpose financial statements and the combining financial statements and schedules referred to below are the responsibility of the management of the City. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the component unit financial statements of the Sacramento Housing and Redevelopment Agency and the Sacramento City Employees' Retirement System which represent 39% and 30% of the assets and revenues of the governmental funds, 6% and 6% of the assets and operating revenues of the proprietary funds, 76% and 98% of the assets and revenues of the fiduciary funds, 55% of the general fixed assets account group, and 54% of the general long-term debt account group. Those financial statements were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City, as of June 30, 1996, and the results of its operations and cash flows of its proprietary and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

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

In accordance with Government Auditing Standards, we have also issued a report on our consideration of the City's internal control structure and a report on its compliance with laws and regulations, both dated October 10, 1996.

Arthur Anderson LLP

San Francisco, California
October 10, 1996

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SACRAMENTO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1996
(in thousands)

	Governmental Fund Types			
	General Fund	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Cash and investments held by City	\$23,945	\$36,534	\$890	\$56,376
Cash and investments held by fiscal agent	1,602	3	1,937	15,873
Receivables (net of allowances for uncollectibles):				
Taxes	10,419	846	4,107	0
Accounts	6,433	603	0	3,464
Loans	180	656	0	20,734
Intergovernmental	0	8,166	194	13,069
Interest	728	520	15	1,392
Due from other funds	78	4,039	0	3,992
Inventories	282	203	0	0
Prepaid items	278	450	0	1,436
Investment in real estate	0	0	0	0
Restricted assets:				
Cash and investments held by City	16,937	18	3,620	228
Cash and investments held by fiscal agent	0	0	12,504	0
Intergovernmental receivable	0	0	0	0
Advances to other funds	4,015	302	0	3,071
Deferred charges	0	0	0	0
Fixed assets (net, where applicable, of accumulated depreciation)	0	0	0	0
Other debits:				
Amount available in debt service funds	0	0	0	0
Amount to be provided for retirement of general long-term debt	0	0	0	0
Total assets and other debits	\$64,897	\$52,340	\$23,267	\$119,635

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	
\$91,601	\$54,411	\$391,843	\$0	\$0	\$655,600
12,762	278	833	0	0	33,288
1,496	0	0	0	0	16,868
22,737	623	290	0	0	34,150
2,747	5,365	23,592	0	0	53,274
2,374	646	223	0	0	24,672
2,336	867	4,128	0	0	9,986
232	4,988	249	0	0	13,578
1,041	597	0	0	0	2,123
145	963	0	0	0	3,272
0	0	17,372	0	0	17,372
12,922	0	0	0	0	33,725
13,906	0	94,849	0	0	121,259
10,000	0	0	0	0	10,000
1,072	5,245	3,096	0	0	16,801
3,252	0	0	0	0	3,252
425,623	31,467	0	465,545	0	922,635
0	0	0	0	17,171	17,171
0	0	0	0	353,772	353,772
<u>\$604,246</u>	<u>\$105,450</u>	<u>\$536,475</u>	<u>\$465,545</u>	<u>\$370,943</u>	<u>\$2,342,798</u>

CITY OF SACRAMENTO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1996
(in thousands)

	Governmental Fund Types			
	General Fund	Special Revenue	Debt Service	Capital Projects
<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>				
Liabilities:				
Accounts payable and accrued expenses	\$17,996	\$5,582	\$58	\$7,684
Accrued vacation and sick leave	171	0	0	0
Due to other funds	0	3,578	2,769	5,977
Due to bondholders	0	0	0	0
Deferred compensation payable	0	0	0	0
Matured bonds and interest payable	0	0	2,547	0
Interest payable	574	0	0	0
Tax revenue anticipation note payable	16,000	0	0	0
Accrued claims	0	0	0	0
Liability for landfill closure	0	0	0	0
Deposits and trust liabilities	1,695	640	0	1,980
Deferred revenue	2,506	483	722	3,547
Advances from other funds	0	370	0	3,978
General obligation bonds payable	0	0	0	0
Revenue bonds payable, net	0	0	0	0
Capital lease obligations payable	0	0	0	0
Certificates of participation payable, net	0	0	0	0
Mortgage notes payable	0	0	0	0
Other bonds payable	0	0	0	0
Notes payable	0	0	0	0
Loans payable	0	0	0	0
	<u>38,942</u>	<u>10,651</u>	<u>6,096</u>	<u>23,166</u>
Total liabilities				

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	
\$15,171	\$7,281	\$31,463	\$0	\$0	\$85,235
4,617	767	0	0	15,498	21,053
896	0	360	0	0	13,578
0	0	23,859	0	0	23,859
0	0	94,844	0	0	94,844
0	0	0	0	0	2,547
2,160	0	0	0	0	2,734
0	0	0	0	0	16,000
0	44,639	0	0	0	44,639
10,490	0	0	0	0	10,490
246	0	15,429	0	0	19,990
51	167	0	0	0	7,476
9,307	1,000	0	0	19,117	33,772
0	0	0	0	1,380	1,380
150,037	0	0	0	83,799	233,836
0	0	0	0	2,189	2,189
26,815	0	0	0	58,969	85,784
8,023	0	0	0	0	8,023
0	0	0	0	127,899	127,899
0	0	0	0	62,092	62,092
8,010	0	5,828	0	0	13,838
235,823	53,854	171,783	0	370,943	911,258

**CITY OF SACRAMENTO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1996
 (in thousands)**

	Governmental Fund Types			
	General Fund	Special Revenue	Debt Service	Capital Projects
Equity and other credits:				
Investment in general fixed assets	0	0	0	0
Contributed capital	0	0	0	0
Retained earnings:				
Reserved:				
For restricted assets	0	0	0	0
Unreserved	0	0	0	0
Fund balances:				
Reserved:				
For restricted assets	363	0	0	0
For noncurrent assets	2,656	1,408	0	25,241
For encumbrances	2,324	3,691	0	15,495
For debt service	0	0	17,262	0
For housing	0	4,904	0	35,499
For trust obligations	0	0	0	0
Unreserved:				
Designated for economic uncertainty	9,500	0	0	0
Designated for capital projects	4,803	18,768	0	13,887
Designated for debt service	0	0	300	0
Designated for subsequent years' expenditures	4,228	0	0	0
Undesignated	2,081	12,918	(391)	6,347
Total equity and other credits	25,955	41,689	17,171	96,469
Total liabilities, equity and other credits	\$64,897	\$52,340	\$23,267	\$119,635

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	
0	0	0	465,545	0	465,545
182,068	10,214	0	0	0	192,282
5,911	0	0	0	0	5,911
180,444	41,382	0	0	0	221,826
0	0	0	0	0	363
0	0	0	0	0	29,305
0	0	0	0	0	21,510
0	0	0	0	0	17,262
0	0	0	0	0	40,403
0	0	362,083	0	0	362,083
0	0	0	0	0	9,500
0	0	0	0	0	37,458
0	0	0	0	0	300
0	0	0	0	0	4,228
0	0	2,609	0	0	23,564
<u>368,423</u>	<u>51,596</u>	<u>364,692</u>	<u>465,545</u>	<u>0</u>	<u>1,431,540</u>
<u>\$604,246</u>	<u>\$105,450</u>	<u>\$536,475</u>	<u>\$465,545</u>	<u>\$370,943</u>	<u>\$2,342,798</u>

CITY OF SACRAMENTO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996
(in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$130,802	\$4,800	\$16,412	\$0	\$0	\$152,01
Licenses and permits	17,488	0	0	0	0	17,48
Intergovernmental	23,995	76,676	4,895	28,725	0	134,29
Charges for services	18,052	5,088	0	4,135	0	27,27
Fines, forfeits and penalties	4,982	638	0	0	0	5,62
Interest, rents, and concessions	2,983	3,290	314	5,611	253	12,45
Community service fees	0	4,537	0	0	0	4,53
Assessment levies	0	9,215	0	0	0	9,21
Contributions from property owners	0	0	0	259	0	25
Donations	0	0	0	0	207	20
Miscellaneous	4,098	1,921	0	330	36	6,38
Total revenues	<u>202,400</u>	<u>106,165</u>	<u>21,621</u>	<u>39,060</u>	<u>496</u>	<u>369,74</u>
Expenditures:						
Current:						
General government	12,238	737	0	0	0	12,97
Public safety	121,163	3,161	0	0	0	124,32
Public works and development	16,884	11,008	0	0	0	27,89
Culture and leisure	26,051	10,257	0	4	471	36,78
Housing	0	56,788	0	6,733	0	63,52
Nondepartmental	11,298	0	0	0	0	11,29
Capital outlay:						
General government	1,666	0	0	2,525	0	4,19
Public safety	4,030	0	0	177	0	4,20
Public works and development	0	15,428	0	14,658	0	30,08
Culture and leisure	97	2,505	0	3,011	0	5,61
Housing	0	5,668	0	23,284	0	28,95
Debt service:						
Principal	362	1,270	10,082	14,608	0	26,32
Interest and fiscal charges	979	496	23,136	98	0	24,70
Total expenditures	<u>194,768</u>	<u>107,318</u>	<u>33,218</u>	<u>65,098</u>	<u>471</u>	<u>400,87</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,632</u>	<u>(1,153)</u>	<u>(11,597)</u>	<u>(26,038)</u>	<u>25</u>	<u>(31,13)</u>
Other financing sources (uses):						
Operating transfers in	221	10,406	15,799	6,998	0	33,42
Operating transfers out	(14,668)	(9,196)	(6,688)	(4,582)	0	(35,13)
Proceeds from long-term debt	794	200	118	2,190	0	3,30
Proceeds from sale of property	0	0	0	10,302	0	10,30
Total other financing sources (uses)	<u>(13,653)</u>	<u>1,410</u>	<u>9,229</u>	<u>14,908</u>	<u>0</u>	<u>11,85</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(6,021)</u>	<u>257</u>	<u>(2,368)</u>	<u>(11,130)</u>	<u>25</u>	<u>(19,23)</u>
Fund balances, beginning of year	<u>31,976</u>	<u>41,432</u>	<u>19,539</u>	<u>107,981</u>	<u>2,195</u>	<u>203,11</u>
Residual equity transfers in (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(382)</u>	<u>0</u>	<u>(382)</u>
Fund balances, end of year	<u>\$25,955</u>	<u>\$41,689</u>	<u>\$17,171</u>	<u>\$96,469</u>	<u>\$2,220</u>	<u>\$183,50</u>

CITY OF SACRAMENTO
COMBINED SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL AND CERTAIN SPECIAL REVENUE FUNDS (Non-GAAP Budgetary Basis)
FOR THE FISCAL YEAR ENDED JUNE 30, 1996
(in thousands)

	General Fund			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$130,967	\$130,802	(\$165)	\$1,228	\$709	(\$519)
Licenses and permits	17,486	17,488	2	0	0	0
Intergovernmental	23,305	23,995	690	62,169	62,286	117
Charges for services	19,098	18,052	(1,046)	4,866	5,078	212
Fines, forfeits and penalties	4,974	4,982	8	600	638	38
Interest, rents, and concessions	2,096	2,983	887	3,512	2,985	(527)
Community service fees	0	0	0	4,839	4,537	(302)
Assessment levies	0	0	0	9,040	9,215	175
Miscellaneous	3,690	4,098	408	399	388	(11)
Total revenues	201,616	202,400	784	86,653	85,836	(817)
Expenditures:						
Current:						
General government	12,620	12,617	3	1,000	737	263
Public safety	121,412	121,270	142	3,161	3,161	0
Public works and development	17,225	17,092	133	11,813	11,008	805
Culture and leisure	25,276	26,208	(932)	10,648	10,257	391
Housing	0	0	0	46,326	44,590	1,736
Nondepartmental	12,189	11,135	1,054	0	0	0
Capital outlay:						
General government	1,666	1,666	0	0	0	0
Public safety	4,030	4,030	0	0	0	0
Public works and development	0	0	0	15,451	15,428	23
Culture and leisure	97	97	0	2,505	2,505	0
Housing	0	0	0	547	318	229
Debt service:						
Principal	362	362	0	0	0	0
Interest and fiscal charges	979	979	0	0	0	0
Total expenditures	195,856	195,456	400	91,451	88,004	3,447
Excess (deficiency) of revenues over (under) expenditures	5,760	6,944	1,184	(4,798)	(2,168)	2,630
Other financing sources (uses):						
Operating transfers in	221	221	0	4,382	3,942	(440)
Operating transfers out	(14,668)	(14,668)	0	(2,839)	(3,343)	(504)
Proceeds from long-term debt	794	794	0	200	200	0
Total other financing sources (uses)	(13,653)	(13,653)	0	1,743	799	(944)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(7,893)	(6,709)	1,184	(3,055)	(1,369)	1,686
Fund balances, beginning of year	31,976	31,976	0	38,071	37,726	(345)
Fund balances, end of year	\$24,083	\$25,267	\$1,184	\$35,016	\$36,357	\$1,341

The accompanying notes are an integral part of these financial statements

CITY OF SACRAMENTO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996
(in thousands)

	Proprietary Funds		Fiduciary Funds		Totals (Memorandum Only)
	Enterprise	Internal Service	Non- expendable Trust	Pension Trust	
Operating revenues:					
Charges for services	\$120,290	\$52,196	\$0	\$0	\$172,486
Investment income	0	0	330	42,850	43,180
Rents and concessions	3,597	0	0	0	3,597
Miscellaneous	1,573	674	0	1,228	3,475
Total operating revenues	125,460	52,870	330	44,078	222,738
Operating expenses:					
Employee services	41,117	11,696	0	0	52,813
Services and supplies	63,139	11,413	0	0	74,552
Costs of sales and services	0	0	119	0	119
Depreciation and amortization	12,293	5,532	0	0	17,825
Insurance premiums	0	17,912	0	0	17,912
Claim settlements	0	13,992	0	0	13,992
Benefit payments	0	0	0	25,027	25,027
Total operating expenses	116,549	60,545	119	25,027	202,240
Operating income (loss)	8,911	(7,675)	211	19,051	20,498
Nonoperating revenues (expenses):					
Intergovernmental	0	826	0	0	826
Interest revenue	9,007	4,260	0	0	13,267
Transient occupancy taxes	8,242	0	0	0	8,242
Revenue from other agencies	1,091	0	0	0	1,091
Interest expense	(13,334)	0	0	0	(13,334)
Landfill closure expense	(1,657)	0	0	0	(1,657)
Gain or (loss) on disposition of fixed assets	0	301	0	0	301
Total nonoperating revenues (expenses)	3,349	5,387	0	0	8,736
Net income (loss) before operating transfers	12,260	(2,288)	211	19,051	29,234
Operating transfers in	1,708	223	0	0	1,931
Operating transfers out	(203)	(18)	0	0	(221)
Net income (loss)	13,765	(2,083)	211	19,051	30,944
Add: depreciation on contributed assets	3,272	81	0	0	3,353
Net increase (decrease) to retained earnings	17,037	(2,002)	211	19,051	34,297
Retained earnings/fund balances, beginning of year	169,318	43,384	2,013	341,197	555,912
Retained earnings/fund balances, end of year	\$186,355	\$41,382	\$2,224	\$360,248	\$590,209

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SACRAMENTO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996
(in thousands)

	Proprietary Funds		Fiduciary Fund	Totals (Memorandum Only)
	Enterprise	Internal Service	Non- expendable Trust	
Cash flows from operating activities:				
Operating income (loss)	<u>\$8,911</u>	<u>(\$7,675)</u>	<u>\$211</u>	<u>\$1,447</u>
Adjustments to reconcile operating income (loss)				
to net cash provided by (used for) operating activities:				
Depreciation and amortization	12,293	5,532	0	17,825
(Increase) decrease in taxes receivable	(285)	0	0	(285)
(Increase) decrease in accounts receivable	(3,108)	(256)	0	(3,364)
(Increase) decrease in intergovernmental receivables	2,163	0	0	2,163
(Increase) decrease in inventories	(41)	32	0	(9)
(Increase) decrease in prepaid items	207	(260)	0	(53)
Increase (decrease) in accounts payable and accrued expenses	3,869	1,771	(2)	5,638
Increase (decrease) accrued vacation and sick leave	922	112	0	1,034
Increase (decrease) in liability for landfill closure	1,373	0	0	1,373
Increase (decrease) in accrued claims	0	4,474	0	4,474
Increase (decrease) in deposits and trust liabilities	68	0	0	68
Increase (decrease) in deferred revenue	2	(123)	0	(121)
Investment activity reported as operating income	0	0	(330)	(330)
Total adjustments	<u>17,463</u>	<u>11,282</u>	<u>(332)</u>	<u>28,413</u>
Net cash provided by (used for) operating activities	<u>26,374</u>	<u>3,607</u>	<u>(121)</u>	<u>29,860</u>
Cash flows from noncapital financing activities:				
Transient occupancy taxes	8,242	0	0	8,242
Landfill closure expense	(1,657)	0	0	(1,657)
Intergovernmental revenue	0	470	0	470
Operating transfers in from other funds	1,708	223	0	1,931
Operating transfers out to other funds	(203)	(18)	0	(221)
Increase in due from other funds	(185)	569	0	384
Increase in advances to other funds	(5)	(54)	0	(59)
Decrease in advances to other funds	0	3,982	0	3,982
Increase in due to other funds	445	0	0	445
Decrease in due to other funds	(67)	0	0	(67)
Net cash provided by (used for) noncapital financing activities	<u>8,278</u>	<u>5,172</u>	<u>0</u>	<u>13,450</u>

CITY OF SACRAMENTO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996
(in thousands)

	Proprietary Funds		Fiduciary Fund	Totals (Memorandum Only)
	Enterprise	Internal Service	Non- expendable Trust	
Cash flows from capital and related financing activities:				
Proceeds from issuance of debt	213	0	0	213
Acquisition and construction of fixed assets	(29,177)	(8,025)	0	(37,202)
Proceeds from sales of fixed assets	0	492	0	492
Principal payments on debt	(9,461)	(250)	0	(9,711)
Interest payments on debt	(14,280)	0	0	(14,280)
Revenue from other agencies	1,091	0	0	1,091
Contributions	7,300	382	0	7,682
Net cash provided by (used for) capital and related financing activities	(44,314)	(7,401)	0	(51,715)
Cash flows from investing activities:				
Collections of interest	10,063	4,240	321	14,624
Issuance of loans receivable	(587)	(1,043)	0	(1,630)
Net cash provided by (used for) investing activities	9,476	3,197	321	12,994
Net increase (decrease) in cash and cash equivalents	(186)	4,575	200	4,589
Cash and cash equivalents - beginning of year	131,377	50,114	2,074	183,565
Cash and cash equivalents - end of year	<u>\$131,191</u>	<u>\$54,689</u>	<u>2,274</u>	<u>\$188,154</u>
Other fiduciary funds			485,251	
Total Cash and cash equivalents - fiduciary funds			<u>\$487,525</u>	
Noncash investing, capital and financing activities:				
Contributions of fixed assets	<u>\$1,953</u>	<u>\$946</u>	<u>\$0</u>	<u>\$2,899</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SACRAMENTO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
Year Ended June 30, 1996

NOTE 1 **DEFINITION OF REPORTING ENTITY**

The City of Sacramento (the City) was incorporated in 1849 under the laws of the State of California. The City is a charter city established under a Council-Manager form of government.

These general purpose financial statements present the financial status of the City and its component units. The component units, described in the following paragraphs, are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards are comprised of all City Council Members or they are, in substance, part of the City's operations. Component Unit financial statements may be obtained from the City's Department of Finance.

Sacramento Housing and Redevelopment Agency (SHRA) - a joint powers agency responsible for the development and implementation of housing, redevelopment and community service programs and activities for the City and County of Sacramento. The City Council serves as the governing board for all City activities reported by SHRA. The assets, liabilities and operations of the County of Sacramento in SHRA have not been eliminated from these financial statements because the County of Sacramento's involvement is primarily that of a passive sponsor which avails itself of federal funding sources.

Parking Authority of the City of Sacramento (the Authority) - an independent public entity created in 1968 by the City Council under provisions of the Streets and Highways Code of the State of California. The Authority constructed and is presently leasing parking facilities to the City which were financed through the issuance of revenue bonds. The City Council serves as the governing board of the Authority and is responsible for its fiscal and administrative activities. The financial information of the Authority has been consolidated with the Parking Enterprise Fund of the City. All lease obligations receivable and payable between the Authority and the City have been eliminated.

Sacramento City Employees' Retirement System (SCERS) - a single employer pension plan sponsored and administered by the City for all non public safety employees hired before January 29, 1977 and public safety employees who retired with SCERS benefits before December 30, 1989. Under provisions of the City Charter, SCERS is managed by the Administration, Investment and Fiscal Management Board (the Board), consisting of the City Manager, City Director of Finance, City Treasurer and two residents of the City appointed by the City Council. Duties of the Board include the adoption of investment standards for SCERS, the establishment of contribution rates, the administration and investment of funds, the selection of investment advisors, the crediting of interest and any action relating to the fiscal management of SCERS.

Sacramento City Public Facilities Financing Corporation (the Corporation) - established in June 1986 as a non-profit corporation under the laws of the State of California. The formation of the Corporation creates a financing entity through which Certificates of Participation can be issued for the acquisition, construction and improvement of public buildings, facilities and equipment for the City. The Corporation's governing board consists of three persons appointed by the City Council. The governing board is responsible for the Corporation's fiscal and administrative activities and reports to the City Council.

Sacramento City Financing Authority (SCFA) - a joint exercise of powers entity created by the City and Sacramento City Redevelopment Agency for the purpose of acting as nominal lessor for City financing. The SCFA is administered by a governing board consisting of the members of the City Council.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governmental agencies. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The various funds and account groups used by the City are grouped into eight generic funds within three broad fund types, and two account groups, as follows:

Governmental Fund Types:

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to be expended for specified purposes.

Debt Service Funds - to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Capital Projects Funds - to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

Proprietary Fund Types:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

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

Fiduciary Fund Types:

Trust Funds - to account for assets and activities restricted to a specific purpose in accordance with a trust agreement. These include expendable trust funds, nonexpendable trust funds and a pension trust fund (SCERS).

Agency Funds - to account for assets held by the City as an agent for individuals, private organizations and other governmental units.

Account Groups:

General Fixed Assets Account Group - to account for those fixed assets that are not accounted for in the proprietary funds.

General Long-Term Debt Account Group - to account for unmatured general long-term obligations of governmental funds. Long-term obligations that relate to the proprietary funds are accounted for in those funds.

Basis of Accounting

All governmental funds and expendable trust funds are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period that they become measurable and available. The City and affiliated agencies consider revenues as available if they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. The primary revenues susceptible to accrual include property taxes, sales tax, interest, grants, utility users tax, special assessments and certain other intergovernmental revenues. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt which is recognized when due.

All proprietary funds, nonexpendable trust funds and the pension trust fund are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) as changes in net total assets. Proprietary, nonexpendable trust and the pension trust fund revenues are recognized in the period earned and expenses are recognized in the period incurred. The City applies applicable Financial Accounting Standards Board pronouncements issued prior to November 30, 1989 and all Governmental Accounting Standards Board pronouncements in accounting and reporting for its proprietary operations.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, (i.e., when grant monies are received prior to the incurrence of qualifying expenditures). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized:

Budgetary Data

The City Manager submits a proposed budget to the City Council no later than 60 days prior to the commencement of the fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget in June. The budget adoption resolution specifies that budgets will be controlled at the department level (e.g., general government, public safety, etc.) for the General Fund and at the fund level for other funds.

Annual budgets are adopted for the General Fund and certain special revenue funds. Annual budgets are also adopted for the enterprise and internal service funds, although they are not legally required to do so. Multi-year budgets are adopted for the capital projects funds and debt service funds where appropriations remain authorized for each project until closed, irrespective of fiscal year.

Budgeted revenues are adopted by the City Council at the time the budget is approved. Budgeted revenues are modified when the tax base changes, fees are modified, or new revenue sources are identified.

Budgeted expenditures represent original appropriations adjusted by budget transfers and appropriation amendments. General Fund expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders and executory contracts are treated as expenditures in the year of commitment. Expenditures are appropriated in other funds consistent with generally accepted accounting principles. Budgeted expenditures are modified throughout the year when programs change or revenues are adjusted. The City Manager is authorized to administratively amend the budget during the year for transactions up to \$50,000 without City Council approval. All other appropriation adjustments during the year require City Council approval.

Financial Statement Elements

Investments - Investments are recorded at cost (adjusted for discount or premium amortization), with the exception of deferred compensation investments, which are recorded at market.

Property Taxes - Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of 66.67% of the qualified electors.

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property, assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Sacramento County. The Teeter Plan payment, which includes 95% of the outstanding accumulated delinquency, is included in property tax revenue. Under the Teeter Plan code, 5% of the delinquency must remain with the County as a reserve for Teeter Plan funding.

Significant Receivables - Property, sales, use, and utility users taxes related to the current fiscal year are accrued as revenue and accounts receivable if received within 60 days of year end.

Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred.

Long term loans made by the City's General Fund are treated as expenditures in the year advanced and as revenue in the year repayment is measurable and available. Loans in other funds are recorded as loans receivable.

Unbilled utility revenue earned as of June 30, 1996 is recognized as revenue and accounts receivable in the enterprise funds.

Inventories - General fund inventories are recorded as expenditures when consumed rather than when purchased. The fund balance is reserved for inventories to indicate that a portion of fund balance is not available for appropriation. These inventories are valued at average cost using the first-in first-out method. Inventories in the proprietary funds are stated at the lower of average cost or market and consist of expendable materials and supplies.

Restricted Assets - Certain proceeds of debt issues and Tax Revenue Anticipation Notes, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for replacement of assets and tenant security deposits.

Restricted assets in the Storm Drain Enterprise Fund also include a \$10 million loan receivable from the Sacramento Area Flood Control Agency (SAFCA) for the Sacramento Urban Development Reconstruction Project.

Advances To/From Other Funds - In governmental funds, advances receivable are offset by deferred revenue or a reservation of fund balance, as applicable, since they do not constitute resources available for appropriation.

Fixed Assets - Fixed assets are recorded at the lower of actual historical cost or fair market value (as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

Depreciation is not recorded in the General Fixed Assets Account Group. Fixed assets are depreciated in proprietary funds using the straight-line method over the following estimated useful lives:

Buildings and improvements	Primarily 15 to 50 years
Transmission and distribution systems	Primarily 25 to 100 years
Machinery, vehicles and equipment	Primarily 5 to 20 years

It is the policy of the City to capitalize all property, plant and equipment except equipment costing less than \$2,500 and infrastructure (i.e., roads, bridges, curbs, gutters, streets and sidewalks). Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Costs of assets sold or retired (and related amounts of accumulated depreciation for proprietary fund assets) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general fixed assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

Compensated Absences - An employee may accumulate vacation time equal to the amount which can be earned in a two year period. Sick pay vests and may be accumulated until retirement. An employee with sixty or more days of accumulated sick leave at the end of a calendar year may elect to receive a 25% payment of any unused sick leave earned in the previous year. The amount of sick leave paid is deducted from the employee's total accumulation. Upon termination or retirement, an employee may receive a cash payment of one-third of the accumulated sick leave vested.

For governmental funds, vacation and vested sick pay expected to be liquidated with expendable, available resources is recorded as a fund liability. The portion of the liability not expected to be liquidated with expendable, available resources is recorded in the General Long-Term Debt Account Group.

For proprietary funds, vacation and vested sick pay is recorded as an expense as the benefits are earned by the employees. Accrued but unpaid vacation and sick pay (one-third of accumulated sick leave vested) liabilities at year-end are included in accrued vacation and sick leave of each respective proprietary fund.

Long-Term Obligations - General long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group. Long-term obligations and accrued interest expected to be financed from proprietary, nonexpendable trust and pension trust operations are accounted for in those funds.

Bond and Certificate of Participation Discounts and Issuance Costs - In governmental fund types, bond and certificate of participation discounts, issuance costs and losses on defeasance are recognized in the period incurred. In proprietary fund types, these charges are deferred and amortized over the term of the issuance using the effective interest method.

In the event of current and advance refundings resulting in the defeasance of debt of proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the life of the old debt or the new debt, whichever is shorter.

Capital Leases - Capital leases are recorded at the present value of future minimum lease payments. Related assets are classified as fixed assets and capitalized in the General Fixed Assets Account Group or the appropriate proprietary fund. Current portions of capital lease obligations are carried as liabilities of the applicable fund. The long-term portions of capital lease obligations are recorded in the General Long-Term Debt Account Group for governmental funds or as liabilities in the appropriate proprietary funds.

Encumbrances - Encumbrance accounting is used during the year for budgetary control. Encumbrances outstanding at year end do not constitute expenditures or liabilities, but rather, a reservation of fund balance. The City honors contracts represented by year-end encumbrances and the appropriations carried over provide authority to complete these transactions in the following year.

Fund Equity - Capital grants or contributions received from governmental sources (Federal, State, or City) or developers are recorded as contributed capital in proprietary funds. Depreciation on contributed assets is added back to income and directly charged against contributed capital. Reservations of fund balance or retained earnings represent those portions of fund equity not apportioned for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans by City Management for future use of financial resources.

Changes in Financial Statement Presentation - In the fiscal year ended June 30, 1996, control of two nonexpendable trust funds was transferred from the City to the City of Sacramento Public Library Authority. These funds, the Moore Memorial and Fratt Nonexpendable Trust Funds, had fund balances totaling \$267,000 as of June 30, 1995.

Fiscal Years - The fiscal year of the City begins on July 1 and ends on June 30. The fiscal year of SHRA, a component unit, begins on January 1 and ends on December 31. The December 31, 1995 financial statements of SHRA are included in this report. The effect on the financial statements of the differing SHRA fiscal year is not material. As a result of these differing fiscal years, advances made between the City and SHRA do not offset (see reconciliation at Note 14).

Interfund Transactions - The following is a description of the basic types of interfund transactions made during the year and the related accounting policies:

Quasi-external (charges for services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.

Reimbursements (expenditures/expenses transfers) - Transactions to reimburse a fund for specific expenditures/expenses incurred for the benefit of another fund. These transactions are recorded as expenditures/expenses in the disbursing fund and as a reduction of expenditures/expenses in the receiving fund.

Operating transfers - Transactions to allocate resources from one fund to another fund not contingent on the incurrence of specific expenditures/expenses in the receiving fund. These transactions are recorded as transfers in and out in the same accounting period.

Residual equity transfers - Transactions involving equity contributions between funds. The receiving fund records such transactions as equity transfers in and additions to fund balance, or in the case of a proprietary fund, to a contributed capital account. The disbursing fund records transactions as equity transfers out and a reduction of fund balance, or in the case of a proprietary fund, as a reduction of equity.

Due from/to other funds - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Advances to/from other funds - Noncurrent portions of long-term interfund loan receivables and payables are reported as advances in the fund or General Long-Term Debt Account Group. In the fund the

advances are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

Statement of Cash Flows - For purposes of the Combined Statement of Cash Flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash and not subject to significant changes in value from interest rate fluctuations.

The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments held by the City in the combined balance sheet) held by the proprietary and nonexpendable trust funds as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent in the combined balance sheet) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

Totals (Memorandum Only) Columns on Combined Statements - Total columns in the general purpose financial statements are noted as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data. Comparative data for the prior year has been presented in the General Fund section of the accompanying combining and individual fund financial statements in order to provide an understanding of the changes in the General Fund's financial position.

NOTE 3 POOLED CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 1996 as reported in the combined general purpose financial Statements (in thousands):

Unrestricted cash and investments:	
Held by City	\$655,600
Held by fiscal agent	33,288
Restricted cash and investments:	
Held by City	33,725
Held by fiscal agent	121,259
	<u>\$843,872</u>

Cash and investments of the City and SHRA, except SCERS (pension trust fund), are managed by the City Treasurer in compliance with the Investment Authority Resolution adopted by the City Council on December 17, 1964. The investment policy set forth in this resolution is consistent with the guidelines set forth under State of California Government Code Section 53601, which affords the City a wide range of investment opportunities consistent with safe and prudent investment practices. Investments of funds serve to maximize investment income and are accomplished by various custodial financial institutions vested with responsibility for administering funds under the control of the City Treasurer.

SCERS investments are managed in compliance with investment standards adopted by the SCERS Administration, Investment and Fiscal Management Board (the Board) and are approved by the City Council. Such investment standards authorize the City Treasurer to invest in debt securities, equity securities, promissory notes, real estate equities or other securities and investments deemed to be prudent by the Board. The other securities and investments cannot exceed 25% of total assets of SCERS on a cost basis. In addition, promissory notes cannot exceed 25% of the investment portfolio, while real estate equities on a cost basis cannot exceed 10% of total assets.

A pooled cash and short-term investments system is used for substantially all funds held by the City except SCERS and specified federal funds which by law must be segregated. Interest earned is apportioned monthly to funds that are legally required to receive interest based on the relationship of its daily balance to the total of pooled cash and investments. The interest that would have been earned on funds that are not legally required to receive interest reverts to the General Fund. The deposits and investments of SCERS are held separately from those of other City funds.

At June 30, 1996, the carrying amount of the City's deposits was \$14.5 million and the bank balance was \$23.5 million. Of the bank balance, \$868,000 was covered by the Federal Depository Insurance Corporation (FDIC) and \$22.6 million was uninsured yet collateralized with securities held by the pledging financial institution at 110% of the investments, in accordance with the State of California Government Code, but not in the City's name.

The City and SHRA have \$102.8 million in deferred compensation plans. Funds are invested as part of a retirement trust including investments in stock, corporate bonds, U.S. government securities and investments in contracts issued by insurance companies. These investments function in a manner similar to mutual funds using a variety of investment vehicles based on the employee participant's choice.

For financial reporting purposes, investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments with securities held by a counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent, but not in the City's name. At June 30, 1996, all of the City's investments are classified in Category 1 as listed below (in thousands):

Categorized Investments:	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. government securities	\$376,708	\$376,708	\$378,082
Commercial paper	29,714	29,714	29,714
Corporate bonds	105,711	105,711	104,850
Mortgage-backed securities	7,687	7,687	7,935
Repurchase agreements	3,080	3,080	3,080
Equity securities	116,983	116,983	141,115
Municipal bonds	32,670	32,670	32,169
Investment agreement	<u>15,763</u>	<u>15,763</u>	<u>15,763</u>
Total investments	<u>\$688,316</u>	688,316	<u>\$712,708</u>
 Uncategorized investments and deposits:			
State of California Treasurer's Local Agency Investment Pool		21,677	
Mutual funds		2,053	
Mortgage loans		14,582	
Deferred compensation		102,765	
Deposits		<u>14,479</u>	
Total cash and investments		<u>\$843,872</u>	

Repurchase and Reverse Repurchase Agreements

State statutes permit the City to enter into repurchase and reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

During the year, the City purchased investments and entered into reverse repurchase agreements worth approximately \$444 million. No reverse repurchase agreements were in effect as of June 30, 1996.

Securities and Lending Transactions

The City engages in securities lending transactions, whereby the City has authorized its bank to loan its securities to approved counterparties for collateral (cash or securities). Such loans are short-term and the City retains the right to sell, without penalty, its initial investment in the securities. The City's arrangement with the bank requires the bank to indemnify the City for failure of any counterparty to return the securities loaned.

As of June 30, 1996 the City held an aggregate collateral of \$56.8 million for the securities loaned, which is in excess of the carrying value of the loaned securities.

Investment in Related Organizations

As of June 30, 1996, the City has invested \$10,702,000 in Tax Allocation Bonds issued by SHRA.

NOTE 4 **LOANS RECEIVABLE**

The City has extended a long-term loan of \$29.8 million to a non-governmental entity to facilitate economic development in the City. The following balances are receivable as of June 30, 1996.

<u>Loans</u>	<u>Amount (in thousands)</u>	<u>Interest Rate</u>	<u>Maturity</u>
Governmental Funds	\$ 20,279	8.82%	Monthly payments through January 2008
Enterprise Funds	2,682	9.00%	Monthly payments over 60 months
Internal Service Funds	<u>5,365</u>	9.00%	Monthly payments over 60 months
	<u>\$28,326</u>		

The loans, which were financed from both external borrowings and internal resources, are secured by a leasehold deed of trust with assignments of rent. The portion of the loan funded with governmental fund resources was recorded as an expenditure when issued and is excluded from the City's balance sheet. The portion of the loan funded with proprietary fund resources is recorded as a receivable in those funds.

NOTE 5 FIXED ASSETS

General Fixed Assets Account Group

The following is a summary of changes in general fixed assets during the year ended June 30, 1996 (in thousands):

	Balance, Beginning of <u>Fiscal Year</u>	<u>Additions</u>	<u>Retirements</u>	Balance, End of <u>Fiscal Year</u>
Land				
City	\$30,296	\$9,042		\$39,338
SHRA	<u>47,057</u>	<u>2,201</u>		<u>49,258</u>
Subtotal	<u>77,353</u>	<u>11,243</u>		<u>88,596</u>
Building and Improvements				
City	118,667	16,559		135,226
SHRA	<u>144,567</u>	<u>17,212</u>	(4,019)	<u>157,760</u>
Subtotal	<u>263,234</u>	<u>33,771</u>	(4,019)	<u>292,986</u>
Machinery and equipment				
City	23,681	4,389		28,070
SHRA	<u>4,453</u>	<u>324</u>	(977)	<u>3,800</u>
Subtotal	<u>28,134</u>	<u>4,713</u>	(977)	<u>31,870</u>
Construction in progress				
City	6,542	8,261	(7,037)	7,766
SHRA	<u>44,232</u>	<u>15,918</u>	(15,823)	<u>44,327</u>
Subtotal	<u>50,774</u>	<u>24,179</u>	(22,860)	<u>52,093</u>
Total general fixed assets	<u>\$419,495</u>	<u>\$73,906</u>	<u>\$(27,856)</u>	<u>\$465,545</u>

Proprietary Funds

The following is a summary of proprietary fund fixed assets as of June 30, 1996 (in thousands):

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Land	\$ 38,001	\$ 1,004
Buildings and improvements	201,302	4,063
Machinery and equipment	20,047	3,013
Vehicles	5,545	54,350
Transmission and distribution system	237,767	0
Construction in progress	42,294	1,895
Less: Accumulated depreciation	<u>(119,333)</u>	<u>(32,858)</u>
Net fixed assets	<u>\$425,623</u>	<u>\$31,467</u>

NOTE 6**OPERATING LEASES**

The City is obligated under various operating leases for the use of land, buildings, office space and equipment. Lease expenditures for the year ended June 30, 1996 were \$2.2 million. Future minimum lease payments required by lease agreements that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1996 are as follows (in thousands):

<u>Year Ended June 30.</u>	<u>Amount</u>
1997	2,326
1998	1,856
1999	1,278
2000	1,166
2001	1,194
Thereafter	<u>1,659</u>
Total future minimum lease payments	<u>\$9,479</u>

NOTE 7**CAPITAL LEASES**

As lessee the City is obligated under certain lease agreements that qualify as capital leases. In the governmental funds, the leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, respectively. In proprietary funds, the assets and corresponding liabilities are accounted for on the appropriate fund's balance sheets. Assets under capital leases were \$3 million at June 30, 1996. General leasing arrangements are as follows:

Sacramento Theater - The City is leasing a 50 percent undivided interest in the land and building known as the Sacramento Theater for a term of ten years ending August 1996. At the end of the term, a 50 percent undivided interest in the property will transfer to the City. The terms of the lease require the City to make semiannual payments of \$66,507, of which 50 percent is reimbursed by the other lessee. The outstanding balance as of June 30, 1996 is \$63,000. A receivable has been recorded for the commitment by the other lessee in the General Fund with a corresponding fund balance reservation.

Plaza Building - The City is leasing the land and building known as the Plaza Building for a term of twenty years ending May 2009. At the end of the term, title to the property will transfer to the City. The terms of the lease require monthly payments of \$22,800. The outstanding balance as of June 30, 1996 is \$2.1 million.

The schedule of future minimum lease payments under capital leases, together with the present value of the minimum lease payments at June 30, 1996 for the City is as follows (in thousands):

<u>Year Ended June 30.</u>	<u>Amount</u>
1997	\$ 338
1998	274
1999	273
2000	274
2001	273
Thereafter	<u>2,167</u>
Total minimum lease payments	3,599
Less amount representing interest	<u>(1,410)</u>
Present value of future minimum lease payments	<u>\$2,189</u>

The City is a lessor of property which was acquired from the federal government as a result of an army base closure. The lease agreement, which was executed to develop the Army Depot and create jobs in the City, provides for a purchase option to the lessee to be exercised on or before December 14, 2004.

NOTE 8 LONG-TERM DEBT

Long-term debt payable at June 30, 1996 for the City and long-term debt payable at December 31, 1995 for SHRA are comprised of the following individual issues (in thousands):

<u>City (excluding SHRA)</u>	<u>Interest Rates</u>	<u>Balance June 30, 1996</u>
General Obligation Bonds:		
1965 Municipal Improvement Flood and Drainage Bonds Series C	4.0%- 5.0%	<u>\$ 1,380</u>
Water Revenue Bonds:		
1960 Water Revenue Bonds Series A	3.9%	1,400
1960 Water Revenue Bonds Series B Part I	3.7%	1,800
1960 Water Revenue Bonds Series B Part II	3.5% - 3.6%	1,795
1960 Water Revenue Bonds Series C	5.0% - 5.25%	<u>1,935</u>
		<u>6,930</u>
Sewer Revenue Bonds:		
1968 Sewer Revenue Bonds Series A	4.8%	<u>1,530</u>
Other Revenue Bonds:		
1991 Marks-Roos Revenue Bonds	5.6% - 6.6%	11,410
1993 Refunded Revenue Bonds Series A	3.6% - 5.4%	113,503
1993 Refunded Revenue Bonds Series B	3.7% - 5.4%	81,523
1995 Gas Tax Revenue Bonds Series A	4.4% - 6.75%	<u>4,165</u>
		<u>220,601</u>
Parking Authority Revenue Bonds:		
1968 Sacramento Parking Authority Revenue Bonds Series A	4.5% - 5.0%	1,525
1968 Sacramento Parking Authority Revenue Bonds Series B	7.0%	<u>1,685</u>
		<u>3,210</u>
Certificates of Participation:		
1991 Light Rail Refunded Certificates of Participation	6.0% - 7.4%	27,595
1991 Refunded Certificates of Participation	5.9% - 7.35%	37,214
1992 Certificates of Participation	6.05% - 7.55%	11,079
1995 Bank of America Loan	10.32%	<u>9,896</u>
		<u>85,784</u>
Loans Payable:		
1985 Sacramento Marina Loan Payable Phase I	4.5%	1,911
1985 Sacramento Marina Loan Payable Phase II	4.5%	2,835
1985 Sacramento Marina Loan Payable Phase III	4.5%	1,646
1985 Sacramento Marina Loan Payable Phase IV	4.5%	1,033
1987 Golf Fund Loan Payable	9.0% - 9.5%	585
1987 Discovery Plaza Loan Payable	9.88%	<u>5,828</u>
		<u>13,838</u>
Other Debt:		
Advance from Risk Management for Ambulance Service	6.5%	485
Advance from Risk Management for Debt Reserve	Varies	1,490
Advance from SHRA	6.0%	690
Army Depot Note Payable	None	<u>7,160</u>
		<u>9,825</u>
Total City debt (excluding SHRA)		<u>343,098</u>

<u>SHRA</u>	<u>Interest Rates</u>	<u>Balance</u> <u>December 31, 1995</u>
Mortgage Notes:		
Ping Yuen Center	8.5%	735
Ralph Kennedy Estates	8.5%	735
San Jose/Broadway	8.375%	717
Larchmont/Wildflower	7.75%	304
Riverview - October, 1988	3.0%	933
Norwood - May 1992	3.0%	1,466
Saving Association Mortgage Company	8.25%	346
Shasta Partnership (HAD)	3.0%	2,000
Pioneer Hall	7.61%	378
Accrued interest due in future years		<u>409</u>
		<u>8,023</u>
Notes Payable:		
CITY B-90-MC-06-0003-Block Grant	7.6% - 8.84%	580
COUNTY B-90-UC-06-0005 Block Grant	7.6% - 8.84%	460
CITY B-92-MC-06-0003	3.25% - 6.44%	670
CITY B-92-MC-06-000A	3.82% - 6.44%	915
COUNTY B-92-UC-06-0005	3.82% - 6.44%	1,670
CITY B-93-MC-06-0003	8.12% - 8.27%	400
COUNTY B-93-UC-06-0005	6.24% - 8.27%	905
Library Plaza Group	9.0%	1,086
1984 City - HUD project note	6.25% - 10.0%	17,278
1980 Federal financing bank note	6.6%	718
1983 Federal financing bank note	6.6%	41
1985 County - HUD project note	6.0% - 10.0%	29,844
1989 County Low Income Housing	8.75%	359
Walnut Grove - June 1992	7.0%	6
		<u>54,932</u>
Lease Revenue Bonds	5.0% - 6.5%	<u>1,565</u>
Other Bonds Payable:		
93 Downtown TARBS	4.05% - 6.7%	23,883
90 Downtown TABS Refunding	5.7% - 6.5%	69,425
90 Downtown TAB	8.0% - 9.75%	6,850
93 Del Paso TARBS	4.05% - 6.7%	1,178
89 Del Paso Refunding	5.7% - 6.65%	1,215
89 Del Paso TAB	8.3% - 8.9%	1,345
93 Alkali Flat TARBS	4.05% - 6.7%	1,878
89 Alkali Refunding	5.7% - 6.75%	1,470
89 Alkali TAB	8.3% - 9.0%	1,290
93 Oak Park TARBS	4.05% - 6.7%	2,720
89 Oak Park Refunding	5.7% - 6.75%	3,545
89 Oak Park TAB	8.3% - 9.0%	2,630
1960 County Housing Authority	3.5%	315
1970 City Housing Authority	5.0%	4,710
1971 City Housing Authority	5.25%	2,045
1973 City Housing Authority	6.0%	3,400
		<u>127,899</u>
Other Debt:		
Advance from City	6.0%	2,087
Advance from City	None	<u>14,365</u>
		<u>16,452</u>
Total SHRA debt		\$208,871
Total debt		<u>\$551,969</u>

The advances shown above reflect transactions which are accounted for in the General Long-Term Debt Account Group.

The following is a description of certain long term debt issues of the City and the amount of original debt issuance.

General Obligation Bonds

\$4,500,000 1965 Municipal Improvement Flood and Drainage Bonds Series C
Authorized and issued March 1971, due in annual installments of \$245,000 to \$310,000 through January 2001, for the purpose of improving flood and drainage systems

Water Revenue Bonds

\$6,000,000 1960 Water Revenue Bonds Series A
Authorized and issued July 1960, due in annual installments of \$255,000 to \$305,000 through July 2000, for the purpose of improving water supply distribution systems

\$8,000,000 1960 Water Revenue Bonds Series B Part I
Authorized July 1960 and issued July 1961, due in annual installments of \$335,000 to \$390,000 through July 2000, for the purpose of improving water supply and distribution systems

\$7,905,000 1960 Water Revenue Bonds Series B Part II
Authorized July 1960 and issued July 1961, due in annual installments of \$330,000 to \$385,000 through July 2000, for the purpose of improving water supply and distribution systems

\$3,095,000 1960 Water Revenue Bonds Series C
Authorized July 1960 and issued July 1961, due in annual installments of \$215,000 to \$495,000 through July 2002, for the purpose of improving water supply and distribution systems

Sewer Revenue Bonds

\$8,000,000 1968 Sewer Revenue Bonds Series A
Authorized and issued August 1968, due in annual installments of \$485,000 to \$535,000 through July 1998, for the purpose of improving the waste water system, principal and interest to be paid by Sacramento Regional County Sanitation District

In November 1974, the City entered into an agreement with the Sacramento Regional County Sanitation District (the District), whereby the City conveyed to the District its entire interest in certain sanitation facilities. As consideration for the transfer of the facilities, the District is required to make annual payments to the City for debt service payments due under the terms of the City's 1968 Sewer Revenue Bonds Series A. The amount receivable from the District for future payments was \$0.9 million at June 30, 1996, which is included in intergovernmental receivables in the Sewer Enterprise Fund.

Other Revenue Bonds

\$148,655,000 1991 Marks-Roos Revenue Bonds
Authorized and issued November 1991, for the purpose of financing the acquisition, construction and installation of public safety, golf, community center, general facilities and equipment. In September 1993, \$116,265,000 of these bonds were refunded through the issuance of the 1993 Revenue Bonds Series A. In November 1994 \$20,735,000 of the remaining bonds were retired. The balance is due in annual installments of \$760,000 to \$1,385,000 through November 2006

\$130,425,000 1993 Revenue Bonds Series A

Authorized and issued September 1993, due in annual installments of \$1,955,000 to \$8,875,000 through November 2020 for the purpose of refunding the 1986 Public Facilities Certificates of Participation and a portion of the 1991 Marks-Roos Revenue Bonds

\$95,480,000 1993 Revenue Bonds Series B

Authorized and issued September 1993, due in annual installments of \$1,585,000 to \$6,070,000 through November 2020 for the purpose of refunding the 1989 Public Facilities Certificates of Participation

\$14,165,000 1995 Gas Tax Revenue Bonds Series A

Authorized and issued May 1995, due in annual installments of \$785,000 to \$1,475,000 through December 2008 for the purpose of financing the acquisition and construction of the 1995 Street Improvement Project

Parking Authority Revenue Bonds

\$8,000,000 1968 Sacramento Parking Authority Revenue Bonds Series A

Authorized and issued October 1968, due in annual installments of \$485,000 to \$530,000 through July 1998, for the purpose of financing the construction of parking lots

\$5,450,000 1968 Sacramento Parking Authority Revenue Bonds Series B

Authorized October 1968 and issued April 1975, due in annual installments of \$375,000 to \$470,000 through July 1999, for the purpose of financing the construction of parking lots

Certificates of Participation

\$32,040,000 1991 Light Rail Refunded Certificates of Participation

Authorized and issued April 1991, due in annual installments of \$1,015,000 to \$2,655,000 through July 2012, for the purpose of refunding the 1985 Light Rail Certificates of Participation

\$44,865,000 1991 Refunded Certificates of Participation

Authorized and issued April 1991, due in annual installments of \$1,460,000 to \$3,580,000 through July 2012, for the purpose of refunding the 1987 Public Facilities Certificates of Participation

\$19,310,387 1992 Certificates of Participation

Authorized and issued March 1991 to June 1996, due in annual installments of \$15,000 to \$1,929,000 through October 2005 for the purpose of obtaining equipment for solid waste, street lighting, the Sacramento Zoo, police, radio communication system, fire and other departments of the City

\$10,500,000 1995 Bank of America Loan

Authorized and issued January 1995, due in annual installments of \$472,600 to \$1,327,000 through January 2008 for the purpose of financing improvements at the Sacramento Army Depot

Loans Payable

\$2,220,465 1985 Sacramento Marina Loan Payable Phase I

Authorized July 1985, issued November 1985, to the California Department of Boating and Waterways due in annual installments of \$60,899 to \$140,542 through August 2015, for the purpose of financing the expansion of the Sacramento Marina

- \$3,229,441** **1985 Sacramento Marina Loan Payable Phase II**
 Authorized July 1985, issued September 1987, to the California Department of Boating and Waterways due in annual installments of \$78,080 to \$196,750 through August 2017, for the purpose of financing the expansion of the Sacramento Marina
- \$1,828,769** **1985 Sacramento Marina Loan Payable Phase III**
 Authorized July 1985, issued March 1988, to the California Department of Boating and Waterways due in annual installments of \$42,286 to \$111,344 through August 2018, for the purpose of financing the expansion of the Sacramento Marina
- \$1,116,859** **1985 Sacramento Marina Loan Payable Phase IV**
 Authorized July 1985, issued February 1989, to the California Department of Boating and Waterways due in annual installments of \$24,790 to \$68,226 through August 2019, for the purpose of financing the expansion of the Sacramento Marina
- \$935,000** **1987 Golf Fund Loan Payable**
 Authorized and issued July 1987, due in annual installments of \$65,000 to \$105,000 through July 2002, for the purpose of financing the expansion of the Bing Maloney Golf Course
- \$6,000,000** **1987 Discovery Plaza Loan Payable**
 Authorized and assumed September 1987, due in annual installments of \$34,092 through February 1997 with remaining principal of \$5,794,030 due in March 1997, for the purpose of financing the purchase of land and building

Other Debt

- \$760,000** **1994 Advance from Risk Management for Ambulance Service**
 For purchase of ambulances for the Advance Life Support System, due in annual installments of \$151,375 to \$172,057 through fiscal year 1999
- \$1,490,000** **1995 Advance from Risk Management for Debt Reserve**
 To fund a reserve account with a bank pursuant to a loan agreement, due in 2008 after payoff of the bank loan
- \$690,000** **1996 Advance from SHRA**
 To fund the cost of creating a public market in Old Sacramento, due in annual installments of \$12,158 to \$56,302 through fiscal year 2017
- \$7,160,000** **Army Depot Note Payable**
 Authorized and issued March 1, 1995 in exchange for the Army Depot property which was quit claimed to the City. Payable on March 1, 2005 to the federal government.

The annual debt service requirements on City debt (excluding SHRA) outstanding as of June 30, 1996, are as follows (in thousands):

Year Ending June 30	General Obligation Bonds	Water Revenue Bonds	Sewer Revenue Bonds	Other Revenue Bonds	Parking Authority Revenue Bonds	Certificates of Participation	Loans Payable and Other Debt	Total
1997	\$ 299	\$1,376	\$ 535	\$ 17,400	994	\$10,740	\$ 7,128	\$ 38,472
1998	302	1,384	536	17,389	998	10,152	886	31,647
1999	304	1,380	535	18,619	996	10,084	884	32,802
2000	308	1,368	0	18,605	470	10,094	698	31,543
2001	316	1,375	0	18,607	0	10,047	699	31,044
Thereafter	<u>0</u>	<u>786</u>	<u>0</u>	<u>329,777</u>	<u>0</u>	<u>85,740</u>	<u>18,665</u>	<u>434,968</u>
Subtotal	1,529	7,669	1,606	420,397	3,458	136,857	28,960	600,476
Less Interest	<u>149</u>	<u>739</u>	<u>76</u>	<u>199,796</u>	<u>248</u>	<u>51,073</u>	<u>5,297</u>	<u>257,378</u>
Principal Balance	<u>\$1,380</u>	<u>\$6,930</u>	<u>\$1,530</u>	<u>\$220,601</u>	<u>\$3,210</u>	<u>\$85,784</u>	<u>\$23,663</u>	<u>\$343,099</u>

The annual debt service requirements on all SHRA debt outstanding as of December 31, 1995 are as follows (in thousands):

Year Ending December 31	Mortgage Notes		Notes Payable	Bonds Payable	Other Long-Term Obligations	Total
	Proprietary Funds	Component Units				
1996	\$ 649	\$ 415	\$1,787	\$ 12,277	\$14,649	\$ 29,777
1997	257	449	1,429	12,281	284	14,700
1998	257	486	827	12,381	284	14,235
1999	254	526	899	12,475	284	14,438
2000	257	570	888	12,370	284	14,369
Thereafter	<u>5,526</u>	<u>74,351</u>	<u>74,825</u>	<u>183,524</u>	<u>1,416</u>	<u>339,642</u>
Subtotal	7,200	76,797	80,655	245,308	17,201	427,161
Less Interest	<u>4,331</u>	<u>71,643</u>	<u>25,723</u>	<u>115,844</u>	<u>749</u>	<u>218,290</u>
Principal Balance	<u>\$2,869</u>	<u>\$5,154</u>	<u>\$54,932</u>	<u>\$129,464</u>	<u>\$16,452</u>	<u>\$208,871</u>

There are a number of limitations and restrictions contained in the various bond indentures. In the opinion of management, the City is in compliance with all significant limitations or restrictions.

Special Assessment Debt

Total matured and unmatured bonds outstanding related to special assessment and special tax districts is \$68 million at June 30, 1996. The City acts as an agent for the property owners in collecting special assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, when appropriate. The City is not liable for repayment of the special district bonds, and accordingly, they are not reflected in the accompanying general purpose financial statements. Cash held on deposit and corresponding amounts payable for the districts are reported in the 1911 and 1915 Improvement Bond Act and the Community Facility District Act Agency Funds.

Conduit Debt

Total bonds outstanding related to special facility revenue bonds is \$7.6 million at June 30, 1996. These bonds were issued to provide administrative and service facilities for two non-profit organizations located within the City. The bonds issued are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received from loan agreements between the City and the organizations. The City is not liable for repayment of the special facility revenue bonds, and accordingly, they are not reflected in the accompanying general purpose financial statements.

Mortgage Insured Bonds

The City and the County of Sacramento have issued single family and multifamily mortgage bonds totaling \$774.9 million. The bonds were issued to provide funds for the purchase of home mortgages in the Sacramento County area. SHRA was appointed by the City and County of Sacramento to administer the mortgage program. The mortgage bonds do not constitute a liability of SHRA or the City and are not reflected in the accompanying general purpose financial statements.

Prior-Year Defeasances

In 1991 and 1993, the City defeased the 1985 Light Rail Certificates of Participation, the 1987 Public Facilities Certificates of Participation, the 1986 Certificates of Participation, the 1989 Certificates of Participation and a portion of the 1991 Marks-Roos Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 1996, \$260 million of bonds outstanding are considered defeased.

In prior years, SHRA defeased certain tax allocation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 1995, \$52.9 million of bonds outstanding are considered defeased.

Changes in Long-Term Liabilities

The following is a summary of changes in general long-term liabilities reported in the General Long-Term Debt Account Group (in thousands):

	Balance Beginning of Fiscal Year	Additions	Maturities	Balance End of Fiscal Year
City:				
General obligation bonds payable	\$ 1,885	\$ 0	\$ 505	\$ 1,380
Revenue bonds payable, net	83,186	0	952	82,234
Certificates of participation payable, net	61,433	994	3,458	58,969
Capital lease obligations payable	2,395	0	206	2,189
Accrued vacation and sick leave	16,863	2,290	3,655	15,498
Notes payable	7,160	0	0	7,160
Advances from other funds	<u>2,417</u>	<u>690</u>	<u>442</u>	<u>2,665</u>
Total City general long-term debt	<u>175,339</u>	<u>3,974</u>	<u>9,218</u>	<u>170,095</u>
SHRA:				
Notes payable and other long-term obligations	85,986	1,618	16,220	71,384
Bonds payable	<u>134,273</u>	<u>0</u>	<u>4,809</u>	<u>129,464</u>
Total SHRA general long-term debt	<u>220,259</u>	<u>1,618</u>	<u>21,029</u>	<u>200,848</u>
Total City and SHRA general long-term debt	<u>\$395,598</u>	<u>\$5,592</u>	<u>\$30,247</u>	<u>\$370,943</u>

Plan Descriptions

The City contributes to both the California Public Employees' Retirement System (PERS) and the Sacramento City Employees' Retirement System (SCERS). PERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for public entities in the State of California. SCERS is a single-employer pension plan that was established by the City in accordance with the City Charter.

A summary of the City's payroll for the year ended June 30, 1996 and SHRA's payroll as of June 30, 1995 is as follows (in millions):

	<u>City</u>	<u>SHRA</u>	<u>Total</u>
PERS covered payroll	\$119.3	\$12.9	\$132.2
SCERS covered payroll	18.4	-	18.4
Payroll not covered	<u>21.6</u>	<u>0.8</u>	<u>22.4</u>
Total payroll	<u>\$159.3</u>	<u>\$13.7</u>	<u>\$173.0</u>

All full-time and certain part-time City employees hired after January 28, 1977 and all SHRA and safety employees, regardless of date of hire, are eligible to participate in PERS. Employees must be at least age 50 and have five years of credited service to be entitled to retirement benefits. Monthly benefits equal the product of years of credited service, final compensation and the benefit percent per year of service under the "2 percent at age 60" formula for miscellaneous employees or the "2 percent at age 50" formula for safety employees. PERS also provides disability and death benefits. Benefit provisions and all definitions and requirements are established by PERS.

All full-time, non-safety employees hired before January 29, 1977 are eligible to participate in SCERS. Generally, employees must be at least age 50 and have five years of credited service to be entitled to SCERS retirement benefits. Monthly benefits equal the product of years of credited service, average compensation in the three years before retirement and a factor which is determined by age at retirement. SCERS also provides disability and death benefits. Benefit provisions and all definitions and requirements are established by SCERS.

Under both PERS and SCERS retirement plans, eligible City employees are required to contribute a percentage of their reportable salary. The PERS employee contribution rate is 7% for miscellaneous employees. SHRA pays 50 to 57 percent of employee contributions, depending on contractual agreements with employee groups. For public safety employees, the employee contribution rate is 9%, however, the City pays the entire employee portion. For SCERS, contribution rates are between 6.88% and 10.46%, based on the employee's entry age. The City is required to contribute the remaining amounts necessary to fund PERS and SCERS benefits, using the actuarial basis specified by the plans.

No City or related party securities are included in the assets of PERS. The assets of SCERS include \$4.9 million in municipal bonds of SHRA.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PERS and SCERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to PERS and SCERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1995 for the City PERS plan, June 30, 1994 for the SHRA PERS plan, and June 30, 1996 for the SCERS plan. Significant actuarial assumptions used in the valuations include:

	<u>PERS</u>	<u>SCERS</u>
Annual rate of return on the investment of present and future assets, compounded annually	8.5%	7%
Projected annual salary increases, compounded annually, attributable to inflation	4.5%	5%

The net assets available for benefits exceeded the pension benefit obligation for all plans, as of the last actuarial valuations, by \$76.2 million. Below is an analysis of these amounts by plan (in millions):

	<u>CITY (excluding SHRA)</u>		<u>SHRA</u>	<u>Total</u>
	<u>PERS</u>	<u>SCERS</u>	<u>PERS</u>	
	<u>June 30, 1995</u>	<u>June 30, 1996</u>	<u>June 30, 1994</u>	
Pension benefit obligation:				
Retirees and beneficiaries receiving benefits and terminated employees not yet receiving benefits	\$150.4	\$258.2	\$ 9.8	\$418.4
Current employees:				
Accumulated employee contributions including allocated investment earnings	134.6	38.8	8.1	181.5
Employer-financed vested	127.6	1.3	6.0	134.9
Employer-financed nonvested	<u>4.2</u>	<u>.0</u>	<u>0.6</u>	<u>4.8</u>
Total pension benefit obligation	416.8	298.3	24.5	739.6
Net assets available for benefits, at smoothed market values (PERS) and at cost (SCERS) (market values \$452.6, \$384.6, and \$29.7, respectively)	<u>425.8</u>	<u>360.2</u>	<u>29.8</u>	<u>815.8</u>
Net assets in excess of pensions benefit obligation	<u>\$ 9.0</u>	<u>\$ 61.9</u>	<u>\$ 5.3</u>	<u>\$ 76.2</u>

There were no changes in actuarial assumptions for City PERS and SCERS plans, however the SHRA pension benefit obligation increased by \$1.1 million due to changes in actuarial methods and assumptions. The net assets available for benefits in the PERS plans are presented at smoothed market value. In prior years, these assets were stated at cost. This change in presentation has moved the City's PERS plan from an unfunded to an overfunded position.

Contributions Required and Contributions Made

PERS and SCERS funding policies provide for actuarially determined contributions under the entry age normal actuarial cost method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. Both PERS and SCERS have adopted a modification of the entry age cost method whereby the total normal cost is expressed as a level percentage of payroll. The level percentage of payroll method is also used to amortize the unfunded actuarial liability by June 30, 2000 for PERS miscellaneous members including SHRA Redevelopment Agency members, by June 30, 2007 for SCERS members, by June 30, 2011 for SHRA Housing Authority members, and by June 30, 2016 for PERS safety members.

The significant actuarial assumptions used for PERS and SCERS to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligations, as previously described.

Contributions to PERS and SCERS for the fiscal year were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1994 for the City PERS plan, June 30, 1993 for the SHRA PERS plan, and June 30, 1995 for the SCERS plan. The contributions consisted of the following (in millions):

	City June 30, 1996				SHRA PERS December 31, 1995		
	PERS		SCERS		Amount	% of Covered Payroll	
	Amount	% of Covered Payroll	Amount	% of Covered Payroll		Redevelopment Agency	Housing Authority
Normal Cost	\$21.1	17.7%	\$1.2	6.5%	\$1.7	6.3%	6.4%
Amortization of unfunded actuarial accrued liability	2.6	2.2	0.0	0.0	0.1	44.9	0.2
Total	\$23.7	19.9%	\$1.2	6.0%	\$1.8	51.2%	6.6%
City contributions	\$14.3	12.0%	\$0.0	0.0%	\$0.9	50.3%	6.6%
Employee contributions	9.4	7.9	1.2	6.5	0.9	6.8	6.7
Total	\$23.7	19.9%	\$1.2	6.5%	\$1.8	57.1%	13.3%

Contributions to PERS during the year were reduced by permitted use of surplus assets in excess of funding requirements totaling \$2.9 million.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year system-wide trend information may be found in the PERS annual report for the year ended June 30, 1995. Ten-year trend information for SCERS is available in its annual financial report for the year ended June 30, 1996. Ten year trend information for SHRA is available in its annual financial report for the year ended December 31, 1995.

Trend information for the three most recent available years is shown below:

	CITY						SHRA		
	PERS			SCERS			PERS		
	1993	1994	1995	1994	1995	1996	1992	1993	1994
Net assets available for benefits, expressed as a percentage of the pension benefit obligation	86.9%	102.4%	102.2%	114.9%	117.9%	120.8%	108.5%	101.3%	121.6%
Assets in excess of pension benefit obligation, expressed as a percentage of annual covered payroll	39.6%	(7.3%)	(7.0%)	(195.5%)	(256.6%)	(358.5%)	13.1%	2.3%	36.8%
City contributions expressed as a percentage of annual covered payroll	13.6%	12.6%	12.0%	0.0%	0.0%	0.0%	13.2%	13.3%	14.0%

For all years presented, the City's contributions to PERS and SCERS were made in accordance with actuarially determined requirements.

NOTE 10 DEFERRED COMPENSATION PLANS

The City offers its permanent employees a deferred compensation plan under the provisions of Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salaries and defer paying taxes on the deferred portion until the withdrawal date. The deferred compensation is not available for withdrawal until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by unrelated financial institutions. All deferred compensation and income attributable to the investment of the deferred compensation amounts held by the institutions, until paid or made available to the employees or beneficiaries, are the property of the City subject only to the claims of the City's general creditors. In addition, the participants in the plans have rights equal to those of the general creditors of the City and each participant's rights are equal to his or her share of the fair market value of each of the plan's assets. Management believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

As part of its fiduciary role, the City has an obligation of due care in selecting third party administrators. It is the opinion of the City's legal counsel that the City has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

The deferred compensation plan is accounted for in agency funds. At June 30, 1996, the City (including SHRA) had 3,314 employees participating in its deferred compensation plan, with related assets of \$102.8 million.

NOTE 11 POST-EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS

The City provides health and dental care insurance benefits for all retirees (excluding SHRA), their survivors and dependents. For employees to be eligible for these benefits, the employee must retire with a minimum of ten full years of retirement service and be 55 or 50 years of age for miscellaneous and safety employees, respectively. Participants with less than twenty years of service are eligible for 50% of the maximum benefit. Those participants with a minimum of twenty years of service are eligible for 100% of the maximum benefit. Participants have the choice of enrolling in one of several health plans and one of two dental plans.

The post-retirement health care benefit for City retirees (excluding SHRA) is up to \$150 per month per participant, which covers between 35% and 100% of the benefit cost, depending on the choice of plan and number of dependents. For the City's dental care insurance, the benefit is up to \$18.50 per month per participant, which covers between 20% and 100% of the benefit costs, depending on the choice of plan and number of dependents. For SHRA retirees, the combined health and dental care benefit consists of a range of \$440 to \$487 per month per participant, depending on the participant's job classification at the time of retirement. SHRA covers 100% of the participant's health and dental benefits under these plans.

City benefits are defined by labor agreements approved by the City Council. SHRA benefits are defined by labor agreements approved by the City Council and County Board of Supervisors. Benefit costs are recorded on a pay-as-you-go basis as nondepartmental expenditures. For the most recent fiscal years, the City and SHRA expended approximately \$4 million and \$375,000, respectively, for post-employment health and dental care insurance benefits. Approximately 1,864 and 109 retirees and/or families were covered, respectively.

Fund Balance and Retained Earnings Deficits

As of June 30, 1996, the Latchkey Program Special Revenue Fund had a deficit fund balance of \$70,000. The deficit has improved over the past several years and it is anticipated that it will be eliminated over time through normal operations.

The retained earnings deficit in the SHRA Enterprise Funds of \$6.8 million is funded by contributions from other SHRA funds. These contributions from other funds have been reflected as contributed capital.

Budget vs. GAAP Differences

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General and Certain Special Revenue Funds (Non-GAAP Budgetary Basis) presents comparisons of the legally adopted budget with actual data on a budgetary basis. The City's budgetary basis of accounting differs from generally accepted accounting principals (GAAP).

For budgetary purposes, General Fund encumbrances are recorded as expenditures in the year of commitment.

SHRA adopts Special Revenue Fund budgets on a project length basis for the Community Development, Tax Increment, and Revenue Bond Programs. Therefore, budget and actual comparisons for these programs are not presented. The budget for other special revenue funds is adopted on a GAAP basis.

Because the actual data on the budgetary basis differs from actual data determined in accordance with GAAP, a reconciliation of the differences is shown below (in thousands):

General Fund

Expenditures, budgetary basis	\$195,456
Adjustment for encumbrances	<u>(688)</u>
Expenditures, GAAP basis	<u>\$194,768</u>

Special Revenue Funds

	Actual, Budgetary Basis	SHRA Funds for Which Budgets Are Not Presented	Actual, GAAP Basis
Revenues	\$85,836	\$20,329	\$106,165
Expenditures	(88,004)	(19,314)	(107,318)
Other financing sources (uses)	<u>799</u>	<u>611</u>	<u>1,410</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,369)	1,626	257
Fund balances, July 1	<u>36,726</u>	<u>3,706</u>	<u>41,432</u>
Fund Balances, June 30	<u>\$36,357</u>	<u>\$ 5,332</u>	<u>\$ 41,689</u>

Expenditures in Excess of Appropriations

For the year ended June 30, 1996, the following General Fund departments incurred the following expenditures in excess of budgeted appropriations (in thousands):

Information/Communication Services	\$377
Human Resources	23
Community and Visitors Services	288
Neighborhood Services	644

The Information Communication Services Department was over budget due to an increase in costs related to computer software upgrades and higher than estimated demand in Central Services (reproduction/printing mail).

The Human Resource Department was over budget since planned cost recovery from outside agencies was not realized.

The Community and Visitors Services Department was over budget as a result of unanticipated costs in the Zoo, Metropolitan Arts, Old Sacramento Waterfront, and the Special Events Programs.

The Neighborhood Services Department was over budget due to higher than estimated service demand in code enforcement, especially in housing and dangerous buildings. Expenditures were offset by revenues in excess of budget.

NOTE 13

SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains enterprise funds that provide water, sewage treatment, refuse collection and disposal, golf, parking, community center, storm drainage, marina and low-income housing services and facilities which are largely financed by user charges. Segment information for the years ended June 30, 1996 and December 31, 1995 are as follows (in thousands):

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Fund	Parking Fund	Community Center Fund	Storm Drainage Fund	Marina Fund	SHRA Enterprise Funds (December 31, 1995)	Memo Total
Operating revenues	\$30,179	\$11,843	\$35,098	\$5,515	\$10,250	\$2,956	\$26,280	\$1,285	\$2,054	\$125,460
Depreciation expense	2,877	1,668	1,407	407	1,190	2,256	980	392	1,116	12,293
Operating income (loss)	5,598	2,284	2,384	(45)	1,184	(7,953)	6,946	47	(1,534)	8,911
Net income (loss)	7,082	2,871	1,739	(530)	(180)	(5,279)	9,227	(276)	(889)	13,765
Current capital contributions	1,417	692				4,700	830		1,614	9,253
Fixed assets additions	7,768	4,105	324	357	159	10,200	8,182		(35)	31,060
Net working capital	26,624	10,581	20,134	903	(1,055)	10,740	36,314	(230)	147	104,158
Total assets	138,769	77,787	34,389	16,113	43,116	149,092	103,993	8,702	32,285	604,246
Noncurrent liabilities	5,795	1,045	8,374	9,327	25,027	121,336	9,693	7,219	16,903	204,719
Total equity	127,840	73,590	21,482	6,061	15,026	18,077	91,280	816	14,251	368,423

NOTE 14 INTERFUND TRANSACTIONS

Transactions between funds to finance operations, construct assets and service debt are classified as operating transfers, due to/from other funds and advances to/from other funds. The following table summarizes interfund transactions for the fiscal year ended June 30, 1996 (in thousands):

	Operating Transfers In	Operating Transfers Out	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances from Other Funds
GENERAL FUND	\$ 221	(\$14,668)	\$ 78	\$ 0	\$ 4,015	\$ 0
SPECIAL REVENUE FUNDS						
State Gasoline Tax Fund		(867)				
Community Development Block Grant Recreation Program				(701)		
Latchkey Program	85			(136)		(370)
Operating Grants				(1,570)		
SHRA	10,321	(8,329)	4,039	(1,169)	302	
Total Special Revenue Funds	10,406	(9,196)	4,039	(3,578)	302	(370)
DEBT SERVICE FUNDS						
1965 Flood & Drainage Bond	561					
Economic Development	697					
1995 Series A Gas Tax Revenue Bond	867					
1991 Light Rail COP	2,769					
1991 COP	1,137					
1991 Marks-Roos Revenue Bond	355					
1992 COP Fund	2,460					
1993 Series A Revenue Bond	978					
1993 Series B Revenue Bond	2,873					
SHRA	3,102	(6,688)		(2,769)		
Total Debt Service Funds	15,799	(6,688)	0	(2,769)	0	0
CAPITAL PROJECTS FUNDS						
Economic Development	1,897					
1993 Series B Revenue Bond Program Reimbursable				(1,953)		(2,263)
City Capital Projects	32			(32)		
SHRA	5,069	(4,582)	3,992	(3,992)	3,071	(1,715)
Total Capital Projects Funds	6,998	(4,582)	3,992	(5,977)	3,071	(3,978)
ENTERPRISE FUNDS						
Water		(64)				
Sewer		(30)				
Solid Waste		(37)				
Golf		(1)				
Parking				(732)		
Community Center	824	(19)				
Storm Drainage		(52)	169			
SHRA	884		63	(164)	1,072	(9,307)
Total Enterprise Funds	1,708	(203)	232	(896)	1,072	(9,307)
INTERNAL SERVICE FUNDS						
Fleet Management		(13)				
Risk Management		(5)	4,988		4,511	
SHRA	223				734	(1,000)
Total Internal Service Funds	223	(18)	4,988	0	5,245	(1,000)
TRUST AND AGENCY FUNDS						
Planning Office				(111)		
SHRA			249	(249)	3,096	
Total Trust and Agency Funds	0	0	249	(360)	3,096	0
GENERAL LONG-TERM DEBT ACCOUNT GROUP						
City						(2,665)
SHRA						(18,452)
Total General Long-Term Debt Account Group	0	0	0	0	0	(19,117)
UNADJUSTED TOTAL	35,355	(35,355)	13,578	(13,578)	16,801	(33,772)
ADJUSTMENTS						
SHRA year-end differences (See note 2)					16,971	
ADJUSTED TOTAL	\$35,355	(\$35,355)	\$13,578	(\$13,578)	\$33,772	(\$33,772)

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Risk Management Internal Service Fund was created to provide coverage up to a maximum of \$1.0 million for each workers' compensation claim and \$2.0 million for each general or automobile claim. The City has commercial insurance for claims in excess of coverage provided by the Fund. The excess insurance for workers' compensation is the statutory limit. The excess insurance for general and automobile claims is \$18 million over the maximum amounts.

All funds of the City participate in the program and make payments to the Risk Management Internal Service Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The reserve was \$3.8 million at June 30, 1996 and is reported as a designation of the Risk Management Fund's retained earnings. The reserve is comprised of the following (in thousands):

Auto and general liability	\$2,000
Workers' compensation	1,000
Unemployment insurance	350
Money, securities, other	<u>450</u>
	<u>\$3,800</u>

The estimated liabilities of the Risk Management Internal Service Fund as of June 30, 1996 are determined by the City based on recommendations from an independent actuarial evaluation. The liabilities are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported (IBNR). The claims liability of \$32.7 million for the workers' compensation program and \$11.9 million for the general and automobile program is recorded using a 6.25 percent discount rate and a 80 % confidence level. Included in claim liabilities are liabilities for unallocated claims adjustment expenses of \$3.5 million for workers' compensation and \$1.2 million for the general and automobile program. The claims liability of \$44.6 million reported in the Fund at June 30, 1996 is based on the requirements of Governmental Accounting Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

As of June 30, 1996 the City has reduced the discount factor used to discount its claims liabilities from 7% to 6.25% which represents the expected rate of return on investments. The City has also discounted its general and automobile liabilities as of June 30, 1996. The change in the Risk Management Internal Service Fund's claims liability for the past two fiscal years is summarized as follows:

	1996	1995
Balance, beginning of year	\$40,165	\$41,455
Incurred claims and adjustment expenses	12,839	9,231
Adjustments due to change in assumptions:		
Change in discount factor from 7.0 % to 6.25%	2,305	
Discount of general and automobile liabilities	(1,152)	
Claim payments	<u>(9,518)</u>	<u>(10,521)</u>
Balance, end of year	<u>\$ 44,639</u>	<u>\$ 40,165</u>

NOTE 16 CONTRIBUTED CAPITAL

Contributions of property, plant and equipment for the proprietary funds during the year ended June 30, 1996 are as follows (in thousands):

	<u>Balance Beginning of Year</u>	<u>Current Capital Contributions</u>	<u>Contributions From Other Funds</u>	<u>Depreciation On Contributions</u>	<u>Balance End of Year</u>
Water Fund	\$58,465	\$1,417		(\$1,122)	\$58,760
Sewer Fund	59,778	692		(1,308)	59,162
Solid Waste Fund	269				269
Golf Fund	456				456
Parking Fund	4,784			(126)	4,658
Community Center Fund	3,645	4,700			8,345
Storm Drainage Fund	28,761	830		(440)	29,151
Marina Fund	245				245
SHRA Enterprise Funds	<u>19,684</u>	<u>1,614</u>	<u>—</u>	<u>(276)</u>	<u>21,022</u>
Subtotal	<u>176,087</u>	<u>9,253</u>	<u>—</u>	<u>(3,272)</u>	<u>182,068</u>
Fleet Management Fund	8,758		\$ 946	(81)	9,623
SHRA Internal Service Fund	<u>209</u>	<u>—</u>	<u>382</u>	<u>—</u>	<u>591</u>
Subtotal	<u>8,967</u>	<u>—</u>	<u>1,328</u>	<u>(81)</u>	<u>10,214</u>
Total	<u>\$185,054</u>	<u>\$9,253</u>	<u>\$1,328</u>	<u>(3,353)</u>	<u>\$192,282</u>

NOTE 17 COMMITMENTS AND CONTINGENCIES**Commitment of revenues**

All revenues of the Water and Sewer Enterprise Funds are irrevocably pledged to the payment of principal and interest on revenue bonds. All amounts remaining are to be apportioned for such purposes as are expressly permitted by the terms of the applicable bond resolutions.

Construction and other commitments

The City has commitments of \$41 million for contracts awarded but not completed at June 30, 1996. This amount consists of \$2.3 million in the General Fund, \$3.7 million in the special revenue funds, \$15.5 million in the capital projects funds and \$19.5 million in proprietary funds. The major contracts outstanding are for the Memorial Auditorium, Community Center expansion, fleet vehicles, miscellaneous water and drainage improvements and various street improvements.

As of December 31, 1995, SHRA had outstanding contractual obligations, primarily for housing project site improvements and structural rehabilitation, of \$9.9 million. SHRA, in connection with Riverview Plaza Associates (a component unit partnership), entered into a funding guarantee agreement which obligated SHRA to fund the operations of the partnership to the extent that the partnership revenues are inadequate (up to \$658,000 annually). The funding guarantee agreement terminates on January 1, 2005.

Contingent liabilities

The City and SHRA participate in a number of federal, state and local grant programs, the principal of which are Community Development Block Grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although neither the City nor SHRA expect such amounts, if any, to materially affect the financial statements of the City. Receipt of these federal grant revenues is not assured in the future.

Litigation

Various claims and lawsuits are pending against the City and SHRA. Although the outcome of these claims and lawsuits is not presently determinable, management, after consultation with legal counsel, is of the opinion that these matters will not have a material adverse effect on the financial condition of the City or SHRA.

Closure and Postclosure Care Cost

State and federal laws and regulations required the City to place a final cover on its 28th Street landfill site, since it has stopped accepting waste, and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$10.5 million reported as landfill closure and postclosure care liability at June 30, 1996, represents the cumulative amount accrued to date based on the capacity of the landfill.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City has \$1.2 million restricted cash for the purpose of funding the closure. The City expects that future inflation costs will be paid from interest earnings and annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

NOTE 18 JOINTLY GOVERNED AND RELATED ORGANIZATIONS

City of Sacramento Public Library Authority

The City is a participant with the County of Sacramento in the City of Sacramento Public Library Authority (Library), a joint powers agency created to provide library services to the residents of the City and the County. The Library is governed by a nine-member board made up of five County appointees and four City appointees. It is a component unit of the County. The joint powers agreement extends through June 30, 1997 and terminates upon a one year notice from either party. Upon termination, the City would receive equipment and resources proportionate to its contribution to the Library. The City and County are committed to fund annual contributions to operate library branches in their respective jurisdictions. City and County contributions for the year ended June 30, 1996, were \$6.1 and 7.8 million, respectively, which were sufficient to fund Library operations for the year. Included in the City contribution were \$4.4 million of employee services. Financial statements for the Library can be obtained from the City's Department of Finance.

Related Organizations

The City's officials are also responsible for appointing members to the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City Council confirms board appointments made by the City Mayor to: The Local Agency Formation Commission, the Regional Transit Board, the Sacramento Area Council of Governments, the Sacramento Area Commerce & Trade Organization, the Sacramento Area Flood Control Agency, the Sacramento Employment and Training Agency, the Sacramento Metropolitan Air Quality Management District, the Sacramento Metropolitan Cable Television Commission, the Sacramento Regional County Sanitation District, the Sacramento Regional County Solid Waste Authority, the Sacramento Regional Fire/EMS Communication Center, the Sacramento Transportation Authority, and the Water Advisory Commission.

NOTE 19 SUBSEQUENT EVENTS

On October 10, 1996 the City issued Citywide Landscaping and Lighting Assessment District Limited Obligation Improvement Bonds in the amount of \$7.3 million. The bonds bear interest at 3.8% to 5.5% and mature from 1997 to 2010. Debt proceeds will fund park improvements throughout the City.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

PROPOSED FORMS OF THE PRINCIPAL LEGAL DOCUMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

INDENTURE

Dated as of July 1, 1997

by and between the

SACRAMENTO CITY FINANCING AUTHORITY

and

**FIRST TRUST OF CALIFORNIA, NATIONAL ASSOCIATION,
as Trustee**

**\$73,725,000
SACRAMENTO CITY FINANCING AUTHORITY
1997 LEASE REVENUE BONDS
(ARCO ARENA ACQUISITION)**

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS; INTERPRETATION; AUTHORIZATION; EXHIBITS

Section 1.01. Definitions	1
Section 1.02. Interpretation	1
Section 1.03. Authorization	2
Section 1.04. Exhibits	2

ARTICLE II

THE BONDS

Section 2.01. Authorization and Purpose of Bonds	2
Section 2.02. Details of Bonds	2
Section 2.03. Terms	2
Section 2.04. Floating Rate Mode	4
Section 2.05. Unit Pricing Mode	6
Section 2.06. Discount Mode	7
Section 2.07. Bank Rate	7
Section 2.08. Term Rate	8
Section 2.09. Fixed Rate	8
Section 2.10. Mode Changes	9
Section 2.11. Form	11
Section 2.12. Execution	11
Section 2.13. Application of Proceeds of Bonds	11
Section 2.14. Transfer and Exchange	11
Section 2.15. Bonds Mutilated, Lost, Destroyed or Stolen	12
Section 2.16. Execution of Documents and Proof of Ownership	12
Section 2.17. Registration Books	13
Section 2.18. CUSIP Numbers	13
Section 2.19. Use of Depository for Bonds	13
Section 2.20. Validity of Bonds	14

ARTICLE III

REDEMPTION; PURCHASE, REMARKETING AND TENDER OF BONDS

Section 3.01. Optional Redemption of Bonds	15
Section 3.02. Extraordinary Redemption of Bonds	15
Section 3.03. Mandatory Redemption of Bonds	15
Section 3.04. Redemption From Available Money	16
Section 3.05. Selection of Bonds to be Redeemed	16
Section 3.06. Redelivery of Bonds Upon Partial Redemption	16
Section 3.07. Effect of Call for Redemption	16
Section 3.08. Notice of Redemption	17

Section 3.09. Mandatory Tender 18
 Section 3.10. Remarketing of Bonds; Notices 20
 Section 3.11. Tender and Purchase of Bonds 20
 Section 3.12. Purchase Fund 21

ARTICLE IV

ACQUISITION FUND

Section 4.01. Acquisition Fund 22
 Section 4.02. Payment of Acquisition Costs and Delivery Costs 22

ARTICLE V

FUNDS AND ACCOUNTS; LIQUIDITY FACILITY

Section 5.01. Establishment of Revenue Fund 22
 Section 5.02. Application of Money 23
 Section 5.03. Reserve Fund 23
 Section 5.04. Liquidity Facility 23
 Section 5.05. Substitute Liquidity Facility 24
 Section 5.06. Termination of Liquidity Facility 25
 Section 5.07. Substitute Bond Insurance Policy 25
 Section 5.08. Security of Funds 25
 Section 5.09. Non-Presentation of Bonds 25
 Section 5.10. Interest Reserve Fund 26

ARTICLE VI

INSURANCE AND CONDEMNATION FUND

Section 6.01. Establishment of Insurance and Condemnation Fund 26
 Section 6.02. Cooperation 27

ARTICLE VII

MONEY IN FUNDS; INVESTMENTS

Section 7.01. Money in Funds Held in Trust 27
 Section 7.02. Investments Authorized 27
 Section 7.03. Accounting 28

ARTICLE VIII

THE TRUSTEE, THE PAYING AGENT
 AND THE REMARKETING AGENT

Section 8.01. Removal of Trustee 28
 Section 8.02. Appointment of Agent 29
 Section 8.03. Merger or Consolidation 29

Section 8.04. Protection and Rights of the Trustee	29
Section 8.05. Paying Agent	30
Section 8.06. Compensation and Reimbursement	31
Section 8.07. Remarketing Agent	32
Section 8.08. Resignation and Removal of Remarketing Agent	32

ARTICLE IX

MODIFICATION OR AMENDMENT OF AGREEMENTS

Section 9.01. Amendments Permitted	33
Section 9.02. Procedure for Amendment	33
Section 9.03. Disqualified Bonds	33
Section 9.04. Effect of Supplemental Agreement	34
Section 9.05. Endorsement or Replacement of Bonds Delivered After Amendments	34
Section 9.06. Amendatory Endorsement of Bonds	34

ARTICLE X

COVENANTS

Section 10.01. Compliance With and Enforcement of Facility Lease	34
Section 10.02. Observance of Laws and Regulations	34
Section 10.03. Prosecution and Defense of Suits	34
Section 10.04. Recordation and Filing	35
Section 10.05. Remarketing Bonds	35
Section 10.06. Further Assurances	35
Section 10.07. Continuing Disclosure	35

ARTICLE XI

LIMITATION OF LIABILITY

Section 11.01. No Liability of the Authority for Trustee Performance	35
Section 11.02. Opinion of Counsel	35
Section 11.03. Limitation of Rights to Parties and Owners	36

ARTICLE XII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Section 12.01. Events of Default, Remedies	36
Section 12.02. Acceleration of Maturities.	36
Section 12.03. Application of Funds Upon Acceleration	37
Section 12.04. Institution of Legal Proceedings	37
Section 12.05. Non-waiver	38
Section 12.06. Remedies Not Exclusive	38
Section 12.07. Power of Trustee to Control Proceedings	38
Section 12.08. Limitation on Owners' Right to Sue	38

ARTICLE XIII

**PROVISIONS RELATING TO THE BOND INSURER, THE MUNICIPAL
BOND INSURANCE POLICY AND THE SURETY BOND**

Section 13.01. Consent of Bond Insurer	39
Section 13.02. Notices to Bond Insurer	39
Section 13.03. Payment Procedure Pursuant to the Municipal Bond Insurance Policy	40
Section 13.04. Provisions Applicable to the Surety Bond	41

ARTICLE XIV

MISCELLANEOUS

Section 14.01. Liability of Authority Limited to Revenues	42
Section 14.02. Defeasance.	42
Section 14.03. Records	43
Section 14.04. Notices: Submission of Invoices.	43
Section 14.05. Notice to Moody's and S&P.	44
Section 14.06. Governing Law.	44
Section 14.07. Binding Effect; Successors.	44
Section 14.08. Execution in Counterparts	45
Section 14.09. Destruction of Canceled Bonds	45
Section 14.10. Waiver of Notice	45
Section 14.11. Consent	45
Section 14.12. Separability of Invalid Provisions	45
Section 14.13. Effective Date	45
EXHIBIT A: Definitions	A-1
EXHIBIT B: Form of Par Bonds	B-1
EXHIBIT C: Form of Discount Bonds	C-1
EXHIBIT D: Maturities and Mandatory Redemption of Bonds and Other Provisions Relating to the Bonds	D-1

INDENTURE

This Indenture (the "Indenture"), dated as of July 1, 1997, by and between the Sacramento City Financing Authority, a joint exercise of powers agency duly organized and existing under the laws of the State of California (the "Authority"), and First Trust of California, National Association, a national banking association duly organized and existing under the laws of the United States of America, as Trustee (the "Trustee");

WITNESSETH:

WHEREAS, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as amended (the "Act"), authorizes and empowers the Authority to issue revenue bonds to assist the City of Sacramento, a municipal corporation and charter city duly organized and existing under the Constitution and laws of the State of California (the "City"), in financing public capital improvements whenever the City determines that there are significant public benefits from so doing; and

WHEREAS, the City has determined that the acquisition of the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena (the "Facility"), as more particularly described in the Facility Lease hereinafter defined, is necessary and proper for the City and is in the public interest, and that providing funds for paying the costs of the acquisition of the Facility by the issuance of revenue bonds of the Authority will result in demonstrable savings in borrowing costs to the City and will accelerate the acquisition of the Facility by the City and will result in significant public benefits to the City; and

WHEREAS, in order to assist the City in the foregoing, the Authority has determined to issue its 1997 Lease Revenue Bonds (ARCO Arena Acquisition) (the "Bonds") pursuant to the Act in an aggregate principal amount of seventy-three million seven hundred twenty-five thousand dollars (\$73,725,000);

WHEREAS, the Authority is not providing a Liquidity Facility at the time of original issuance of the Bonds, and MBIA Insurance Corporation (the "Bond Insurer") has agreed to endorse its Municipal Bond Insurance Policy to purchase the Bonds upon a failed remarketing on July 18, 2007, and the Authority may provide a Liquidity Facility after the Bonds are issued at which time said endorsement to the Municipal Bond Insurance Policy would terminate, all as more fully described herein;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND THE MUTUAL COVENANTS CONTAINED HEREIN, THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS; INTERPRETATION; AUTHORIZATION; EXHIBITS

Section 1.01. Definitions. The terms defined in Exhibit A shall for all purposes hereof have the meanings ascribed to them therein, unless the context clearly requires some other meaning.

Section 1.02. Interpretation.

(a) Unless the context otherwise indicates, all words expressed in the singular shall include the plural and vice versa, and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) All headings of the articles and sections and subsections hereof and the table of contents hereof are solely for convenience of reference and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subsections are to the corresponding Articles, Sections or subsections hereof, and the words "hereby," "herein," "hereof," "hereunder" and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section or subsection hereof.

Section 1.03. Authorization. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into the Indenture and has taken all actions necessary to authorize the execution of the Indenture by the officers and persons signing it on its behalf.

Section 1.04. Exhibits. The following Exhibits are attached to and by this reference incorporated herein and made a part of the Indenture:

- Exhibit A: Definitions
- Exhibit B: Form of Par Bonds
- Exhibit C: Form of Discount Bonds
- Exhibit D: Maturities and Mandatory Redemption of Bonds and Other Provisions Relating to the Bonds

ARTICLE II

THE BONDS

Section 2.01. Authorization and Purpose of Bonds. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and hereby finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, that the Authority is now duly authorized, pursuant to each and every requirement of the Act, to issue the Bonds in the form and manner provided herein for the purpose of providing funds to pay the costs of the acquisition of the Facility and that the Bonds shall be entitled to the benefit, protection and security of the Act and the provisions hereof. The Trustee is hereby directed (upon written request from the Authority and upon receipt of the Municipal Bond Insurance Policy and the Surety Bond) to direct the Paying Agent to authenticate and initially deliver the Bonds to the Original Purchaser after they have been executed by the Authority and delivered to the Paying Agent.

Section 2.02. Details of Bonds. The Bonds shall be executed, authenticated and initially delivered in the aggregate principal amount of seventy-three million seven hundred twenty-five thousand dollars (\$73,725,000), shall be dated as of the date of initial delivery thereof, shall contain the terms set forth herein and shall mature, subject to prior redemption, as provided in Section 3.03.

Section 2.03. Terms of Bonds.

(a) The Bonds shall be issued either as Par Bonds or as Discount Bonds, and shall be in fully registered form as provided herein.

Interest (at not to exceed the Maximum Rate) payable with respect to each Par Bond shall be payable to the Owner in whose name such Bond is registered as of the close of business on the applicable Record Date (i) from the date of initial delivery thereof for any Par Bond executed on or before the Record Date with respect to the first Interest Payment Date, or (ii) otherwise from the Interest Payment Date that immediately precedes the date on which any Par Bond is delivered (unless payment of interest due with respect to such Par Bond

is in default, in which case interest with respect to such Par Bond shall be payable from the date to which interest has been paid or, if no interest has been paid, from the date of initial delivery thereof); *provided*, that if the date of execution of any Par Bond is after a Record Date and before the Interest Payment Date to which such Record Date applies, interest shall be payable from such Interest Payment Date.

The Par Bonds shall be payable as to interest at the rates and in the manner described herein from and including the date thereof until payment of the principal or Redemption Price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise.

The Discount Bonds shall be executed, authenticated and delivered with a Principal Amount less than the Face Amount thereof as provided herein. The Discount Amount payable on the Discount Maturity Date or any other date shall represent interest (at not to exceed the Maximum Rate) with respect to the Discount Bonds, and no other interest shall be payable with respect to the Discount Bonds.

The Bonds shall each be lettered R and numbered consecutively from 1 upwards by the Paying Agent in order of authentication. The Bonds shall be executed, authenticated and delivered only in Authorized Denominations. Each Par Bond shall have its Mode, maturity date, interest rate and Purchase Date, if any, set forth on the face of such Bond. Each Discount Bond shall have its Face Amount, Discount Rate, Discount Amount, Discount Maturity Date and Principal Amount set forth on the face of such Bond.

(b) With respect to Bonds in a Floating Rate Mode interest shall be calculated as set forth in Section 2.04(c) and with respect to Bonds in a Unit Pricing Mode, interest shall be calculated on the basis of actual days elapsed and a year of three hundred sixty (360) days. With respect to Bonds paying interest at the Bank Rate, interest shall (as provided in the Liquidity Facility) be calculated on the basis of actual days elapsed and a year of three hundred sixty (360) days. With respect to Bonds in a Term Rate Mode or a Fixed Rate Mode, interest shall be calculated on the basis of a year of three hundred sixty (360) days and twelve (12) 30-day calendar months. With respect to Bonds in a Discount Mode, the Discount Amount shall be calculated on the basis of actual days elapsed and a year of three hundred sixty (360) days. The amount of interest payable with respect to the Par Bonds on each Interest Payment Date shall be calculated by the Paying Agent based solely upon information provided to the Paying Agent pursuant hereto, and with respect to Bonds paying interest at the Bank Rate, the Bank shall confirm the Paying Agent's determination of the amount of interest payable with respect to such Bonds, with notice to the Authority and the City at least two (2) Business Days prior to each Interest Payment Date.

The Bonds shall be initially delivered in a Floating Rate Mode, and shall be maintained in such Mode until July 18, 2007. The Bonds shall bear interest from the date of delivery thereof initially at the interest rate determined by the Original Purchaser on or prior to the Closing Date, as specified in Exhibit D. Thereafter, the determination of the interest rate or Discount Rate for the applicable Modes and the Interest Periods and/or maturity dates shall be made as provided herein.

Bonds (other than Bonds in a Fixed Rate Mode) may be changed to another Mode, in which case the interest rate or Discount Rate with respect to such Bonds shall be determined as provided herein. Bonds may only be in one Mode at a time, and changes from one Mode to another Mode are subject to the terms and conditions provided herein.

Interest with respect to Par Bonds shall be paid to the Owners on each Interest Payment Date by check of the Paying Agent or in the manner, including wire transfer, directed by the Owners of at least one million dollars (\$1,000,000) in Principal Amount of Bonds according to instructions given to the Paying Agent in writing for such purposes and on file prior to the Record Date.

Interest with respect to Discount Bonds shall be paid on each Discount Maturity Date by check of the Paying Agent or in the manner, including wire transfer, directed by the Owners of at least one million dollars (\$1,000,000) in Face Amount of Discount Bonds according to instructions given to the Paying Agent in writing for such purposes and on file prior to the Record Date.

Interest payable on a Mandatory Tender Date for, or the maturity date of, a Par Bond without regard to Mode or, with respect to Bonds in a Floating Rate Mode or a Unit Pricing Mode or a Term Rate Mode or with respect to a Discount Bond, payable on a Purchase Date, shall be paid by check mailed to each Owner at the address shown on the registration books maintained by the Trustee; provided, however, that interest shall be paid by wire transfer of immediately available funds to any Owner of at least one million dollars (\$1,000,000) in aggregate Principal Amount of Bonds other than Discount Bonds and the Face Amount of Discount Bonds, at the Owner's option, according to wire instructions given to the Trustee in writing for such purpose and on file prior to the Record Date.

The Principal Amount of Par Bonds or Face Amount of Discount Bonds, the Redemption Price and the Purchase Price due with respect to any Bonds shall be payable to the Owner thereof at the Principal Office of the Paying Agent only upon the presentation and surrender of such Bonds if the Bonds are no longer held in book-entry form. The Principal Amount and the Discount Amount accrued and due with respect to a Discount Bond (the sum of which shall equal the Face Amount of such Bond on the Discount Maturity Date related thereto) shall be payable to the Owner thereof only on such Discount Maturity Date (or on a Mandatory Tender Date or redemption date).

While the Bonds are held in book-entry form, payment of principal and interest shall be made by wire transfer to each Owner at the address shown on the registration books maintained by the Trustee; provided, however, that principal and interest shall be paid by wire transfer of immediately available funds to any Owner of at least one million dollars (\$1,000,000) in aggregate Principal Amount of Bonds other than Discount Bonds and the Face Amount of Discount Bonds, at the Owner's option, according to wire instructions given to the Paying Agent in writing for such purpose and on file prior to the Record Date.

All payments of Principal Amount, Redemption Price, Purchase Price and interest or Discount Amount with respect to the Bonds shall be paid from Available Money.

By acceptance of any Bond (other than Bonds paying interest at the Bank Rate), the Owner thereof shall be deemed to have agreed to the interest rate (including the Alternate Rate, if applicable), the Principal Amount (or the Face Amount, the Discount Rate and the Discount Amount, if applicable), the Interest Period and the Purchase Date (or Discount Maturity Date) then applicable thereto and shall be deemed to have further agreed (unless the Owner duly waives such right) to tender such Bond to the Paying Agent for purchase on the Purchase Date (or Discount Maturity Date) at the Purchase Price thereof plus accrued interest. By such acceptance, such Owner further acknowledges that, if funds for such purchase are on deposit with the Paying Agent on such Purchase Date (or Discount Maturity Date), such Owner shall have no rights hereunder other than to receive the payment of such Purchase Price and that interest (and accrual of the Discount Amount) shall cease to accrue on the Bonds owned by such Owner on such Purchase Date.

Section 2.04. Floating Rate Mode.

(a) With respect to Bonds in a Floating Rate Mode, interest on such Bonds shall be determined by reference to a Base Rate, which Base Rate shall be based upon the Index Maturity and adjusted by a Spread and/or Spread Multiplier, if any. A Floating Rate Bond may also have either or both of the following: (i) a Maximum Interest Rate; and (ii) Minimum Interest Rate; and for each Floating Rate Bond the Initial Interest Rate, the Base Rate, the Initial Interest Reset Date, the Interest Rate Reset Dates, the Interest Rate Reset Periods, the Interest Payment Dates, the Index Maturity, the Purchase Date, the Maximum Interest Rate and/or Minimum Interest Rate, if any, and the Spread and/or Spread Multiplier, if any, shall be as initially specified in Exhibit D, and thereafter as may be determined by the Remarketing Agent at the beginning of a new Floating Rate Period as specified in Exhibit D.

(b) The interest rate in effect with respect to a Floating Rate Bond during any Interest Period commencing as of an Interest Rate Reset Date shall be the rate determined on the related Interest Determination Date. The interest rate in effect with respect to a Floating Rate Bond on each day that is not an Interest Rate Reset

Date shall be the interest rate determined as of the Interest Determination Date pertaining to the immediately preceding Interest Rate Reset Date and the interest rate in effect on any day that is an Interest Rate Reset Date shall be the interest rate determined as of the Interest Determination Date relating to such Interest Rate Reset Date; *provided*, that the interest rate in effect with respect to a Floating Rate Bond for the period from the date of execution, authentication and initial delivery of such Bond to the Initial Interest Reset Date shall be the Initial Interest Rate. Each Floating Rate Bond shall bear interest from the date of initial delivery of such Floating Rate Bond at the rates determined as specified herein until the principal amount thereof is paid or otherwise available for payment and shall be payable on each Interest Payment Date, Mandatory Tender Date and on the Purchase Date as specified herein to Owners on the respective Record Dates.

(c) Accrued interest shall be calculated by multiplying the face amount of a Floating Rate Bond by an accrued interest factor. The accrued interest factor shall be computed by adding the interest factor calculated for each day from and including the date of delivery of a Floating Rate Bond, or from and including the last date to which interest has been paid to but excluding the date for which accrued interest is being calculated. The interest factor for each such day shall be computed by dividing the interest rate applicable to such day by three hundred sixty (360) (or in the case of Treasury Rate Bonds, by the actual number of days in the year). Upon the request of an Owner of a Floating Rate Bond, the Calculation Agent shall provide the interest rate then in effect and, if determined, the interest rates that will become effective as a result of each determination made for the next Interest Rate Reset Date with respect to such Floating Rate Bond. All percentages resulting from any calculation on Floating Rate Bonds will be rounded, if necessary, to the nearest one hundred-thousandths of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% will be rounded upward to 9.87655%), and all dollar amounts used in or resulting from such calculation of interest on Floating Rate Bonds will be rounded to the nearest cent (with one-half cent being rounded upward).

(d) The interest rate that will become effective on each Interest Rate Reset Date shall be determined by the Calculation Agent (calculated with reference to the Base Rate and the Spread, Spread Multiplier, Maximum Interest Rate and/or Minimum Interest Rate, if any, as initially specified in Exhibit D) as follows:

LIBOR: LIBOR shall be determined by the Calculation Agent in accordance with the following provisions:

(i) With respect to an Interest Determination Date relating to a LIBOR Bond (a "LIBOR Interest Determination Date"), LIBOR will be the rate for deposits in U.S. dollars having the Index Maturity specified in Exhibit D, that appears on Telerate Page 3750 as of 11:00 A.M., London time, on such LIBOR Interest Determination Date ("LIBOR Telerate"); and for purposes of this section, "Telerate Page 3750" means the display page designated as page "3750" on the Dow Jones Telerate Service (or such other page as may replace the 3750 page on that service or such other service or such other service as may be nominated as the information vendor for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If no rate appears on Telerate Page 3750, then LIBOR in respect of such LIBOR Interest Determination Date will be determined as if the parties had specified the rate described in clause (ii) below.

(ii) With respect to a LIBOR Interest Determination Date on which no rate appears on Telerate Page 3750, as specified in clause (i) above, as applicable, LIBOR shall be determined on the basis of the rates at which deposits in U.S. dollars are offered by four (4) major banks in the London interbank market (the "Reference Banks") having the Index Maturity specified in Exhibit D at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date commencing on the second (2nd) London Banking Day immediately following such LIBOR Interest Determination Date and in an amount that is representative for a single transaction in such market at such time. The Calculation Agent shall request the principal London office of each of the Reference Banks to provide a quotation of its rate; and if at least two (2) such quotations are provided, LIBOR for such LIBOR Interest Determination Date shall be the arithmetic mean of such quotations, and if fewer than two (2) quotations are provided, LIBOR for such LIBOR Interest Determination Date shall be the arithmetic mean of the rates quoted by 11:00 A.M.,

New York time, on the Interest Rate Reset Date by major banks in New York selected by the Calculation Agent for loans in U.S. dollars to leading European banks, having the Index Maturity specified in Exhibit D, commencing on the second (2nd) London Banking Day immediately following such LIBOR Interest Determination Date and in an amount that is representative for a single transaction in such market at such time; *provided*, that if the banks selected as aforesaid by the Calculation Agent are not quoting rates as mentioned in this sentence, LIBOR will be LIBOR in effect on such LIBOR Interest Determination Date.

Treasury Rate: The "Treasury Rate" means, with respect to any Interest Determination Date relating to a Treasury Rate Bond (a "Treasury Rate Interest Determination Date"), the rate applicable to the most recent auction of Treasury bills having the Index Maturity specified in Exhibit D as such rate is published in H.15 (519) under the heading Treasury bills--auction average (investment)" or, if not so published by 3:00 P.M., New York time, on or prior to the Calculation Date pertaining to such Treasury Rate Interest Determination Date, the auction average rate (expressed as a bond equivalent on the basis of a year of three hundred sixty-five (365) or three hundred sixty-six (366) days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury, and for purposes of this definition, "H.15 (519)" means the applicable Pricing Supplement, as published by the Board of Governors of the Federal Reserve System, or any successor publication.

Since Treasury bills are usually sold at auction on Monday of each week unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday, if the results of the auction of Treasury bills having the specified Index Maturity are not reported as provided by 3:00 P.M., New York time, on such Calculation Date, or if no such auction is held in a particular week, then the Treasury Rate shall be a yield to maturity (expressed as a bond equivalent on the basis of a year of three hundred sixty-five (365) or three hundred sixty-six (366) days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York time, on such Treasury Rate Interest Determination Date, of three (3) leading primary United States government securities dealers, selected by the Calculation Agent, for the issue of Treasury bills with a remaining maturity closest to the applicable Index Maturity; *provided*, that if the dealers selected as aforesaid by the Calculation Agent are not quoting rates as mentioned in this sentence, the rate of interest in effect for the applicable period will be the rate of interest in effect on such Treasury Rate Interest Determination Date. The Calculation Agent shall give Immediate Notice to all Owners and to the Authority and the City and the Paying Agent of the Treasury Rate after its determination.

(e) On each Interest Determination Date, the Calculation Agent shall give, with respect to each Bond in a Floating Rate Mode, Immediate Notice to the Authority, the City, the Paying Agent and the Trustee of the interest rate calculated by the Calculation Agent on such date.

Section 2.05. Unit Pricing Mode.

(a) With respect to Bonds in a Unit Pricing Mode, on each Adjustment Date, unless otherwise agreed to by the Authority and the Remarketing Agent, the Authority, in consultation with the Remarketing Agent, shall select Interest Periods for such Bonds that: (i) are not longer than 270 days in duration; (ii) do not extend beyond any Mandatory Tender Date; (iii) end on a day preceding an Adjustment Date or preceding the maturity date of the Bonds.

(b) No later than 3:30 P.M. New York time, on each Adjustment Date with respect to each Bond in a Unit Pricing Mode and which is subject to adjustment on such date, the Remarketing Agent shall determine the Unit Pricing Rate for the Interest Period then selected for such Bond, which Unit Pricing Rate shall be a rate of interest (not to exceed the Maximum Rate) which, in the sole judgment of the Remarketing Agent under then existing market conditions, would result in the sale of the Bonds to be remarketed on such Adjustment Date at a price equal to the Principal Amount thereof.

(c) No later than 3:30 P.M. New York time, on each Adjustment Date, the Remarketing Agent shall, with respect to each Bond in a Unit Pricing Mode and subject to adjustment, give Immediate Notice to the Paying Agent of the Principal Amount, the Interest Period, the Purchase Date and the Unit Pricing Rate. The Paying Agent shall promptly give notice thereof to the Trustee, the Bank, the Authority and the City.

(d) If the Remarketing Agent does not or cannot determine the Unit Pricing Rate, the Interest Period or the Purchase Date applicable to any Bond on any Adjustment Date, until such time as the Remarketing Agent again makes such determination, (i) the Unit Pricing Rate for such Bond shall be the Alternate Rate, which shall be provided to the Paying Agent by the Authority on such Adjustment Date, and interest shall accrue at the Alternate Rate from the last Purchase Date determined by the Remarketing Agent, and (ii) the Bonds, on and after the last Purchase Date which was determined by the Remarketing Agent, shall have successive Purchase Dates which shall commence on a Business Day and extend to, but not include, the next Business Day, and the Paying Agent shall be provided a new Alternate Rate on each such Purchase Date by the Authority.

(e) After 3:30 P.M. New York time on a Purchase Date with respect to Bonds in a Unit Pricing Mode, any Owner of such Bonds may telephone the Remarketing Agent and receive notice of the next proposed Interest Period or Interest Periods available and the then anticipated new Unit Pricing Rate; *provided*, that the Remarketing Agent shall not be obligated to set the new Unit Pricing Rate at such interest rate.

Section 2.06. Discount Mode.

(a) With respect to Bonds in a Discount Mode, on each Adjustment Date, unless otherwise agreed to by the Authority and the Remarketing Agent, the Authority, in consultation with the Remarketing Agent, shall select Interest Periods for such Bonds that: (i) are not longer than 270 days in duration; (ii) do not extend beyond any Mandatory Tender Date; (iii) end on a day preceding an Adjustment Date or preceding the maturity date of the Bonds; *provided*, that the Remarketing Agent shall not cause the Bonds to be sold in a Discount Mode until it has received confirmation that the Liquidity Facility covers the full Discount Amount of the Bonds. In all cases, the date following the date upon which the Interest Period with respect to any Discount Bond ends shall be noted on such Bond as the "Discount Maturity Date" of such Bond for such Interest Period.

(b) On each Adjustment Date with respect to each Bond in a Discount Mode which is subject to adjustment on such date, no later than 3:30 P.M. New York time, the Remarketing Agent shall determine the Discount Rate for the Interest Period then selected for such Bond, which Discount Rate shall be the discount rate which, in the sole judgment of the Remarketing Agent under then existing market conditions, would result in the sale of such Bonds to be remarketed on such Adjustment Date at a price equal to the Principal Amount thereof (which Principal Amount shall not be less than what the Principal Amount of the Bonds would be in a Par Mode).

(c) On each Adjustment Date with respect to each Bond in a Discount Mode and subject to such adjustment, no later than 3:30 P.M. New York time, the Remarketing Agent shall give Immediate Notice or notice by electronic means to the Paying Agent of the Interest Period, the Discount Maturity Date and the Discount Rate applicable to such Bond and the Principal Amount, Discount Amount and Face Amount of such Bond. The Paying Agent shall promptly give such notice thereof to the Trustee, the Bank, the Authority, the City and the new Owners.

(d) If the Remarketing Agent does not or cannot determine the Face Amount, the Interest Period, the Discount Maturity Date or the Purchase Date applicable to any Bond on any Adjustment Date, until such time as the Remarketing Agent again makes such determination, (i) such Bonds shall be changed to a Unit Pricing Mode as described in Section 2.05, and (ii) the interest rate for such Bond shall be the Alternate Rate.

Section 2.07. Bank Rate.

(a) When any Bonds are held on behalf of the Bank as a result of purchase of such Bonds with proceeds from a draw on the Liquidity Facility pursuant to Section 5.04, such Bonds shall be Par Bonds and interest on such Bonds shall be payable at the Bank Rate which, during such period, shall be equal to the interest rate payable to the Bank for any such unreimbursed draw on the Liquidity Facility, but not greater than the Maximum Rate. No payments may be made with respect to Bank Bonds from a drawing on the Liquidity Facility, and no Owner other than the Bank shall receive interest at the Bank Rate.

(b) Bank Bonds shall be remarketed by the Remarketing Agent, pursuant to the provisions of the Remarketing Agreement, in a Floating Rate Mode, a Unit Pricing Mode, a Term Rate Mode or a Fixed Rate Mode as directed by the Authority and subject to the provisions of Sections 2.04, 2.05, 2.08, 2.09 and 2.10, respectively. No later than 12:30 P.M. New York time, on each date on which Bank Bonds are remarketed, the Remarketing Agent shall, with respect to each Bank Bond remarketed, give Immediate Notice or notice by electronic means to the Paying Agent of the Principal Amount, the Interest Period, the Purchase Date and the interest rate or rates applicable upon the remarketing of such Bank Bond and the Principal Amount and the name of each new Owner in which such remarketed Bank Bond shall be registered; *provided*, that the Remarketing Agent shall not remarket Bank Bonds on the Expiration Tender Date or the Expiration Date.

Section 2.08. Term Rate.

(a) With respect to setting the Interest Period for Bonds in a Term Rate Mode, (i) the day after the last day of any Interest Period in a Term Rate Mode shall be a Business Day, (ii) the Interest Period shall be at least one (1) year in duration, and (iii) the Interest Period shall not extend beyond a date which is thirty (30) days prior to the stated expiration date of the Liquidity Facility then in effect with respect to the Bonds (or if such day is not a Business Day, the next succeeding Business Day). Interest Periods with respect to Bonds in a Term Rate Mode shall be for such length of time as shall be determined by the Remarketing Agent pursuant to the provisions of subsection (b) of this section.

(b) The Term Rate for any Interest Period for any Bonds in a Term Rate Mode shall be the rate of interest per annum determined by the Remarketing Agent not later than the Business Day prior to the Adjustment Date for such Interest Period as the minimum rate of interest which, in the sole judgment of the Remarketing Agent under then existing market conditions, would result in the sale of such Bonds to be remarketed on the applicable Adjustment Date at a price equal to the Principal Amount thereof; *provided*, that the Term Rate for any Interest Period shall in no event exceed the Maximum Rate; and *provided further*, that the Remarketing Agent shall select Interest Periods which do not extend beyond any proposed Mandatory Tender Date.

(c) At the end of any Interest Period for any Bonds in a Term Rate Mode (i) unless the Remarketing Agent is notified by the Authority that such Bonds shall remain in a Term Rate Mode or shall change to a Fixed Rate Mode or to a Discount Mode or a Floating Rate Mode or a Unit Pricing Mode, as described in Section 2.10; or (ii) if the Remarketing Agent does not or cannot determine the new Term Rate, the new Interest Period or the new Purchase Date of such Bonds; then in each such case such Bonds shall automatically change to a Unit Pricing Mode on the Purchase Date, and thereafter the provisions of Section 2.05 shall (provided an Substitute Liquidity Facility shall be in effect on the date of such conversion) apply with respect to such Bonds.

(d) No later than 3:30 P.M. New York time, on each Adjustment Date with respect to an Interest Period for any Bonds in a Term Rate Mode, the Remarketing Agent shall give to the Paying Agent and the Trustee Immediate Notice with respect to the Interest Period, the Purchase Date, the Term Rate applicable upon the remarketing of such Bonds and the Principal Amount and the name of each new Owner in which such Bonds shall be registered.

Section 2.09. Fixed Rate.

(a) The Fixed Rate for Bonds in a Fixed Rate Mode shall be the rate (or rates) which the Remarketing Agent, having due regard to the prevailing market conditions, determines in its sole judgment not later than one (1) Business Day prior to the Mode Change Date which would be necessary to enable all Bonds to be sold at the Principal Amount in the secondary market on the Mode Change Date. At any time, all of the then Outstanding Bonds, at the option of the Authority, may be converted to a Fixed Rate Mode. Bonds converted to a Fixed Rate Mode shall have, at the option of the Authority exercised prior to the Mode Change Date, either (i) serial maturities corresponding to the maturity and redemption schedule described in Section 3.03, or (ii) mandatory redemptions corresponding to the maturity and redemption schedule described therein. If the Authority selects serial maturities, then prior to the Mode Change Date the Paying Agent shall select, by lot in such

manner as the Paying Agent shall determine, particular Bonds to correspond to such serial maturities. By acceptance of any Fixed Rate Bond, the Owner shall be deemed to have agreed to the Fixed Rate and maturity date thereof and all redemption dates and Redemption Prices with respect thereto.

(b) The Remarketing Agent shall determine the Fixed Rate(s) as follows: Not later than 4:00 P.M. New York time on the day preceding the Mode Change Date, the Remarketing Agent shall determine the interest rate or, if serial Bonds are created as described in subsection (a) of this section, the interest rates. On such day, the Remarketing Agent shall notify the Paying Agent of the Fixed Rate(s) and the Paying Agent shall immediately notify the Notice Parties of the Fixed Rate(s) by Electronic Means.

(c) If all of the Bonds are not sold or remarketed on the Mode Change Date or the Remarketing Agent cannot set a Fixed Rate, then the interest rate with respect to such Bonds will not be converted to the Fixed Rate, and all Bonds will convert to a Unit Pricing Mode and be subject to the provisions of Section 2.05.

Section 2.10. Mode Changes. Subject to the provisions of this section, the Authority may effect a change in Mode with respect to the Bonds by following the procedures set forth in this section.

(a) Changes to Modes Other Than Fixed Rate Mode. Except for Bonds in a Fixed Rate Mode, the Bonds may be changed from one Mode to another Mode on July 18, 2007, or on any date thereafter, as follows:

(i) Mode Change Notice; Notice to Owners. For a Mode Change other than pursuant to Section 3.09(h), no later than the forty-fifth (45th) day (or such shorter time as may be agreed to by the Authority, the City, the Trustee, the Paying Agent and the Remarketing Agent) preceding the proposed Mode Change Date, the Authority shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this section, the "Current Mode") to another Mode (for purposes of this section, the "New Mode") specified in such written notice, and, if the change is to a Term Rate Mode, the length of the initial Interest Period. For a Mode Change pursuant to Section 3.09(h), no later than the ninetieth (90th) day prior to July 18, 2007 (or such shorter time as may be agreed to by the Authority, the City, the Bond Insurer, the Trustee, the Paying Agent and the Remarketing Agent), the Authority shall give written notice to the Notice Parties of its intention to effect a change in the Mode from the Floating Rate Mode to a New Mode specified in such written notice, and, if the change is to a Term Rate Mode or the Floating Rate Mode, the length of the initial Interest Period or the Floating Rate Period, respectively. Notice of the change in Mode shall be given to the Owners pursuant to Section 3.09(a).

(ii) Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to a Floating Rate Mode, a Unit Pricing Mode, a Discount Mode or a Term Rate Mode, with the Interest Period(s)) shall be determined by the Remarketing Agent in the manner provided in Sections 2.04, 2.05, 2.06 and 2.08, as applicable.

(iii) Conditions Precedent to a Mode Change.

(A) The Mode Change Date shall be a Business Day;

(B) The Mode Change Date in the case of a change:

(1) from a Unit Pricing Mode, shall be the last Purchase Date for all Interest Periods set by the Remarketing Agent; and

(2) from a Term Rate Mode, shall be the Purchase Date of the current Interest Period; and

(3) from a Floating Rate Mode, shall be the Purchase Date for such Floating Rate Period; and

(C) A Rating Confirmation Notice shall have been delivered to the Trustee, the Paying Agent and the Remarketing Agent by the Mode Change Date.

(iv) Failure to Satisfy Conditions Precedent to Mode Change. Other than a Mode Change pursuant to Section 3.09(h), if the foregoing conditions have not been satisfied by the Mode Change Date, then the New Mode shall not take effect; and if the change was from a Unit Pricing Mode, the Bonds shall remain in a Unit Pricing Mode with interest rates and Interest Periods to be established in accordance with Section 2.05; otherwise, all Bonds shall be changed to a Unit Pricing Mode with Interest Periods and interest rates to be determined by the Remarketing Agent on the Mode Change Date. If the foregoing conditions have not been satisfied with respect to a Mode Change on July 18, 2007, such event shall be governed by Section 3.09(h).

(b) Change to Fixed Rate Mode. At the option of the Authority, Bonds may be changed to a Fixed Rate Mode on July 18, 2007 (pursuant to the provisions of Section 3.09(h)), or on any date thereafter, as provided in this subsection. Other than a change to Fixed Rate Mode pursuant to Section 3.09(h), not less than forty-five (45) days (or such shorter time as may be agreed to by the Trustee and the Remarketing Agent) before the proposed Mode Change Date, the Authority shall give written notice to the Notice Parties stating that the Mode will be changed to a Fixed Rate Mode and setting forth the proposed Mode Change Date. Pursuant to a change to a Fixed Rate Mode pursuant to Section 3.09(h), not less than ninety (90) days (or such shorter time as may be agreed to by the Trustee and the Remarketing Agent) before July 18, 2007, the Authority shall give written notice to the Notice Parties stating that the Mode will be changed to a Fixed Rate Mode and setting forth the proposed Mode Change Date. Any such change in Mode shall be made as follows:

(i) Mode Change Date. The Mode Change Date shall be:

(A) in the case of a change from a Floating Rate Mode or a Unit Pricing Mode, a day which is the last Purchase Date for all Interest Periods set by the Remarketing Agent; provided, however, that the change from the initial Floating Rate Mode shall occur on July 18, 2007;

(B) a Business Day; and

(C) in the case of a change from a Term Rate Mode, the Purchase Date of the current Interest Period.

(ii) Notice to Owners. Not less than the thirtieth (30th) day next preceding a Mode Change Date, the Paying Agent shall mail, in the name of the Authority, a notice of such proposed change to the Owners stating that the Mode will be changed to a Fixed Rate Mode, the Mode Change Date and that such Owners are required to tender their Bonds for purchase on such Mode Change Date.

(iii) General Provisions Applying to Change to Fixed Rate. The change to a Fixed Rate Mode shall not occur unless a Rating Confirmation Notice shall have been delivered to the Trustee, the Paying Agent and the Remarketing Agent on the Mode Change Date. If any of the conditions precedent have not been satisfied on or prior to the Mode Change Date, then a Fixed Rate Mode shall not become effective and all Bonds shall be changed to a Unit Pricing Mode with Interest Period(s) to be determined by the Remarketing Agent on the Mode Change Date.

(c) *Obligation to Maintain Swap or Hedge in Modes Other Than Fixed Rate Mode.* The Authority hereby agrees as a condition precedent to any change to a Mode other than a Fixed Rate Mode, to maintain in effect a swap or hedge in form and substance acceptable to the Bond Insurer with a swap or hedge provider acceptable to the Bond Insurer upon the delivery date of such swap or hedge.

Section 2.11. Form.

(a) The Bonds will be executed, authenticated and delivered in fully registered form in Authorized Denominations. The Bonds to be delivered and Outstanding hereunder, and the certificate of authentication to appear thereon, shall be in substantially the forms set forth in Exhibit B (with respect to Par Bonds) or Exhibit C (with respect to Discount Bonds which form is to be provided at the time Bonds are delivered in Discount Mode), with necessary or appropriate variations, omissions and insertions as permitted or required hereby.

(b) Pending preparation of definitive Bonds, or by agreement with the Original Purchaser of the Bonds, the Authority, in lieu of definitive Bonds, may execute and deliver to the Paying Agent for authentication and delivery by the Paying Agent one or more temporary printed or typewritten Bonds in any Authorized Denominations and of substantially the tenor recited above, and the Authority, without any additional charge to the Owners thereof, shall execute and deliver to the Paying Agent for authentication and delivery by the Paying Agent definitive Bonds in exchange for and upon surrender of an equal Principal Amount of temporary Bonds; and until so exchanged, temporary Bonds shall have the same rights, remedies and security as definitive Bonds.

(c) The form of Bonds which have been changed to a Fixed Rate Mode may omit provisions which do not apply to Bonds in a Fixed Rate Mode, and the Bonds which have been converted to a Fixed Rate Mode shall state on the face of the Bond the Fixed Rate applicable to such Bond, and the Paying Agent may add such other distinguishing marks or indications as the Paying Agent shall deem to be appropriate to distinguish Bonds in a Fixed Rate Mode.

The form of Bonds in a Discount Mode may also omit provisions which do not apply thereto and shall state on the face of such Bonds the information set forth in Section 2.03.

Section 2.12. Execution. The Bonds shall be executed by and in the name of the Authority by the Chairman or Vice Chairman of the Authority and shall be countersigned by the Secretary of the Authority, which signatures of the Chairman or Vice Chairman and Secretary may be manually subscribed or may be by printed, lithographed or engraved by facsimile reproduction. If any officer whose signature appears on any Bond ceases to be such officer before the date of delivery of said Bond, such signature shall nevertheless be valid and sufficient for all purposes as if the signatory had remained in office until such date. Any Bond may be executed on behalf of the Authority by such person as at the actual date of the execution of such Bond shall be the proper officer of the Authority.

Only those Bonds bearing thereon a certificate of authentication in the form hereinbefore referred to, executed manually and dated by the Paying Agent, shall be entitled to any benefit, protection or security hereunder or be valid or obligatory for any purpose, and such certificate of authentication of the Paying Agent shall be conclusive evidence that the Bonds so authenticated have been duly authorized, executed, issued and delivered hereunder and are entitled to the benefit, protection and security hereof.

Section 2.13. Application of Proceeds of Bonds. The proceeds received by the Trustee from the sale of the Bonds shall be deposited by the Trustee in the Acquisition Fund.

Section 2.14. Transfer and Exchange. The registration of any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Paying Agent for the Owner in whose name it is registered, in person or by such Owner's duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Paying Agent, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Paying Agent. Whenever any Bond or Bonds shall be surrendered for

registration of transfer, the Authority shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds in any Authorized Denominations of the same maturity, Mode, Purchase Date and aggregate Principal Amount. The Paying Agent may require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Paying Agent shall not be required to transfer Bonds (a) if the Paying Agent has received notice from the Owner of such Bond that such Owner waives the mandatory tender of such Bond pursuant to Section 3.09, or (b) during the period designated by the Paying Agent for selection of Bonds for redemption, or (c) if such Bonds have been called for redemption.

All Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate Principal Amount (and, in the case of Discount Bonds, a like aggregate Face Amount) of Bonds of other Authorized Denominations of the same maturity. Whenever any Bond or Bonds shall be surrendered for exchange, the Authority shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds in Authorized Denominations of the same maturity, Mode and Purchase Date and for like Principal Amount (and, in the case of Discount Bonds, a like aggregate Face Amount). The Authority shall pay any costs of the Paying Agent incurred in connection with such exchange, except that the Paying Agent may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Paying Agent shall not be required to exchange Bonds (a) if the Paying Agent has received notice from the Owner of such Bond that such Owner waives the mandatory tender of such Bond pursuant to Section 3.09, or (b) during the period designated by the Paying Agent for selection of Bonds for redemption, or (c) if such Bonds have been called for redemption.

Section 2.15. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority shall execute and the Paying Agent shall authenticate and deliver, at the expense of the Owner of such Bond, a new Bond of like tenor and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Paying Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Paying Agent shall be canceled by it and destroyed in accordance with Section 14.09. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Paying Agent, and if such evidence is satisfactory to the Paying Agent and if indemnity satisfactory to the Paying Agent shall be given, the Authority shall execute and the Paying Agent shall authenticate and deliver, at the expense of the Owner of such Bond, a new Bond of like tenor and maturity and numbered as the Paying Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Paying Agent may require payment from the Owner requesting such substitution of an appropriate fee for each new Bond delivered under this section and of the expenses, including replacement of Bonds, which may be incurred by the Paying Agent in carrying out the duties under this section. Any Bond delivered under the provisions of this section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds issued hereunder and secured hereby, and the Paying Agent shall not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the Principal Amount (and, in the case of Discount Bonds, a like aggregate Face Amount) of Bonds which may be executed and delivered hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this section, in lieu of delivering a new Bond in exchange for a Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Paying Agent may make payment with respect to such Bond upon receipt of the above-stated indemnity.

Section 2.16. Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent or other instrument in writing required or permitted hereby to be signed or executed by Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of Bonds shall be sufficient for any purpose hereof (except as otherwise herein provided) if made in the following manner:

(a) The fact and date of the execution by any Owner or such Owner's attorney or agent of any such instrument and of any instrument appointing any such attorney or agent may be proved by a certificate, which shall be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged before him the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

(b) The fact of the ownership of Bonds by any person and the amount, the maturity and the numbers of such Bonds and the date of such person's holding the same shall be proved by the Registration Books.

Nothing contained in this article shall be construed as limiting the Trustee or the Paying Agent to such proof, it being intended that the Trustee or the Paying Agent may accept any other evidence of the matters herein stated which the Trustee or the Paying Agent may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the Trustee, the Paying Agent or the Authority in pursuance of such request or consent.

Section 2.17. Registration Books. The Paying Agent shall keep or cause to be kept, at its Principal Office, sufficient records for the registration and registration of exchange of the Bonds, which shall at all times be open to inspection by the Authority, the City, the Trustee, the Bank and the Bond Insurer during regular business hours with reasonable notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Bonds as hereinbefore provided.

Section 2.18. CUSIP Numbers. The Paying Agent, the Trustee, the Authority and the City shall not be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice thereof. The Paying Agent may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Owners and that neither the Paying Agent, the Trustee, the Authority nor the City shall be liable for any inaccuracies in such numbers.

Section 2.19. Use of Depository for Bonds.

(a) Notwithstanding anything to the contrary contained herein, the Bonds shall be initially registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York, and shall be initially issued as one Bond for each of the maturities in the principal amounts set forth in Section 2.02, and The Depository Trust Company, New York, New York, is hereby appointed depository for the Bonds. After the initial registration of the Bonds, registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of Cede & Co., as nominee of The Depository Trust Company, or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a "substitute depository"); provided, that any successor of Cede & Co., as nominee of The Depository Trust Company or substitute depository, shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any substitute depository not objected to by the Paying Agent, upon (1) the resignation of The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository, or (2) a determination by the Authority to substitute another depository for The Depository Trust Company (or its successor) because The Depository Trust Company or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository;

provided, that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or substitute depository or its successor) from its functions as depository, or (2) a determination by the Authority to remove The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Paying Agent, together with a written request of the Authority to the Paying Agent, a new Bond for each maturity shall be executed, authenticated and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Authority. In the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of all Outstanding Bonds by the Paying Agent, together with a written request of the Authority to the Paying Agent, new Bonds shall be executed, authenticated and delivered in such denominations numbered in the manner determined by the Paying Agent and registered in the names of such persons as are requested in such written request of the Authority, subject to the limitations of Section 2.02, and thereafter the Bonds shall be transferred pursuant to Section 2.14; provided, that the Paying Agent shall not be required to deliver such new Bonds on a date prior to sixty (60) days after receipt of such written request of the Authority.

(c) The Authority and the Paying Agent shall be entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes hereof and any applicable laws, notwithstanding any notice to the contrary received by the Authority or the Paying Agent, and the Authority and the Paying Agent shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Authority nor the Paying Agent shall have any responsibility or obligation, legal or otherwise, to the beneficial owners or to any other party, including The Depository Trust Company or its successor (or substitute depository or its successor), except to The Depository Trust Company or its successor (or substitute depository or its successor) as an Owner of any Bonds.

(d) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the Authority and the Paying Agent shall cooperate with Cede & Co., as sole Owner, or its registered assigns, in effecting payment of the interest on and principal of and redemption premiums, if any, on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Section 2.20. Validity of Bonds. The validity of the issuance of the Bonds shall not be dependent on or affected in any way by the proceedings taken by the Authority for the lease of the Facility to the City or by any contracts made by the Authority in connection therewith, and shall not be dependent upon the performance by any person, firm or corporation of his or its obligation with respect thereto. The recital contained in the Bonds that the same are issued pursuant to the Act and pursuant hereto shall be conclusive evidence of their validity and of the regularity of their issuance, and all Bonds shall be incontestable from and after their issuance. The Bonds shall be deemed to be issued, within the meaning hereof, whenever the definitive Bonds (or any temporary Bonds exchangeable therefor) shall have been initially delivered to the Original Purchaser and the proceeds of sale thereof received.

ARTICLE III

REDEMPTION; PURCHASE, REMARKETING AND TENDER OF BONDS

Section 3.01. Optional Redemption of Bonds.

(a) *Unit Pricing Mode, Discount Mode or Term Rate Mode.* The Bonds in a Unit Pricing Mode, a Discount Mode or a Term Rate Mode shall be subject to optional redemption by the Authority, in whole or in part, on their individual Purchase Dates (or Discount Maturity Dates), and on such other dates as set forth in the Notice of a Conversion to a Term Rate Mode, at a Redemption Price equal to one hundred percent (100%) of the Principal Amount of the Bonds being redeemed (or such other Redemption Prices as set forth in such Notice of Mode Change to a Term Rate Mode) plus accrued interest thereon to the date fixed for redemption.

(b) *Floating Rate Mode.* The Bonds in a Floating Rate Mode shall be subject to optional redemption by the Authority on or after July 15, 1998 (or such other date as shall be specified by the Remarketing Agent and set forth in Appendix D) in whole or in part in the Principal Amount of \$100,000 and an integral multiple of \$1,000 in excess thereof on any Interest Payment Date at a Redemption Price equal to one hundred percent (100%) of the Principal Amount of the Bonds being redeemed plus accrued interest thereon to the date fixed for redemption.

(c) *Fixed Rate Mode.* The Bonds in a Fixed Rate Mode shall be subject to optional redemption by the Authority, in whole or in part, at a Redemption Price and on the applicable dates fixed for redemption as set forth in the notice establishing conversion to a Fixed Rate Mode.

Section 3.02. Extraordinary Redemption of Bonds. The Bonds shall be subject to extraordinary redemption by the Authority, in whole on any date (except for Discount Bonds which shall only be redeemed on a Discount Maturity Date) or in part on any Interest Payment Date or Discount Maturity Date, in any integral multiple of an Authorized Denomination, to the extent of Net Proceeds of property or casualty insurance or a condemnation or title insurance award with respect to the Facility, which Net Proceeds are deposited in the Revenue Fund and credited towards the prepayment of the Base Rental Payments made by the City pursuant to Section 3.03 of the Facility Lease, at a Redemption Price equal to the Principal Amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Section 3.03. Mandatory Redemption of Bonds. The Bonds shall be subject to mandatory redemption by the Authority, in part on the third Wednesday of July in each year while the Bonds are in Floating Rate Mode and on July 15 in each year in any other Mode, from the principal components of scheduled Base Rental Payments required to be paid by the City pursuant to Section 3.03 of the Facility Lease with respect to each such redemption date, at a Redemption Price equal to the Principal Amount thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium, as set forth in Exhibit D as the same may be amended in connection with a change in Mode with respect to all Bonds and with the consent of the Bank, if any, and after the giving of notice to all Owners as provided in Section 2.10.

During the Bank Bond Holding Period, any Bank Bonds shall be subject to mandatory redemption from prepayment under the Facility Lease to the extent permitted by law, in part, on or before January 15 and July 15 of each year (each being a "Bank Bond Call Date") at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption (and by lot, by any method selected by the Trustee) in semi-annual amounts equal to but not less than the quotient determined by dividing the principal amount thereof outstanding on the first day of the Bank Bond Holding Period by the number of Bank Bond Call Dates then remaining in the Bank Bond Holding Period; provided that any balance shall be due and payable on the last day of the Bank Bond Holding Period.

If Bonds are redeemed in part but not in whole pursuant to Sections 3.01 or 3.02, the amount of the Bonds to be redeemed in each subsequent year pursuant to this section shall be reduced to correspond to the principal components of the Base Rental Payments remaining following such redemption, determined as set forth in Section 3.03 of the Facility Lease.

Section 3.04. Redemption From Available Money. Payment of the Redemption Price and accrued interest or Discount Amount due with respect to the Bonds (other than Bank Bonds) pursuant to any redemption must be made with Available Money. With respect to Bonds in a Discount Mode subject to redemption, the payment to Owners of the Purchase Price and accrued Discount Amount on a Discount Maturity Date which corresponds to a date fixed for redemption shall constitute payment of the Redemption Price and accrued Discount Amount and upon such payment such Bonds subject to redemption shall be redeemed rather than remarketed. With respect to any optional redemption, the City shall cause to be deposited with the Trustee, for deposit in the Revenue Fund, Available Money which, when taken together with Available Money in the Interest Reserve Fund allocable to the Bonds to be redeemed, is sufficient for such redemption not less than one (1) Business Day prior to such date fixed for redemption. If such amount of Available Money is not deposited by such date, the Bonds shall not be redeemed but shall continue in the Mode in effect on such Business Day, and the Paying Agent shall promptly notify such Owners that such optional redemption will not occur.

Section 3.05. Selection of Bonds to be Redeemed. If less than all of the Outstanding Bonds are to be redeemed: (i) if such Bonds are in a Unit Pricing Mode having two (2) or more Purchase Dates or a Term Rate Mode having two (2) or more Purchase Dates or a Discount Mode having two (2) or more Discount Maturity Dates, Bonds shall be selected by the Paying Agent for redemption as directed by the Authority at least fifteen (15) days prior to the date the Paying Agent shall make such selection or, if not directed otherwise, in direct chronological order of Purchase Dates (or Discount Maturity Dates), with the Bonds with the earliest Purchase Dates or Discount Maturity Dates to be redeemed first or, with respect to Bonds subject to purchase on the same Purchase Date or conversion on the same Mode Change Date, by any method the Authority selects and directs the Paying Agent after consulting with the Remarketing Agent or at the direction of the Remarketing Agent, and (ii) if such Bonds are all in a Fixed Rate Mode, Floating Rate Mode or a Mode with the same Purchase Date (or Discount Maturity Date), Bonds shall be selected by the Paying Agent for redemption by lot in such manner as the Paying Agent shall determine; *provided*, that Bonds paying interest at the Bank Rate shall be selected first for any redemption.

In the case of a Bond in a denomination larger than the minimum Authorized Denomination, a portion of such Bond may be redeemed; *provided*, that the remaining principal amount of such Bond shall be in an Authorized Denomination.

Section 3.06. Redelivery of Bonds Upon Partial Redemption. Upon the selection and call for redemption of, and the surrender of, any Bond for redemption in part only, the Authority shall cause to be executed and the Paying Agent shall authenticate and deliver to or upon the written order of the Owner thereof a new Bond or Bonds, in an aggregate face amount equal to the unredeemed portion of the Bond surrendered, which new Bond or Bonds shall be in Authorized Denominations.

Section 3.07. Effect of Call for Redemption. On the date designated for redemption by notice given as herein provided, the Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for redemption of such Bonds on such date, together with accrued interest or Discount Amount. If on the date fixed for redemption money for payment of the Redemption Price is held by the Paying Agent or the Trustee, as provided herein, interest or Discount Amount with respect to such Bonds so called for redemption shall cease to accrue and such Bonds shall cease to be entitled to any benefit or security hereunder except the right of Owners thereof to receive payment from the money held by the Paying Agent or the Trustee for such redemption.

Section 3.08. Notice of Redemption.

(a) *Official Notice.* Unless waived by any Owner of Bonds to be redeemed, notice of any such redemption shall be given by the Paying Agent on behalf of the Authority by mailing a copy of a redemption notice by first class mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at his address shown on the Registration Books.

All notices of redemption shall be dated and shall state: (i) the date fixed for redemption, (ii) the Redemption Price, (iii) if less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption of individual Bonds, the respective Principal Amounts) of the Bonds to be redeemed, (iv) that on the date fixed for redemption, the Redemption Price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest or Discount Amount with respect thereto shall cease to accrue from and after such date, (v) the place where such Bonds are to be surrendered for payment of the Redemption Price, which place of payment shall be the Principal Office of the Paying Agent, and (vi) in the event of optional redemption, if the Trustee has not received Available Money from the Authority on the day prior to such optional redemption date, then the Bonds shall not be redeemed and shall continue in the then current Mode.

On or prior to any date fixed for redemption, the Authority shall deposit with the Paying Agent an amount of Available Money sufficient to pay the Redemption Price of all the Bonds or portions of Bonds which are to be redeemed on such date.

If notice of redemption has been given as aforesaid, then the Bonds or portions of Bonds so to be redeemed shall, on the date fixed for redemption, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Authority shall default in the payment of the Redemption Price) interest or Discount Amount with respect to such Bonds or portions of Bonds shall cease to be payable. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Paying Agent at the Redemption Price, and installments of interest due on or prior to the date fixed for redemption shall be payable as herein provided for payment of interest or Discount Amount. All Bonds which have been redeemed shall be canceled and destroyed by the Paying Agent and shall not be redelivered.

Failure by any Owner to receive notice as herein provided shall not affect the validity of any such redemption.

(b) *Additional Notice.* In addition to the foregoing notice, additional notice shall be given by the Paying Agent as set forth in this subsection, but no defect in such additional notice nor any failure to give all or any portion of such additional notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in subsection (a) of this section. Each additional notice of redemption given hereunder shall contain the information required above for a notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of the initial delivery of the Bonds; (C) the rate of interest (or Discount Rate) payable with respect to each Bond being redeemed; (D) the maturity date, Purchase Date or Discount Maturity Date of the Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Bonds being redeemed. Each such additional notice of redemption shall be sent, at least thirty (30) days before the date fixed for redemption, by telecopy, registered, certified or overnight mail to all Securities Depositories and to at least one Information Service selected by the Authority.

(c) *Purchase of Bonds.* In lieu of redemption of Bonds as provided in this article, amounts held by the Paying Agent for such redemption may also be used prior to the date fixed for redemption, upon receipt by the Paying Agent at least seventy-five (75) days prior to the date fixed for redemption of the written request of the Authority, for the purchase of Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the Authority may in its discretion direct, but not to exceed the Redemption Price which would be payable if such Bonds were redeemed. The aggregate Principal Amount of Bonds of the same maturity purchased in lieu of redemption pursuant to this section shall not exceed the aggregate Principal Amount of Bonds of such maturity which would otherwise be subject to such redemption.

Section 3.09. Mandatory Tender.

(a) *On Mode Change Date.* Except for Bonds in a Fixed Rate Mode, Bonds to be changed from one Mode to another Mode are subject to mandatory tender on the Mode Change Date at the Purchase Price as provided in this subsection. The Paying Agent shall give notice of such mandatory tender by mail to the Owners of the Bonds subject to mandatory tender no less than thirty (30) days prior to the Mode Change Date. The notice shall state the Mandatory Tender Date, the Purchase Price and that interest on Bonds subject to mandatory tender shall cease to accrue from and after the Mandatory Tender Date. The failure to mail such notice with respect to any Bonds shall not affect the validity of the mandatory tender of any other Bonds with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner.

(b) *At End of Floating Rate Periods and Unit Pricing Rate Periods.* Each Bond in a Floating Rate Mode or in a Unit Pricing Mode is subject to mandatory tender on the Purchase Date for the current Floating Rate Period or Interest Period, respectively, at the Purchase Price plus accrued interest.

(c) *At End of Interest Period for Term Rate Mode.* Each Bond in a Term Rate Mode is subject to mandatory tender on the Purchase Date for the current Interest Period at the Purchase Price plus accrued interest. The Paying Agent shall give notice of such mandatory tender by mail to the Owners of the Bonds subject to mandatory tender no less than thirty (30) days prior to the Mandatory Tender Date. The notice shall state the Mandatory Tender Date and the Purchase Price and that on Bonds subject to mandatory tender shall cease to accrue from and after the Mandatory Tender Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner.

(d) *At End of Interest Period for Discount Mode.* Each Bond in a Discount Mode is subject to mandatory tender on the Discount Maturity Date for the current Interest Period at the Face Amount. Interest with respect to Bonds subject to mandatory tender shall cease to accrue from and after the such Discount Maturity Date. No notice of such mandatory tender shall be given to the Owners of Bonds in a Discount Mode.

(e) *Upon Delivery of Initial Liquidity Facility and Substitution of Liquidity Facility.* On the date upon which an Initial Liquidity Facility is to be delivered, the Bonds (other than Bank Bonds) shall be subject to mandatory tender. If a Substitute Liquidity Facility is to be substituted for the Liquidity Facility then in effect, the Bonds (other than Bank Bonds) shall be subject to mandatory tender on the Substitution Tender Date. The Paying Agent shall give notice of such mandatory tender by mail to the Owners of the Bonds subject to mandatory tender in a Term Rate Mode or a Fixed Rate Mode no less than thirty (30) days prior to the Mandatory Tender Date, and shall give notice of such mandatory tender by mail to the Owners of the Bonds subject to mandatory tender in a Floating Rate Mode or a Unit Pricing Mode or a Discount Mode no less than five (5) days prior to the Mandatory Tender Date. The notice shall state the Mandatory Tender Date, the Purchase Price and that interest with respect to Bonds subject to mandatory tender shall cease to accrue from and after the Mandatory Tender Date, and shall set forth the name and rating of the provider of the Initial Liquidity Facility or Substitute Liquidity Facility, as appropriate. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner, and the failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed.

(f) *Upon Termination Date of Liquidity Facility.* If, by the Renewal Date, no extension of the Liquidity Facility has been delivered to the Paying Agent or an irrevocable written commitment to provide a Substitute Liquidity Facility has not been received by the Paying Agent, the Bonds (other than Bank Bonds) shall be subject to mandatory tender on the Expiration Tender Date. The Paying Agent shall notify the Authority and the City and the Trustee that no Substitute Liquidity Facility has been provided and shall notify the Owners of all Bonds, on the next Business Day following the Renewal Date, of the mandatory tender of the Bonds and the Expiration Tender Date. The notice delivered by the Paying Agent to the Owners shall state that on the Expiration Tender Date such Bonds shall be subject to mandatory tender for purchase without any right of the Owner thereof

to waive such mandatory tender. Bonds purchased pursuant to this subsection shall be delivered by the Owners (with all necessary endorsements) to the Principal Office of the Paying Agent at or before 12:00 Noon New York time on the Mandatory Tender Date, and payment of the Purchase Price and accrued interest or Discount Amount of such Bonds shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Tender Date.

(g) *Upon Substitute Credit Date.* After a Liquidity Facility is delivered to the Paying Agent pursuant to Section 5.04 and a successful remarketing has occurred pursuant to Section 3.10(e), the Bonds shall be subject to mandatory tender on the Substitute Credit Date as provided in Section 5.07. The Paying Agent shall give notice of such mandatory tender by mail to the Owners of the Bonds subject to mandatory tender in a Term Rate Mode or a Fixed Rate Mode no less than thirty (30) days prior to the Mandatory Tender Date, and shall give notice of such mandatory tender by mail to the Owners of the Bonds subject to mandatory tender in a Floating Rate Mode or a Unit Pricing Mode or a Discount Mode no less than five (5) days prior to the Mandatory Tender Date. The notice shall state the Mandatory Tender Date, the Purchase Price and that interest with respect to Bonds subject to mandatory tender shall cease to accrue from and after the Mandatory Tender Date, and shall set forth the name and rating of the provider of the Substitute Bond Insurance Policy. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner, and the failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory tender of any other Bond with respect to which notice was so mailed.

(h) *On July 18, 2007.* Each Bond in a Floating Rate Mode is subject to mandatory tender on July 18, 2007, at an amount equal to the Purchase Price, plus accrued interest. On or prior to the ninetieth (90th) day prior to July 18, 2007 (or such shorter time as may be agreed to by the Authority, the City, the Bond Insurer, the Trustee, the Paying Agent and the Remarketing Agent), the Authority shall determine a new Mode and shall give written notice of a Mode Change pursuant to Section 2.10(a) or (b), as applicable. No later than fifteen (15) days prior to July 18, 2007 (or such shorter time agreed to by the Bond Insurer), the Authority shall enter into a binding commitment with the Remarketing Agent to purchase all of the Outstanding Bonds on July 18, 2007, which commitment and Remarketing Agent shall be acceptable to the Bond Insurer. If the binding commitment is entered into and honored and if the conditions precedent to a Mode Change contained in Section 2.10 have been satisfied, then on July 18, 2007, the Purchase Price of the Bonds shall be paid to the Owners from the proceeds of a remarketing and the accrued interest thereon shall be paid from the Revenue Fund pursuant to the provisions herein. If (a) such binding commitment is either (i) not entered into or (ii) not honored by either the Authority or the Remarketing Agent by 12:00 P.M. New York time on July 18, 2007, or (b) the conditions precedent to such Mode Change contained in Section 2.10 have not been satisfied on or before 12:00 P.M. New York time on July 18, 2007, then and in such event, on July 18, 2007, the Trustee shall immediately declare the Outstanding principal of the Bonds to be in default pursuant to Section 12.01(f) and immediately due and payable pursuant to Section 12.02 and shall immediately notify the Bond Insurer of such event by 1:00 P.M. New York time. In that event, the Bond Insurer shall pay, by 5:00 P.M. New York time on July 18, 2007, the Purchase Price plus accrued interest due to the Owners on such date pursuant to the terms of the Municipal Bond Insurance Policy. If the Authority delivers an Initial Liquidity Facility pursuant to Section 5.04, then this Section 3.09(h) shall be of no further force and effect and the provisions in Section 3.09(e) shall apply upon such provision of a Liquidity Facility.

(i) *Purchase of Tendered Bonds.* To receive payment of the Purchase Price plus accrued interest on a Purchase Date (or Discount Maturity Date), or of interest due on a Purchase Date for Bonds deemed purchased, the Owner of any Bond must present such Bond to the Paying Agent by 12:00 Noon New York time on such Purchase Date (or Discount Maturity Date). The Purchase Price of any Bond presented for payment to the Paying Agent at any time after 12:00 Noon New York time on such Purchase Date (or Discount Maturity Date) or any other subsequent Business Day shall be paid on the Business Day next succeeding such date of presentation. The Paying Agent shall cancel such tendered Bonds and shall deliver replacement Bonds to the new Owners, but the failure of the Owners to present such Bonds shall not affect the determination or applicability of such new Interest Period, interest rate and Purchase Date (or Discount Maturity Date). Each such Bond subject to such purchase will be deemed tendered and canceled regardless of whether such Bond is presented to the Paying Agent.

Section 3.10. Remarketing of Bonds; Notices.

(a) *Remarketing of Bonds.* The Remarketing Agent shall use its best efforts to remarket all Bonds required to be tendered pursuant to Section 3.09.

(b) *Notice of Remarketing; Registration Instructions; New Bonds.* On each Mandatory Tender Date:

(i) Unless the Remarketing Agent has notified the Paying Agent otherwise, the Remarketing Agent shall give Immediate Notice to the Paying Agent not later than 12:30 P.M. New York time of the amount of tendered Bonds which were successfully remarketed, the names of the tendering Owners and the registration instructions (i.e., the names, addresses and taxpayer identification numbers of the purchasers and the Authorized Denominations) with respect thereto; and

(ii) the Paying Agent shall authenticate new Bonds for the respective purchasers thereof which shall be available for pick-up by the Remarketing Agent not later than 2:30 P.M. New York time.

Section 3.11. Tender and Purchase of Bonds.

(a) The Bonds which are subject to mandatory tender (other than pursuant to Section 3.09(h)) shall be purchased from the Owners thereof on the applicable Mandatory Tender Date at the Purchase Price, plus accrued interest which shall be payable solely from the following sources and in the order of priority listed:

(i) Proceeds of the remarketing of such Bonds delivered to the Paying Agent by the Remarketing Agent pursuant to Section 3.11(c);

(ii) Amounts drawn under the Liquidity Facility;

(iii) Other Available Money; and

(iv) Other money provided therefor.

In addition, the Bonds which are subject to mandatory tender pursuant to Section 3.09(h) and not remarketed shall be purchased from the Owners thereof pursuant to Section 3.09(h).

(b) At or prior to 12:45 P.M. New York time on each Mandatory Tender Date, the Remarketing Agent will give Immediate Notice to the Paying Agent and the Trustee specifying the Principal Amount of Bonds, if any, which have been remarketed, including any Bank Bonds, and the amount of Bonds, if any, which have not been remarketed. If all or a portion of the Bonds have not been remarketed, the Paying Agent shall give Immediate Notice thereof to the Authority and the City and the Bank. The Paying Agent shall, on such Mandatory Tender Date, draw funds under the Liquidity Facility securing such Bonds in accordance with the terms of the Liquidity Facility so as to receive thereunder by 4:00 P.M. New York time, an amount equal to the Purchase Price plus accrued interest of such Bonds subject to purchase (other than Bank Bonds) which the Remarketing Agent has indicated in its notice have not been remarketed. If the Paying Agent does not receive such notice, it shall draw on the Liquidity Facility for all Outstanding Bonds subject to tender. The Remarketing Agent shall not remarket Bonds which are subject to redemption on such Purchase Date. The Remarketing Agent shall not remarket Bonds (i) after the Expiration Tender Date unless and until a Substitute Liquidity Facility is in place, or (ii) which are not covered by the Liquidity Facility.

(c) The Remarketing Agent shall deliver to the Paying Agent, no later than the close of business on each such Mandatory Tender Date, in immediately available funds, an amount equal to the Principal Amount of Bonds set forth in the Remarketing Agent's notice as having been received for deposit to the Remarketing Proceeds Account.

(d) If on any Mandatory Tender Date the Paying Agent is required to draw funds under the Liquidity Facility to provide for all or a portion of the Purchase Price, after receipt of funds from such drawing on the Liquidity Facility, the Paying Agent shall immediately register in the name of the Bank, or its designee, the Principal Amount of Bonds which is equal to the amount drawn under and received by the Paying Agent such Liquidity Facility to pay the principal portion of such Purchase Price and deposit such funds in the Liquidity Facility Deposit Account.

(e) If the Paying Agent has received sufficient funds, the Paying Agent shall pay the Purchase Price plus accrued interest for each Bond by the close of business on the Mandatory Tender Date by wire transfer of immediately available funds in such manner as such Owner and the Paying Agent shall agree. If the Purchase Price plus accrued interest with respect thereto has been delivered to the Paying Agent, the Bonds shall be deemed tendered, interest (or Discount Amount) with respect to such Bonds shall cease to accrue on the Mandatory Tender Date and the Paying Agent shall hold the Purchase Price thereof plus accrued interest through the Mandatory Tender Date for the benefit of such Owner pending such delivery. If such Bond has been properly delivered to the Paying Agent as above described, and the Purchase Price therefor has not been properly delivered and made available for payment, such Bond shall accrue interest from the proposed Mandatory Tender Date at the Alternate Rate on the Principal Amount thereof from the Mandatory Tender Date until paid.

(f) If the funds available for purchases of Bonds pursuant to this Section 3.11 are inadequate for the purchase of all Bonds tendered on any Purchase Date, no purchase shall be consummated and the Tender Agent shall, after any applicable grace period, (1) return all tendered Bonds to the Owners thereof; (2) return all moneys deposited in the Remarketing Proceeds Account to the Remarketing Agent for return to the persons providing such moneys and (3) return all moneys deposited in the Liquidity Facility Deposit Account to the Bank.

(g) Interest and accrued Discount Amount payable on a Mandatory Tender Date with respect to Bonds tendered shall be paid at the same time as the Purchase Price for Bonds tendered.

Section 3.12. Purchase Fund. The Purchase Fund is hereby created by the Authority, and shall be held in trust by the Paying Agent, and within such fund two separate accounts designated, respectively, as the "Liquidity Facility Deposit Account" and the "Remarketing Proceeds Account." Upon receipt of the proceeds of a remarketing, the Paying Agent shall deposit such proceeds in the Remarketing Proceeds Account for application to the Purchase Price or Discount Amount of Bonds upon receipt of such Bonds. Amounts drawn under the Liquidity Facility to pay the Purchase Price of Bonds (if remarketing proceeds are insufficient therefor) shall be held by the Paying Agent in the Liquidity Facility Deposit Account.

On any Mandatory Tender Date, the Paying Agent shall transfer on the Registration Books ownership of all of the Bonds tendered or required to be tendered to the name of the purchaser thereof. From and after such dates, interest or Discount Amount accrued after such date with respect to such Bonds shall be payable solely to such purchaser, its transferees or successors thereto.

On or after any Mandatory Tender Date, any money remaining in the Liquidity Facility Deposit Account after payment in full of the Purchase Price and any accrued interest or Discount Amount of mandatorily tendered Bonds on such date shall be transferred to the Bank to reimburse the Bank for the draw on the Liquidity Facility with respect to such Bonds on such Mandatory Tender Date.

Amounts held by the Liquidity Facility Deposit Account and the Remarketing Proceeds Account to pay the Purchase Price and any accrued interest or Discount Amount of Bonds shall be held for the account of the Bank or the previous Owner of the remarketed Bonds, as appropriate, including the Bank if Bonds paying

interest at the Bank Rate are remarketed, and shall be held uninvested. Neither the Authority nor the City shall have any right, title or interest in or to any moneys held in the Purchase Fund or any account therein.

ARTICLE IV

ACQUISITION FUND

Section 4.01. Acquisition Fund. The Acquisition Fund is hereby created by the Authority, and shall be maintained by the Trustee separate and apart from all other funds and money held by the Trustee and shall be administered as provided herein. There shall be deposited in the Acquisition Fund the proceeds of sale of the Bonds as required to be deposited therein pursuant to Section 2.13.

Section 4.02. Payment of Acquisition Costs and Delivery Costs.

(a) Amounts in the Acquisition Fund shall be disbursed for Acquisition Costs and Delivery Costs.

(b) The Trustee shall disburse money in the Acquisition Fund for the payment of Acquisition Costs only upon receipt of a sequentially numbered requisition of the Authority requesting disbursement, executed and sworn to by the Treasurer under penalty of perjury and acknowledged by the signature of the Treasurer, upon which requisition the Trustee may conclusively rely.

(c) The Trustee shall disburse money in the Acquisition Fund for the payment of Delivery Costs only upon a receipt of a sequentially numbered requisition of the Authority requesting disbursement, together with appropriate bills, invoices or statements of account attached, signed by the Treasurer setting forth the amounts to be disbursed for payment or reimbursement of Delivery Costs and the name and address of the person or persons to whom said amounts are to be disbursed, and stating that the amounts to be disbursed are for Delivery Costs properly chargeable to the Acquisition Fund.

(d) Any money remaining in the Acquisition Fund on December 1, 1998, shall be deposited by the Trustee in the Revenue Fund.

ARTICLE V

FUNDS AND ACCOUNTS; LIQUIDITY FACILITY

Section 5.01. Establishment of Revenue Fund. All the Revenues and all money in the Revenue Fund are hereby irrevocably pledged to the punctual payment of the Bonds and scheduled Swap Payments, and subordinate thereto, Uninsured Termination Payments, and the Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions hereof permitting the application thereof for the purposes and on the conditions and terms set forth herein. This pledge shall constitute a first and exclusive lien on the Revenues and the money in the Revenue Fund for the payment of the Bonds in accordance with the terms hereof and the Swap Payments, and a subordinate lien as to the Uninsured Termination Payments, and in order to effectuate this pledge, the Trustee hereby agrees to establish a fund designated as the "Revenue Fund," which shall be maintained separate and apart from all other funds and money held by it and shall be administered as provided herein. All money at any time deposited by the Trustee in the Revenue Fund shall be held by the Trustee in trust for the equal benefit of the Owners of the Bonds and the Bond Insurer and, so long as amounts are owed to the Bank under the Liquidity Facility, the Bank and to the Swap Provider as to the Swap Payments, and subordinate thereto as to the Uninsured Termination Payments. So long as any Bonds are Outstanding, neither the Authority nor the City shall have any beneficial right or interest in the Revenue Fund or

the money deposited therein, except only as provided herein, and such money shall be used and applied by the Trustee as hereinafter set forth.

Section 5.02. Application of Money. All money on deposit in the Revenue Fund shall be applied to the payment of the Principal Amount, Redemption Price and accrued interest or Discount Amount on the Bonds and the Swap Payments as and when due and subordinate thereto, the Uninsured Termination Payments; *provided*, that if on any Interest Payment Date or Discount Maturity Date amounts on deposit in the Revenue Fund and the Interest Reserve Fund and the Reserve Fund are insufficient to pay the full amount of Principal Amount and interest or Discount Amount then due and payable with respect to the Bonds and the Swap Payments, the Trustee shall apply such amounts first to the payment of interest or Discount Amount past due and the Swap Payments, pro rata if necessary, and second to the payment of Principal Amount past due, pro rata, if necessary; and *provided further*, that on August 1 of each year, after the redemption and payment in the following order of (i) all Bonds, including premiums and accrued interest or Discount Amount (if any) and the Swap Payments then due and owing on a pro rata basis, (ii) all amounts then due and owing to the Bank under the Liquidity Facility and all amounts owed to the Bond Insurer under the Financial Guaranty Agreement, (iii) any amounts owed to the Bond Insurer pursuant to Section 5.03, (iv) any Uninsured Termination Payments, (v) payments as required to maintain a swap or hedge contract pursuant to Section 2.10(c), and (vi) any applicable fees or other amounts then due and owing to the Trustee, all remaining money in the Revenue Fund shall be transferred to the Authority and used by the Authority for any lawful purpose, including the retirement of any indebtedness or obligations of the Authority the payment of which are subordinate to the payment of the Bonds. For purposes of this section, the Trustee must receive an invoice from each of the Swap Provider, the Bond Insurer and the Bank requiring payment as to the amount of such payment.

Section 5.03. Reserve Fund. The Trustee hereby establishes a fund designated as the "Reserve Fund," which shall be maintained separate and apart from all other funds and money held by it and shall be administered as provided herein and such fund is hereby irrevocably pledged to the punctual payment of the Bonds and the Swap Payment. The Trustee shall deposit the Surety Bond to the credit of the Reserve Fund securing the amount of the Reserve Fund Requirement. The Trustee shall draw upon the Surety Bond to the extent thereof to make payments of Principal Amount, Redemption Price and accrued interest or Discount Amount on the Bonds and the Swap Payments as and when due to the extent the amount on deposit in the Revenue Fund are insufficient therefor. If there has been a draw upon the Surety Bond pursuant to Section 13.04 hereof, a sum sufficient to reimburse the Bond Insurer on the next succeeding August 1 for payments made under such draw plus the Bond Insurer's expenses in connection therewith shall be withdrawn from the Revenues available to the Authority on such August 1 after first satisfying the requirements of the Revenue Fund on such date and before transferring any money to the Authority on such August 1, and such withdrawal shall be used for such reimbursement.

Section 5.04. Liquidity Facility. (a) No Liquidity Facility is to be in effect at the time of the initial delivery of the Bonds. The Authority may provide an Initial Liquidity Facility to the Paying Agent upon notice to the Paying Agent and the Trustee at least forty-five (45) days' prior to the date such Initial Liquidity Facility is to become effective, and once provided, the Authority covenants and agrees that, prior to the date on which Bonds are converted to the Fixed Rate Mode, so long as any Bonds are Outstanding, it will maintain the Liquidity Facility in an amount equal to the aggregate principal amount of all Bonds then Outstanding, plus an amount equal to (1) during a Floating Rate Mode to ninety-seven (97) days' interest, (2) during a Discount Mode, thirty-seven (37) days' interest, and (3) during the Unit Pricing Mode or the Term Rate Mode thirty-seven (37) days' interest, on all Bonds then Outstanding (assuming an interest rate equal to twelve percent (12%) per annum). The Initial Liquidity Facility shall cover the Purchase Price of the Bonds upon mandatory tender of the Bonds pursuant to Section 3.09(e). If a Liquidity Facility is so provided, the Authority covenants that it will not voluntarily terminate the Liquidity Facility without at least sixty (60) days' written notice to the Trustee and the Bond Insurer and without providing for a Substitute Liquidity Facility prior to the effective date of the termination.

(b) If the Authority provides a Liquidity Facility pursuant to Section 5.04(a), then prior to the date on which Bonds are converted to the Fixed Rate Mode, all Bonds, other than Bonds bearing interest at the Bank Rate, shall be provided liquidity upon purchase or tender pursuant to the Liquidity Facility. The Liquidity

Facility shall be held by the Paying Agent, who shall draw money under the Liquidity Facility in accordance with the terms thereof in the full amount as may be necessary, but not with respect to Bonds bearing interest at the Bank Rate, to make timely payments of the Purchase Prices plus accrued interest due with respect to Bonds tendered pursuant to Section 3.09 (other than pursuant to Section 3.09(h)) that are not remarketed. In order to effect a draw under the Liquidity Facility, the Paying Agent shall present an appropriate draw request to the Bank no later than 1:30 P.M. New York time on the Mandatory Tender Date in an amount sufficient to make timely payment of the Purchase Price plus accrued interest for all Bonds tendered on such date pursuant to Section 3.09. All money derived from draws under the Liquidity Facility pursuant to this subsection shall be deposited into the Liquidity Facility Deposit Account, and such money shall not be commingled with any other fund or account established hereunder.

(c) The Paying Agent shall mail to the Trustee, to the Authority, to the City and to the Bond Insurer a copy of any documents which are presented to the Bank in connection with a drawing on the Liquidity Facility concurrently with its submission of those documents to the Bank.

Section 5.05. Substitute Liquidity Facility. The Authority may upon sixty (60) days' notice to the Bank, deposit with the Paying Agent a Substitute Liquidity Facility with respect to the Bonds. The Substitute Liquidity Facility shall expire (a) no earlier than one (1) year after the date of its deposit with the Paying Agent, and (b) no earlier than the last Purchase Date of all Outstanding Bonds, but may be expressed to expire prior to the maturity of the Bonds. The term "Substitute Liquidity Facility" may include letters of credit, lines of credit or other forms of credit and liquidity support for the Bonds; *provided*, that such facilities provide a source of funds for the full and timely payment of Principal Amount or Redemption Price (and may, but need not, cover premium) of, interest and Discount Amount and Purchase Price of the Bonds, including any Bank Bonds. To be acceptable, each Substitute Liquidity Facility must be satisfactory in form and substance to the Authority and the Bond Insurer, and no Substitute Liquidity Facility shall be satisfactory to the Authority unless, in addition to all other requirements to be met therefor, (a) a draft of such Substitute Liquidity Facility and appropriate information concerning the Bank which will issue such Substitute Liquidity Facility have been submitted (together with notice of the Substitute Liquidity Facility) to each Rating Agency then maintaining a rating on the Bonds, and each such Rating Agency has given written notice to the Authority and the Authority has given written notice to the Trustee and the Paying Agent at least forty-five (45) days prior to the date such Substitute Liquidity Facility is to become effective that, upon the issuance of such Substitute Liquidity Facility, the Bonds are expected to bear the rating specified in such notice, and (b) the short term debt of the Bank with respect to such Substitute Liquidity Facility is rated in the highest Rating Category by Moody's and S&P or, if such Liquidity Facility is to be provided in connection with a conversion to a Term Rate Mode, the long term debt of the Bank with respect to such Substitute Liquidity Facility is rated in one of the two highest Rating Categories by Moody's and S&P. In connection with any such substitution, the Trustee and the Paying Agent also shall receive an opinion of counsel for the Bank issuing the Substitute Liquidity Facility covering substantially the matters covered by the opinions delivered to the Trustee and the Paying Agent upon execution and delivery of the Initial Liquidity Facility. The Paying Agent shall not release the Liquidity Facility until it has received the Substitute Liquidity Facility.

Upon receipt by the Trustee and the Paying Agent of notice forty-five (45) days prior to the effective date of the Substitute Liquidity Facility, the Paying Agent promptly shall furnish written notice by first-class mail, postage prepaid, of the planned substitution of the Substitute Liquidity Facility and of the receipt of such notice to the Owners no later than forty-five (45) days prior to such substitution becoming effective.

Upon receipt of a Rating Decline Notice relating to a Substitute Liquidity Facility, the provisions of Section 3.09, regarding tender for purchase, shall apply.

Upon the effective date of the Substitute Liquidity Facility, the Paying Agent shall purchase any Bank Bonds with the proceeds of a drawing on such Substitute Liquidity Facility.

The Paying Agent shall not sell, assign or otherwise transfer the Liquidity Facility except to the Trustee or any successor Trustee or Paying Agent hereunder and in accordance with the terms of the Liquidity Facility and hereof.

Section 5.06. Termination of Liquidity Facility. The obligation of the Liquidity Provider to purchase Bonds (or to otherwise advance funds for the purchase of tendered Bonds) shall terminate upon the earliest of (1) the Termination Date, (2) the Substitution Date (3) Expiration Date or (4) the conversion of the Bonds to the Fixed Rate Mode. On the Termination Date, Substitution Date, and Expiration Date the Substitute Liquidity Facility will purchase Bonds or otherwise advance funds for the purchase of tendered Bonds if the conditions in Section 5.05 are not satisfied (concerning replacing the Liquidity Facility and ratings confirmation).

If an Insurer Event of Termination occurs, the Trustee shall immediately notify Owners of all Bonds then Outstanding that (i) the Liquidity Facility has been terminated or suspended (as the case may be), (ii) the Paying Agent will no longer be able to purchase Bonds with moneys from the Liquidity Facility, (iii) the right of Owners to tender Bonds for purchase has been terminated or suspended (as the case may be) and (iv) the Liquidity Provider will be under no obligation to purchase Bonds (or to otherwise advance funds for the purchase of tendered Bonds).

Section 5.07. Substitute Bond Insurance Policy. After an Initial Liquidity Facility is delivered to the Paying Agent pursuant to Section 5.04 and a successful remarketing has occurred pursuant to Section 3.09(e), if the rating of the Bond Insurer shall be lowered by S&P, Moody's & Fitch below the two top rating categories assigned by such rating agencies (without giving effect to numeric or other modifiers), then the Authority may, at its option, and shall, upon receipt of a request from the Bank, obtain a Substitute Bond Insurance Policy. Any Substitute Bond Insurance Policy shall be either a policy issued by an insurance company or an agreement of a financial institution and shall contain terms which are in all material respects the same as or equivalent to those provided by the Municipal Bond Insurance Policy. On or prior to the date of the delivery of the Substitute Bond Insurance Policy, the Authority shall furnish to the Trustee (i) an opinion of Bond Counsel to the effect that the furnishing of such Substitute Bond Insurance Policy is authorized under the Indenture and complies with the terms hereof, (ii) written evidence from both S&P, Moody's and Fitch, to the effect that each such rating agency has reviewed the proposed Substitute Bond Insurance Policy, and that, taking into account the substitution of the proposed Substitute Bond Insurance Policy for the Municipal Bond Insurance Policy, the Bonds will be given a long-term rating which is not lower than the then-existing rating, and (iii) (a) prior to the earliest to occur of: (1) the Expiration Date, (2) the Termination Date, (3) the date upon which the Bonds are converted to the Fixed Rate Mode or (4) the date upon which an Insurer Event of Termination occurs or (b) thereafter, if the Bank is the registered owner of Bonds, the prior written consent of the Bank (unless the Bank has directed the Authority to obtain Substitute Bond Insurance Policy), which shall be within the Bank's sole and absolute discretion, unless the Authority also provides a Substitute Liquidity Facility in accordance with the terms of Section 5.05 hereof, effective on the date of delivery of the Substitute Bond Insurance Policy, in which case such substitution shall not be subject to the Bank's prior written consent. If the Bank has directed the Authority to obtain a Substitute Bond Insurance Policy, the Bank may require that the rating on the Bonds, taking into account the Substitute Bond Insurance Policy, be no lower than the top two rating categories assigned by S&P, Moody's and Fitch.

Section 5.08. Security of Funds. All money deposited with the Trustee hereunder shall be held in trust and (except for money held by the Trustee, as Paying Agent, for the payment of the Principal Amount or Redemption Price and interest or Discount Amount with respect to the Bonds) shall, while held by the Trustee, be and remain entitled to the benefit and shall be subject to the security hereof for the equal and proportionate benefit of the Owners of all Outstanding Bonds and the Bank.

Section 5.09. Non-Presentation of Bonds. If any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity, upon the Mode Change Date, purchase or otherwise, or at the date fixed for redemption thereof, and if money sufficient to pay such Bond shall have been deposited in the Revenue Fund or Purchase Fund, then all liability of the Authority to the Owner thereof for the payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee

and the Paying Agent to hold such money, without liability for interest thereon, for the benefit of the Owner of such Bond who shall thereafter be restricted exclusively to such money, for any claim of whatever nature on his or her part hereunder or on, or with respect to, such Bond.

Any money so deposited with and held by the Trustee or the Paying Agent not so applied to the payment of Bonds within two (2) years after the date on which the same shall have become due shall be paid to the Authority, and thereafter, the Owners of such Bonds shall look solely to the Authority as to any such money, and the Trustee and the Paying Agent shall have no further liability or responsibility to such Owners.

Section 5.10. Interest Reserve Fund. The Authority hereby agrees to establish and the Trustee will hold and maintain, so long as the Liquidity Facility is in effect, the Interest Reserve Fund (the "Interest Reserve Fund"), and the Interest Reserve Fund shall not be commingled with any other fund or account established hereunder. If and when the Bonds are issued in a Unit Pricing Mode with multiple Purchase Dates, the Trustee shall (from money provided by the Authority) deposit in the Interest Reserve Fund an amount (which constitutes Available Money) equal to the Interest Reserve Fund Requirement. With respect to any Bonds (other than Bonds payable as to interest at the Bank Rate) in a Unit Pricing Mode that are redeemed pursuant to Sections 3.01, 3.02, 3.03 or 3.04, the Trustee shall apply amounts on deposit in the Interest Reserve Fund to the payment of accrued interest or Discount Amount payable with respect to such Bonds.

Any money held by the Trustee in the Interest Reserve Fund shall be held invested in Federal Securities with maturity periods not longer than such period(s) as will make such money available when needed. Earnings on investments held in the Interest Reserve Fund shall be deposited in the Revenue Fund.

Notwithstanding the deposit of money into the Interest Reserve Fund hereunder, the Authority and the City shall have no right, title or interest in such money and such money will be held exclusively for the Owners of the Bonds and paid over in accordance with the provisions hereof.

ARTICLE VI

INSURANCE AND CONDEMNATION FUND

Section 6.01. Establishment of Insurance and Condemnation Fund.

(a) Any Net Proceeds of insurance against accident to or destruction of any structure constituting any part of the Facility in excess of one hundred thousand dollars (\$100,000) collected by the Authority in the event of any such accident or destruction (other than proceeds from insurance procured to replace Revenues for the payment of debt service) shall be paid to the Trustee by the Authority pursuant to Section 9.03 of the Facility Lease and deposited by the Trustee promptly upon receipt thereof in a special fund to be established by the Trustee when deposits are required therein designated as the "Insurance and Condemnation Fund." If the Authority notifies the Trustee in writing of its determination, within ninety (90) days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Facility is not economically feasible or in the best interest of the Authority, then such Net Proceeds shall be promptly transferred by the Trustee to the Revenue Fund and applied to the prepayment of Base Rental Payments pursuant to Section 9.03 of the Facility Lease and applied to the redemption of Bonds in the manner provided in Section 3.02; *provided*, that in the event of damage or destruction of the Facility in part, such Net Proceeds may be transferred to the Revenue Fund and applied to the prepayment of Base Rental Payments only if the resulting Base Rental Payments represents fair consideration for the remaining portions of the Facility, evidenced by a certificate signed by a City Representative and an Authority Representative. Any balance of the Net Proceeds remaining after such work has been completed shall be deposited in the Revenue Fund.

(b) In the event of condemnation of the Facility or a portion thereof or the receipt of a title insurance award, the Net Proceeds thereof shall be administered in the manner and in accordance with the provisions of Article V of the Facility Lease and shall be transferred to the Revenue Fund to be credited towards the prepayment of the Base Rental Payments required to be paid pursuant to Section 3.03 of the Facility Lease.

Section 6.02. Cooperation. The Authority and the Trustee shall cooperate reasonably with the City in filing any proof of loss with respect to any insurance policy maintained pursuant to Article 4.02 of the Facility Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Facility or any portion thereof.

ARTICLE VII

MONEY IN FUNDS; INVESTMENTS

Section 7.01. Money in Funds Held in Trust. The money and investments held by the Trustee hereunder are irrevocably held in trust for the benefit of the Owners of the Bonds and, so long as amounts are owed to the Bank pursuant to the Liquidity Facility and the Bank is not in default thereunder, the Bank, and for the purposes herein specified, and such money, and any income or interest earned thereon, shall be expended only as provided herein, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Authority, the Trustee or the City or any Owner of Bonds, except as provided herein.

Section 7.02. Investments Authorized.

(a) The Authority shall direct the Trustee with respect to the investment of money held by the Trustee in any fund or account hereunder as provided herein. Such investments, if registrable, shall be registered in the name of the Trustee, as trustee, and shall be held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this section. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee shall invest such funds in Permitted Investments as directed by the Authority; *provided*, that such direction shall provide for investment of funds for not longer than the date when such funds will be needed; and *provided further*, that (1) amounts in the Revenue Fund shall not be invested in any instruments bearing a credit rating by Moody's and S&P of lesser quality than that of the Bond Insurer; and (2) Available Money held for payment of a premium on redemption, Available Money used for payment of tendered Bonds and remarketing proceeds shall be invested only in non-callable, non-prepayable Federal Securities with maturities of thirty (30) days or less. Notwithstanding any provision of this subsection, if instructions for investment of any fund or account in Permitted Investments are provided by the Authority, the Trustee shall invest money in said fund or account in accordance with said instructions. If no such instructions are provided as specified herein, then the Trustee shall invest such moneys in Permitted Investments described in subsection (4) of the definition thereof.

(b) Except as provided below, all interest or income received by the Trustee on investment of money in the Revenue Fund shall be retained in the Revenue Fund, and all amounts retained in the Revenue Fund pursuant to this subsection shall be applied as a credit against the Base Rental Payment due by the City pursuant to the Facility Lease on the next succeeding Interest Payment Date. All interest or income received by the Trustee on investment of money in the Acquisition Fund shall be retained in the Acquisition Fund until the Acquisition Fund is closed pursuant to Section 4.02. All interest or income received by the Trustee on investment of money in the Interest Reserve Fund shall be retained in the Interest Reserve Fund and shall be applied as provided in Section 5.10.

(c) Except as provided herein, the Trustee may, and upon the written request of the Authority, shall, commingle any of the funds held by it pursuant hereto into a separate fund or funds for investment purposes only; *provided*, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling by the Trustee; and *provided further*, that the Trustee shall not commingle funds

drawn on the Liquidity Facility, remarketing proceeds or money representing Available Money to be applied as a redemption premium.

(d) The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law, and the Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

(e) The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

(f) Notwithstanding the foregoing provisions of Section 7.02, moneys in the Purchase Fund (including any of the accounts therein) shall be held uninvested as provided in Section 3.12.

Section 7.03. Accounting. The Trustee shall furnish to the Finance Director of the City and to the City Treasurer, not less than monthly, an accounting in accordance with customary industry accounting standards of all investments made by the Trustee. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 7.02.

Section 7.04. Method of Valuation. The value of any Permitted Investments shall be calculated as the lower of cost or market. In making valuations of any Permitted Investments, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and may conclusively rely thereon.

ARTICLE VIII

THE TRUSTEE, THE PAYING AGENT AND THE REMARKETING AGENT

Section 8.01. Removal of Trustee. The Authority, or the Owner of a majority in aggregate Principal Amount of all Bonds Outstanding may by written request, with the Bank's approval so long as the Liquidity Facility is in effect and with the Bond Insurer's approval, at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon appoint a successor or successors thereto, with the Bank's approval so long as the Liquidity Facility is in effect and with the Bond Insurer's approval. Notwithstanding the foregoing, upon the occurrence and continuation of an Event of Default, the Trustee may only be removed upon written request of the Owners of a majority in Principal Amount of all Bonds Outstanding and thereupon the Owners shall appoint a successor Trustee. Any successor Trustee shall be a commercial bank or trust company in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority having a combined capital (exclusive of borrowed funds) and surplus of not less than seventy-five million dollars (\$75,000,000). If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of conditions so published.

The Trustee may at any time resign by giving written notice to the Authority and the City and by giving to the Owners of Bonds notice by mailing such notice to the registered owners of the Bonds. Upon receiving such notice of resignation, the Authority shall promptly, with the Bank's approval so long as the Liquidity Facility is in effect and with the Bond Insurer's approval, appoint a successor Trustee by an instrument in writing; *provided*, that if the Authority has not appointed a successor Trustee who has accepted its appointment within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition any appropriate court having

jurisdiction to appoint a successor Trustee. Any resignation or removal of the prior Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee and transfer to the successor Trustee of the Liquidity Facility in accordance with its terms. Notwithstanding the foregoing, upon the occurrence and continuation of an Event of Default, only the Owners of a majority in Principal Amount of all Bonds Outstanding may appoint a successor Trustee.

Section 8.02. Appointment of Agent. The Trustee may appoint an agent acceptable to the Authority, the City, the Bank and the Bond Insurer to exercise any of the powers, rights or remedies granted to the Trustee hereunder, and to hold title to property or to take any other action which may be desirable or necessary.

Section 8.03. Merger or Consolidation. Any company, corporation or association into which the Trustee may be merged or converted, or with which it may be consolidated, or any company, corporation or association resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business shall (if such company shall be eligible under Section 8.01) be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 8.04. Protection and Rights of the Trustee. The Trustee shall be protected and indemnified as stated herein and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions hereof, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at such person's request unless such person shall appear as Owner on the Registration Books kept by the Paying Agent pursuant to the provisions hereof. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

Whenever in the administration of its duties hereunder the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed), shall be deemed to be conclusively proved and established by the certificate of the Authority and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions hereof upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may become the Owner of the Bonds with the same rights it would have if it were not the Trustee, may own and dispose of other bonds or evidences of indebtedness of the Authority with the same rights it would have if it were not the Trustee, and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of the majority in Principal Amount of the Bonds then Outstanding.

The recitals, statements and representations by the Authority contained herein and in the Bonds (except the authentication thereof by the Paying Agent) shall be taken and construed as made by and on the part of the Authority, and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof, nor shall the Trustee be responsible for the sufficiency of the Facility Lease, or of the title to or value of the Facility. The Trustee shall not be accountable for the use or application by the Authority, or any other party, of the funds which the Trustee properly releases to the Authority or which the Authority may otherwise receive from time to time. The Trustee undertakes to perform such duties, and only such duties, as are specifically set forth herein and no implied duties or obligations shall be read hereunto against the Trustee.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power hereunder or for anything whatever in connection with the funds and accounts established hereunder, except only for its own negligence or willful default.

The Trustee shall not be deemed to have knowledge of any Event of Default, except a payment default, unless and until it shall have received written notice thereof or unless any of its corporate trust officers have actual knowledge thereof.

No provision hereof shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and the Bank and not in its individual capacity and all persons, including without limitation the Owners and the Authority having any claim against the Trustee arising herefrom shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein; *provided*, that the Trustee shall have no claim to amounts drawn on the Liquidity Facility. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

Notwithstanding anything herein to the contrary, the Trustee shall not be liable for any failure of the Remarketing Agent or the Paying Agent to perform its obligations hereunder.

The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for herein) in aggregate principal amount of Bonds Outstanding, or of the Bank or the Bond Insurer relating to the exercise of any right, power or remedy available to the Trustee.

Section 8.05. Paying Agent. The Paying Agent shall perform such duties and only such duties as are specifically authorized hereby and by the Trustee, and in exercising such duties shall be entitled to the immunities and standard of care applicable to the Trustee.

Each Paying Agent shall be a bank or trust company and shall at all times be a commercial bank or trust company organized and doing business under the laws of the United States of America or of any state, with a combined capital and surplus of at least twenty-five million dollars (\$25,000,000) and authorized under such laws to exercise corporate trust powers and be subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then, for the purposes of this section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any Paying Agent may at any time resign by giving at least sixty (60) days' written notice of resignation to the Trustee, the Authority, the City, the Bank and the Bond Insurer. The Trustee may, and upon request of the Authority shall, at any time terminate the agency of any Paying Agent by giving written notice of termination to such Paying Agent, the Authority, the City, the Bank and the Bond Insurer. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Paying Agent shall cease to be eligible under this section, the Trustee shall promptly appoint a successor Paying Agent with the consent of the Authority, the City, the Bank and the Bond Insurer and shall give written notice of such appointment to the Authority, the City, the Bank, the Bond Insurer and the Owners. If no successor Paying Agent is so appointed, the duties of the Paying

Agent shall be assumed by the Trustee or by a qualifying successor Paying Agent appointed by the Trustee, which appointment, in such circumstances, is hereby authorized.

No such resignation or removal shall take effect until a successor Paying Agent shall have been appointed. If no successor Paying Agent has accepted appointment within thirty (30) days after the Paying Agent has given notice of its resignation as provided above, the Paying Agent may petition any court of competent jurisdiction for the appointment of a temporary successor Paying Agent; *provided*, that any Paying Agent so appointed shall immediately and without further act be superseded by any Paying Agent appointed by the Trustee as provided above.

The Trustee will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this section, that such Paying Agent will:

(a) hold all sums held by it for the payment of the Principal Amount or Redemption Price and interest or Discount Amount on, or for the payment of the purchase price of Bonds, in trust for the benefit of the Owners of such Bonds until such sums shall be paid to the Owners or otherwise disposed of as herein provided;

(b) at any time, upon the written request of the Trustee, forthwith pay to the Trustee any or all sums held in trust by such Paying Agent; and

(c) observe and perform the obligations of the Paying Agent hereunder.

The Trustee may at any time, for the purpose of obtaining the satisfaction and discharge hereof or for any other purpose, direct the Paying Agent to pay to the Trustee any or all money held in trust by the Paying Agent, such money to be held by the Trustee upon the same trusts as those upon which such money was held by such Paying Agent; and, upon such payment by the Paying Agent to the Trustee, the Paying Agent shall be released from all further liability with respect to such money.

While the Liquidity Facility remains in effect, consent of the Bank shall be required for the appointment of any successor to the Paying Agent or the Trustee hereunder. Notwithstanding the foregoing provisions of this paragraph, if all the Bonds are in book-entry form or shall have been converted to a Fixed Rate, the Trustee may qualify and serve as the sole Paying Agent, regardless of whether the Trustee then has an office in New York, New York, or fails to meet capital and surplus requirements set forth above.

Section 8.06. Compensation and Reimbursement. The Authority agrees:

(a) to pay to the Trustee and the Paying Agent from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust); *provided*, that neither the Trustee nor the Paying Agent shall have any interest in any funds or moneys drawn under the Liquidity Facility or the proceeds of any Bonds remarketed;

(b) to reimburse the Trustee and the Paying Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or the Paying Agent, as the case may be, in accordance with any provisions hereof or incurred in complying with any request made by the Authority, the City or any Rating Agency (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement, or advance as may be attributable to the Trustee's or the Paying Agent's negligence or bad faith; and

(c) to indemnify or cause to be indemnified the Trustee, the Paying Agent and the agents of either and each predecessor of either thereof for, and to hold them harmless against, any loss, liability or expense incurred without negligence or bad faith on their own part, arising out of or in connection with the acceptance,

administration or performance of their respective duties hereunder, including the costs and expenses of defending themselves against any claim or liability (including the reasonable compensation and the expenses and disbursements of its agents and counsel) in connection with the exercise or performance of any of its powers or duties hereunder.

(d) to indemnify the Trustee for any reasonable fees and expenses incurred during any period of default hereunder.

As security for the performance of the obligations of the Authority under this section, the Trustee and the Paying Agent shall be secured hereunder by a lien prior to the lien of the Bonds upon all property and funds held or collected as part of the trust estate by the Trustee or by the Paying Agent in its respective capacity as such, and the Trustee and the Paying Agent shall have the right to use and apply any trust funds held by it hereunder for the payment of the expenses, reimbursements and indemnity due hereunder; *provided*, that neither the Trustee nor the Paying Agent shall have any interest in any funds or money drawn under the Liquidity Facility or the proceeds of any Bonds remarketed.

Section 8.07. Remarketing Agent. The Remarketing Agent shall deliver a written instrument of acceptance (which may be the Remarketing Agreement) to the Authority, the City and the Trustee signifying acceptance of the duties imposed upon it hereunder under which the Remarketing Agent will agree, particularly:

(a) to hold all Bonds delivered to it hereunder for the benefit of the respective Owners which shall have so delivered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Owners;

(b) to hold all money delivered to it hereunder for the purchase of Bonds for the benefit of the person or entity which shall have so delivered such money until the Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity; and

(c) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City, the Trustee, the Paying Agent and the Bank at all reasonable times.

All other duties, obligations and rights of the Remarketing Agent shall be as provided in the Remarketing Agreement.

Section 8.08. Resignation and Removal of Remarketing Agent.

(a) The Remarketing Agent shall at all times have a capitalization of at least fifty million dollars (\$50,000,000), be authorized by law to perform all the duties imposed upon it hereby and have the reasonably demonstrated ability to do so. The Remarketing Agent may resign and a new Remarketing Agent may be appointed as provided in the Remarketing Agreement.

(b) The Authority may, with the Bank's approval so long as the Liquidity Facility is in effect, at any time and for any reason, remove the Remarketing Agent and any successor thereto upon thirty (30) days' written notice to the Remarketing Agent or successor (unless such notice is waived by the Remarketing Agent or such successor), and shall thereupon appoint a successor or successors thereto, with the Bank's approval so long as the Liquidity Facility is in effect. Any such successor shall at all times have a capitalization of at least fifty million dollars (\$50,000,000), be authorized by law to perform all the duties imposed upon it hereby and have the reasonably demonstrated ability to do so. If no successor Remarketing Agent is so appointed, the duties of the Remarketing Agent shall be assumed by a qualifying successor Remarketing Agent appointed by the Authority.

ARTICLE IX

MODIFICATION OR AMENDMENT OF AGREEMENTS

Section 9.01. Amendments Permitted. The Indenture and the rights and obligations of the Owners of the Bonds and the Facility Lease and the rights and obligations of the parties thereto may be modified or amended by the Authority and/or the City at any time by a supplemental agreement which shall become effective when the written consent of the Bond Insurer shall have been filed with the Trustee. No such modification or amendment shall (a)(1) extend or have the effect of extending or amending the Purchase Date, Discount Maturity Date, redemption date or the fixed maturity of any Outstanding Bond or reducing the Discount Rate or interest rate with respect thereto or extending the time of payment of interest or Discount Rate, or reducing the Principal Amount thereof or reducing any premium payable upon the redemption thereof, or (2) permit the creation of any lien on the Revenues and other assets pledged under this Indenture prior to or on parity with the lien created by this Indenture or deprive the Owners of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture) without the prior written consent of the Owners of all Outstanding Bonds (exclusive of Bonds disqualified pursuant to Section 9.03); or (b) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in Section 9.02.

Section 9.02. Procedure for Amendment. The Indenture and the Facility Lease may be amended by supplemental agreement as provided in this section if the consent of the Owners of the Bonds is required pursuant to Section 9.01. A copy of such supplemental agreement, together with a request to the Owners for their consent thereto, shall be mailed by the Trustee to each Owner of a Bond at such Owner's address as set forth on the Registration Books, but failure to receive copies of such supplemental agreement and request shall not affect the validity of the supplemental agreement when assented to as in this section provided.

Such supplemental agreement shall not become effective unless there shall be filed with the Trustee the written consents of the Owners of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 9.03), if required pursuant to Section 9.01, and the written consent of the Bond Insurer, and a notice shall have been mailed as hereinafter provided in this section. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 2.15. Any such consent shall be binding upon the Owner of the Bond giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter provided in this section has been mailed. Any revocation received after such notice has been mailed shall be of no effect.

After the Owners of the Bonds and the Bond Insurer shall have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Owners of the Bonds in the manner hereinbefore provided in this section for the mailing of such supplemental agreement of the notice of adoption thereof, stating in substance that such supplemental agreement has been consented to by the Owners of the Bonds and will be effective as provided in this section (but failure to receive copies of said notice shall not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by this section to be filed with the Trustee, shall be conclusive proof of the matters therein stated. Such supplemental agreement shall become effective upon the mailing of such last-mentioned notice, and such supplemental agreement shall be deemed conclusively binding upon the parties hereto and the Owners of all Bonds at the expiration of sixty (60) days after such mailing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60) day period.

Section 9.03. Disqualified Bonds. Bonds owned or held for the account of the Authority or the City or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with the Authority or the City (except any Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Bonds provided for herein, and shall not be entitled to vote upon, consent to, or take any other action provided for herein.

Section 9.04. Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to this article, the Indenture or the Facility Lease, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Bonds Outstanding, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of the Indenture or the Facility Lease, as the case may be, for any and all purposes.

The Trustee may require each Owner, before such Owner's consent provided for in this article shall be deemed effective, to reveal whether the Bonds as to which such consent is given are disqualified as provided in Section 9.03.

Section 9.05. Endorsement or Replacement of Bonds Delivered After Amendments. The Trustee may determine that Bonds delivered after the effective date of any action taken as provided in this article shall bear a notation, by endorsement or otherwise, in form approved by the Trustee, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and presentation of such Owner's Bond for the purpose at the Principal Office of the Trustee, a suitable notation shall be made on such Bond. The Trustee may determine that the delivery of substitute Bonds, so modified as in the opinion of the Trustee is necessary to conform to such Owners' action, which substitute Bonds shall thereupon be prepared, executed, authenticated and delivered. In that case, upon demand on the Owner of any Bond then Outstanding, such substitute Bond shall be exchanged at the Principal Office of the Trustee, without cost to such Owner, for a Bond of the same character then Outstanding, upon surrender of such Outstanding Bond.

Section 9.06. Amendatory Endorsement of Bonds. The provisions of this article shall not prevent any Owner from accepting any amendment as to the particular Bonds held by such Owner; *provided*, that proper notation thereof is made on such Bonds.

ARTICLE X

COVENANTS

Section 10.01. Compliance With and Enforcement of Facility Lease. The Authority will perform all obligations and duties imposed on it under the Facility Lease. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be an event of default under or a ground for cancellation or termination of the Facility Lease. The Authority, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting its estates in the Site or the Facility, or either of them, which may or can in any manner affect such estate of the Authority, will deliver the same, or a copy thereof, to the Trustee, the Bond Insurer and the Bank.

Section 10.02. Observance of Laws and Regulations. The Authority will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter assigned by the Authority, including its right to exist and carry on business as a joint exercise of powers entity, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 10.03. Prosecution and Defense of Suits. The Authority will promptly, upon request of the Trustee or any Owner and the Bond Insurer, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Facility, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall

indemnify and save the Trustee and every Owner and the Bond Insurer harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Section 10.04. Recordation and Filing. The Authority will record and file, or cause to be recorded and filed, all such documents as may be required by law (and shall take all further actions which may be necessary or be reasonably required by the Trustee), all in such manner, at such times and in such places as may be required by law in order fully to preserve, protect and perfect the security of the Trustee and the Owners of the Bonds.

Section 10.05. Remarketing Bonds. To the extent that any Bonds bear interest at the Bank Rate, the Authority will use its best efforts in conjunction with the City to assist the Remarketing Agent to remarket such Bonds so that they shall no longer bear interest at the Bank Rate.

Section 10.06. Further Assurances. The Authority will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and the Facility Lease, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided herein.

Section 10.07. Continuing Disclosure. Pursuant to Section 2.02(e) of the Facility Lease, the City has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority shall have no liability to the Owners or any other person with respect to S.E.C. Rule 15c2-12. Notwithstanding any other provision of this Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however:

(1) The Trustee shall at the written request of: (1) any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or (2) the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds, but only to the extent the Trustee has been indemnified to its satisfaction from any loss, cost, liability or expense related thereto, including without limitation, the reasonable fees and expenses of its attorneys and additional fees and expenses of the Trustee; or

(2) Any Holder or Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under Section 2.02(e) of the Facility Lease or to cause the Trustee to comply with its obligations under this Section 10.06.

ARTICLE XI

LIMITATION OF LIABILITY

Section 11.01. No Liability of the Authority for Trustee Performance. Neither the Authority, the City, the Remarketing Agent nor the Paying Agent shall have any obligation or liability to any of the other parties or to the Owners of the Bonds with respect to the performance by the Trustee of any duty imposed upon it hereunder except as any of them may otherwise expressly agree.

Section 11.02. Opinion of Counsel. Before being required to take any action, the Trustee may require an opinion of Independent Counsel acceptable to the Trustee, which opinion shall be made available to the other parties hereto upon request, which counsel may be counsel to any of the parties hereto, or a verified certificate of any party hereto, or both, concerning the proposed action. If it does so in good faith, Trustee shall be absolutely protected in relying thereon.

Section 11.03. Limitation of Rights to Parties and Owners. Nothing herein or in the Bonds expressed or implied is intended or shall be construed to give any person other than the Authority, the City, the Trustee, the Remarketing Agent, the Paying Agent, the Bank, the Bond Insurer and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect hereof or any covenant, condition or provision hereof; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the Authority, the City, the Bank, the Bond Insurer, the Remarketing Agent, the Paying Agent, the Trustee and the Owners of the Bonds.

ARTICLE XII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Section 12.01. Events of Default, Remedies. If one or more of the following events (herein defined to constitute "Events of Default") shall happen, that is to say:

- (a) if default shall be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;
- (b) if default shall be made by the Authority in the due and punctual payment of the Principal Amount or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by proceedings for redemption;
- (c) if default shall be made by the Authority in the performance of any of the agreements or covenants contained herein required to be performed by the Authority, and such default shall have continued for a period of thirty (30) days after the Authority shall have been given notice in writing of such default by the Trustee;
- (d) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;
- (e) If an Event of Default (as that term is defined in the Facility Lease) has occurred under the Facility Lease;
- (f) Upon the occurrence of a failed remarketing of all of the Outstanding Bonds pursuant to Section 3.09(h); or
- (g) If the Authority shall not make Swap Payments or Uninsured Termination Payments when due pursuant to the Swap Agreement.

Section 12.02. Acceleration of Maturities. Upon the occurrence and continuance of an event of default, the Trustee may, and upon request of the Owners of the Bonds then Outstanding shall, and only to the extent indemnified as provided herein, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration, the same shall become due and payable, and the Trustee may exercise any and all remedies available to it pursuant to law or granted pursuant to the Facility Lease; *provided*, that notwithstanding anything herein or in the Facility Lease to the contrary, there shall be no right under any circumstances to accelerate Base Rental Payments under the Facility Lease. Notwithstanding the foregoing, the Trustee may not or shall not accelerate the maturities of the Bonds without the prior written consent of the Bond Insurer; *provided*, however, that the Bond Insurer's consent for acceleration upon an event of

default pursuant to Section 12.01(f) is given pursuant to a certificate delivered contemporaneously with the Municipal Bond Insurance Policy.

This provision is subject to the following conditions: (i) if, at any time after the principal of the Bonds then Outstanding shall have been so declared due and payable and before any final judgment for the payment of the money shall have been obtained and entered, and (ii) if each of the following conditions has occurred or will occur: (a) the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and Swap Payments and all principal on the Bonds matured prior to such declaration and subordinate to such interest, principal and Swap Payments, Uninsured Termination Payments, with interest on the Bonds at the rate borne by such Bonds on such overdue interest and principal and with interest on the Swap Payments and Uninsured Termination Payments at the Default Rate (defined in the Swap Agreement), and the reasonable expenses of the Trustee, and (b) any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds, Swap Payments and Uninsured Termination Payments due and payable solely by reason of such declaration) shall have been made good or cured or provision made therefor, then Owners of not less than twenty-five percent (25%) in aggregate Principal Amount of the Bonds then Outstanding, by written notice to the Authority and the Trustee, may on behalf of the Owners of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 12.03. Application of Funds Upon Acceleration. Upon an Event of Default pursuant to Section 12.01(f), the Trustee shall collect from the Bond Insurer the amount described in Section 3.09(h) for application pursuant to the terms thereof. Otherwise, all money received by the Trustee pursuant to any right given or action taken under the provisions of this article or Article VIII of the Facility Lease or otherwise shall be applied by the Trustee in the following order:

First, to the payment of the fees, costs and expenses of the Trustee and of the Owners in declaring such Event of Default (although the Trustee shall have no claim to amounts drawn on the Liquidity Facility), including reasonable compensation to its or their agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid with respect to the Bonds for the payment of the Principal Amount or Redemption Price of and interest or Discount Amount on the Bonds, with interest on the overdue Principal Amount or Redemption Price of and interest or Discount Amount on the Bonds at a rate per annum equal to the rate then payable with respect to the Bonds to the extent permitted by law (but such interest on overdue Principal Amount or Redemption Price of and interest or Discount Amount on the Bonds shall be paid only to the extent funds are available therefor following payment of the Principal Amount or Redemption Price of the Bonds, as aforesaid; and on a parity therewith to the payment of Swap Payments). If such money shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Bonds and with respect to Swap Payments, then to the payment of such Principal Amount or Redemption Price of and interest or Discount Amount on the Bonds and Swap Payments without preference or priority of Principal Amount or Redemption Price over interest, Swap Payments or Discount Amount, or of interest, Swap Payments or Discount Amount over Principal Amount or Redemption Price, or of any installment of interest, Swap Payments or Discount Amount over any other installment of interest, Swap Payments or Discount Amount, ratably to the aggregate of such Principal Amount or Redemption Price and interest, Swap Payments or Discount Amount.

Third, to the payment of Uninsured Termination Payments.

Section 12.04. Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee, but only with the consent of the Bond Insurer, in its discretion may, and upon the written request of the Owners of a majority in Principal Amount of the Bonds then Outstanding, but only with the consent of the Bond Insurer, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Owners of Bonds by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted,

or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

Section 12.05. Non-waiver. Nothing in this article or in any other provision hereof or in the Bonds shall affect or impair the obligation of the City to pay or prepay the Base Rental Payments in accordance with and subject to the terms and provisions of the Facility Lease, or affect or impair the right of action, which is also absolute and unconditional, of the Owners to institute suit to enforce and collect such payment. No delay or omission of the Trustee or of any Owner of any of the Bonds to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by this article to the Trustee or to the Owners of Bonds may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners.

Section 12.06. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

Section 12.07. Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own powers or upon the request of the Owners of a majority in Principal Amount of the Bonds then Outstanding, the Trustee shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; *provided*, that the Trustee shall not discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, without the consent of a majority in aggregate Principal Amount of the Bonds Outstanding. Notwithstanding the previous sentence, the Trustee shall obtain the consent of the Bond Insurer prior to taking any such action other than action.

Section 12.08. Limitation on Owners' Right to Sue. No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least twenty-five percent (25%) in aggregate Principal Amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. The right of an Owner to commence such a suit, action or proceeding further shall be subject to the consent of the Bond Insurer.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right hereunder, except in the manner provided herein, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner provided herein and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of such Owner's proportionate interest in such Bond as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this section or any other provision hereof.

ARTICLE XIII

PROVISIONS RELATING TO THE BOND INSURER, THE MUNICIPAL BOND INSURANCE POLICY AND THE SURETY BOND

Section 13.01. Consent of Bond Insurer. As long as the Municipal Bond Insurance Policy and the Surety Bond shall be in full force and effect, the following provisions shall apply:

(a) All money held under the terms of the Indenture shall be invested only in Permitted Investments.

(b) Any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer, and the prior written consent of the Bond Insurer shall be required for the initiation or approval of any action which requires consent of the Owners of the Bonds, including any amendment of or supplement to the Indenture, and the prior written consent of the Bond Insurer shall be required for the execution of any amendment of or supplement to the Indenture other than those amendments that do not require the consent of the Owners of the Bonds. Copies of all amendments made to the documents executed in connection with the issuance of the Bonds shall be sent to each Rating Agency.

(c) Anything contained herein to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Bond Insurer, acting alone, shall have the right to direct all remedies granted to the Owners of the Bonds or the Trustee for the benefit of the Owners of the Bonds hereunder, and the Bond Insurer shall be recognized as the registered owner of each Bond for the purposes of exercising all rights and privileges available to the Owners of the Bonds. The Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of the Bonds in accordance with the applicable provisions hereof.

Section 13.02. Notices to Bond Insurer. As long as the Municipal Bond Insurance Policy or the Surety Bond shall be in full force and effect, the Authority and/or the Trustee agree to furnish to the Bond Insurer:

A. Notice of the resignation or removal of the Trustee or the Paying Agent or the Remarketing Agent and the appointment of a successor thereto.

B. Copies of all notices required to be given to the Owners of the Bonds or the Trustee hereunder, and copies of all other notices required to be given hereunder, including, without limitation, notice of any redemption of or defeasance of any Bonds, and copies of any certificate of the Authority or written request of the Authority rendered pursuant to the Indenture relating to the security for the Bonds and copies of all Continuing Disclosure Certificate.

C. Copies, on an annual basis, of the City's audited financial statements and annual budget and, as soon as practicable after the filing thereof, a copy of any report of the Authority required to be filed with the Trustee.

D. Notice of any amendment of or supplement to the Indenture which does not require the consent of the Owners.

E. Such additional information as it may reasonably request.

All notices required to be given to the Bond Insurer hereunder shall be in writing and shall be sent by registered or certified mail.

Section 13.03. Payment Procedure Pursuant to the Municipal Bond Insurance Policy. As long as the Municipal Bond Insurance Policy shall be in full force and effect, the Authority and the Paying Agent agree to comply with the following provisions:

A. If, on the second (2nd) Business Day, and again on the Business Day, prior to any Interest Payment Date or any Principal Payment Date for the Bonds, the Paying Agent has not received sufficient money to pay all interest on and Principal Amount or Redemption Price of the Bonds due on the second (2nd) following or following, as the case may be, Business Day, the Paying Agent shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is thereafter made up in whole or in part prior to or on such Interest Payment Date or Principal Payment Date, as the case may be, the Paying Agent shall so notify the Bond Insurer or its designee.

C. In addition, if the Paying Agent has notice that any Owner of the Bonds has been required to disgorge payments of interest or Discount Amount on or Principal Amount or Redemption Price of any of the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for the Owners of the Bonds as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest or Discount Amount on the Bonds, the Paying Agent shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Municipal Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest or Discount Amount and an assignment to the Bond Insurer of the claims for interest or Discount Amount to which such deficiency relates and which are paid by the Bond Insurer, (b) receive as designee of the respective Owners of the Bonds (and not as Paying Agent) in accordance with the tenor of the Municipal Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest or Discount Amount so assigned, and (c) disburse the same to such respective Owners; and

2. If and to the extent there is a deficiency in amounts required to pay Principal Amount or Redemption Price or Purchase Price, if insured, of the Bonds, the Paying Agent shall (a) execute and deliver to the Insurance Paying Agent, in form satisfactory to the Insurance Paying Agent, an instrument appointing the Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such Principal Amount or Redemption Price or Purchase Price, if insured, and an assignment to the Bond Insurer of any of the Bonds surrendered to the Insurance Paying Agent of so much of the Principal Amount or Redemption Price or Purchase Price, if insured, thereof as has not previously been paid or for which money is not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Trustee is received), (b) receive as designee of the respective Owners of the Bonds (and not as Paying Agent) in accordance with the tenor of the Municipal Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such respective Owners.

E. Payments with respect to claims for interest or Discount Amount on and Principal Amount or Redemption Price or Purchase Price, if insured, of the Bonds disbursed by the Paying Agent from proceeds of the Municipal Bond Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Bond Insurer shall become the owner of such unpaid Bonds and claims for the interest or Discount Amount thereon and Principal Amount or Redemption Price or Purchase Price, if insured, thereof in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the Authority and the Paying Agent hereby agree for the benefit of the Bond Insurer that:

1. They recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Paying Agent), on account of interest or Discount Amount on or Principal Amount or Redemption Price or Purchase Price, if insured, of the Bonds, the Bond Insurer will be subrogated to the rights of such Owners to receive the amount of such interest or Discount Amount and Principal Amount or Redemption Price or Purchase Price, if insured, from the Authority, with interest thereon as provided and solely from the sources stated in the Indenture and in the Bonds; and

2. They will accordingly pay to the Bond Insurer the amount of such interest or Discount Amount and Principal Amount or Redemption Price or Purchase Price, if insured, (including interest or Discount Amount and Principal Amount or Redemption Price or Purchase Price, if insured, received under subparagraph (ii) of the first paragraph of the Municipal Bond Insurance Policy, which interest or Discount Amount and Principal Amount or Redemption Price or Purchase Price, if insured, shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and in the Bonds, but only from the sources and in the manner provided herein for the payment of interest or Discount Amount on and Principal Amount or Redemption Price or Purchase Price, if insured, of the Bonds to the Owners of the Bonds, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such interest and principal.

Section 13.04. Provisions Applicable to the Surety Bond.

(a) Upon receipt of any delinquent Base Rental Payments with respect to which moneys have been advanced from a draw on the Surety Bond, such Base Rental Payments plus accrued interest at the rate set forth in the Financial Guaranty Agreement must be paid upon receipt by the Authority to the Bond Insurer as reimbursement for the draw. The Bond Insurer shall certify such amounts due to it to the Authority and the Authority may conclusively rely thereon.

(b) The Authority shall cause the Trustee to deliver a Demand For Payment (as such term is defined in the Financial Guaranty Agreement) to the Bond Insurer at least three (3) days prior to the date on which funds are required.

(c) With respect to any security interest in collateral granted to the Owners, the Bond Insurer shall have that same interest subject only to that of the Owners. This shall apply to existing security, if any, as well as any to be granted in the future.

(d) Delinquent Base Rental Payments will be applied in accordance with the Facility Lease or, if a payment has been made under the Financial Guaranty Agreement, to the Bond Insurer as a reimbursement for such payment. The amount of the reimbursement to the Bond Insurer from delinquent Base Rental Payments shall include interest on the amount paid under the Financial Guaranty Agreement. Any delinquent Base Rental Payments received after there has been a payment under the Financial Guaranty Agreement will be paid to the Bond Insurer as a reimbursement.

(e) The Bond Insurer shall be paid all amounts owed to it hereunder and under the terms of the Financial Guaranty Agreement or any other documents before the Indenture may be terminated.

(f) The Authority shall maintain adequate records, verified with the Bond Insurer, as to the amount available to be drawn at any given time under the Surety Bond and as to the amounts paid to the Bond Insurer under the terms of the Financial Guaranty Agreement.

(g) There may be no optional redemption of Bonds or distribution of funds to the Authority unless all amounts owed to the Bond Insurer under the terms of the Financial Guaranty Agreement or any other documents have been paid in full.

ARTICLE XIV

MISCELLANEOUS

Section 14.01. Liability of Authority Limited to Revenues. Notwithstanding anything contained herein, the Authority shall not be required to advance any money derived from any source other than the Revenues and the money held in the Revenue Fund as provided herein for the payment of the interest on Principal Amount Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) of the Bonds or the Swap Payments or the payments due under the Financial Guaranty Agreement or for the performance of any agreements or covenants contained herein; *provided*, that the Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Bonds and the Swap Payments are limited obligations of the Authority and are payable, as to interest thereon, Principal Amount, Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) thereof, solely from the Revenues and the money held in the Revenue Fund as provided herein, and the Authority is not obligated to pay the interest on or Principal Amount, Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) of the Bonds or the Swap Payments except from the Revenues and such money. All the Bonds and the Swap Payments are equally and ratably secured by a pledge of and charge and lien upon the Revenues and such money, and the Revenues and such money constitute a trust fund for the security and payment of the interest on and Principal Amount, Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) of the Bonds and the Swap Payments as provided herein. The full faith and credit of the Authority is not pledged for the payment of the interest on or Principal Amount, Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) of the Bonds and the Swap Payments, and no tax shall ever be levied or collected to pay the interest on or Principal Amount, Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) of the Bonds or the Swap Payments. The Bonds and the Swap Payments are not secured by a legal or equitable pledge of or charge or lien upon any property of the Authority or any of its income or receipts except the Revenues and such money, and neither the payment of the interest on or Principal Amount, Redemption Price or Purchase Price (but only pursuant to a 3.09(h) failed remarketing) of the Bonds or the Swap Payments is a debt, liability or general obligation of the Authority.

Section 14.02. Defeasance. If and when all Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the interest on and Principal Amount or Redemption Price with respect to all Bonds Outstanding, as and when the same become due and payable; or

(b) by depositing with an escrow agent, under an escrow deposit and trust agreement, security for the payment of Base Rental Payments as more particularly described in Section 9.01 of the Facility Lease, which security shall be held by the Trustee as agent for the City and shall be applied by the Trustee to pay or prepay the Base Rental Payments as the same become due pursuant to Section 3.03 of the Facility Lease, notwithstanding that any Bonds shall not have been surrendered for payment, all obligations of the Authority and the Trustee with respect to all Outstanding Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Base Rental Payments paid by or on behalf of the City from funds deposited pursuant to paragraph (b) of this section, to the Owners of the Bonds not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraph (b), payments from such deposits with respect to the Bonds shall

continue to represent direct and proportionate interests of the Owners thereof in Base Rental Payments under the Facility Lease.

Any payments made with funds derived from a claim on the Municipal Bond Insurance Policy shall not discharge, pursuant to this Section, the Authority's obligations, and instead, Bonds to which such payments have been applied shall remain outstanding for purposes of this Indenture until the Bond Insurer has been paid pursuant to the Financial Guaranty Agreement and the Bond Insurer shall be the holder of the Bonds for all purposes under this Indenture.

Any funds held by the Trustee, at the time of one of the events described in paragraphs (a) or (b) of this section, which are not required for the payment to be made to Owners or for any outstanding fees and expenses of the Trustee, shall be paid over to the Authority.

Section 14.03. Records. The Trustee shall keep complete and accurate records of all moneys received and disbursed by it hereunder, which shall be available for inspection by the Authority, the City, the Bank and any Owner, or the agent of any of them, at any time during regular business hours.

Section 14.04. Notices: Submission of Invoices.

If to the City:	City of Sacramento City Hall 915 I Street Sacramento, CA 95814 Attention: City Clerk
If to the Authority:	Sacramento City Financing Authority 926 J Street, Suite 300 Sacramento, California 95814-2709 Attention: City Treasurer
If to the Trustee:	First Trust of California, National Association One California Street, Suite 400 San Francisco, California 94111 Attention: Corporate Trust Department
If to the Remarketing Agent:	Merrill Lynch, Pierce, Fenner & Smith Incorporated World Financial Center - North Tower 250 Vesey Street New York, NY 10281-1309 Attention: Money Market Operations
If to the Paying Agent:	First Trust of California, National Association One California Street, Suite 400 San Francisco, California 94111 Attention: Corporate Trust Department
If to Moody's:	Moody's Investors Service 99 Church Street New York, NY 10007 Attention: Public Finance Department

If to S&P:	Standard & Poor's Ratings Services 25 Broadway New York, NY 10004 Attention: Municipal Finance
If to Swap Provider:	Merrill Lynch Capital Services, Inc. World Financial Center 250 Vesey Street New York, NY 10281-1309 Attention: Swap Group
If to the Bond Insurer:	MBIA Insurance Corporation 113 King Street Armonk, New York 10504 Attention: Insured Portfolio Management - Western Region
If to the Insurance Paying Agent:	State Street Bank and Trust Company, N.A. 61 Broadway New York, New York 10006 Attention: Corporate Trust Department

Section 14.05. Notice to Moody's and S&P. The Trustee or the Paying Agent shall give written notice to Moody's, if Moody's shall have rated the Bonds, and S&P, if S&P shall have rated the Bonds, of any of the following, but only if the Trustee or the Paying Agent, as appropriate, has received written notice or any of its corporate trust officers has actual knowledge thereof:

- (a) Any amendment shall be made to the Indenture or the Facility Lease, within thirty (30) days after the effective date of such amendment;
- (b) Conversion to, and duration of, any new Mode, within thirty (30) days after the effective date of such conversion;
- (c) Any amendment shall be made in the terms of the Liquidity Facility, within thirty (30) days after the effective date of such amendment;
- (d) Expiration, termination, substitution or extension of the Liquidity Facility, within thirty (30) days after the effective date thereof;
- (e) Any change of Trustee, Paying Agent or Remarketing Agent;
- (f) Any defeasance of Bonds; and
- (g) Any redemption or any tender, within thirty (30) days after the effective date thereof.

Section 14.06. Governing Law. The Indenture shall be construed and governed in accordance with the laws of the State.

Section 14.07. Binding Effect; Successors. The Indenture shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Whenever herein either the Authority, the City, the Remarketing Agent, the Paying Agent, the Bank or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements herein contained by

or on behalf of the Authority, the City, the Remarketing Agent, the Bank or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 14.08. Execution in Counterparts. The Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 14.09. Destruction of Canceled Bonds. Whenever herein provision is made for the surrender to or cancellation by the Trustee and the delivery to the Authority of any Bonds, the Paying Agent may, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law and deliver a certificate of such destruction to the Authority, unless otherwise requested by the Authority.

Section 14.10. Waiver of Notice. Whenever herein the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 14.11. Consent. If the Bank shall have wrongfully dishonored a draw on the Liquidity Facility and no amounts are due under the Liquidity Facility, any provision herein requiring the Bank's approval shall be of no effect; and if the Bond Insurer shall have failed to honor its obligations under the Municipal Bond Insurance Policy, any provision herein requiring the Bond Insurer's approval shall be of no effect.

Section 14.12. Separability of Invalid Provisions. In case any one or more of the provisions contained herein or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability shall not affect any other provision hereof, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The parties hereto hereby declare that they would have entered into the Indenture and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the delivery of the Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases hereof may be held illegal, invalid or unenforceable.

Section 14.13. Effective Date. The Indenture shall take effect from and after its execution and delivery.

IN WITNESS WHEREOF, the parties have executed the Indenture as of the date and year first above written.

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Chairman

Attest:

Secretary

Approved as to Form:

Authority Counsel

FIRST TRUST OF CALIFORNIA, NATIONAL ASSOCIATION, as Trustee

By _____
Authorized Officer

Attest:

Authorized Officer

First Trust of California, National Association hereby acknowledges and accepts the duties and obligations imposed upon it as Paying Agent pursuant to the provisions of the Indenture.

FIRST TRUST OF CALIFORNIA, NATIONAL ASSOCIATION, as Paying Agent

By: _____
Authorized Officer

EXHIBIT A
DEFINITIONS

"*Acquisition Costs*" means all costs and expenses paid by the Authority to the City under the Site Lease.

"*Acquisition Fund*" means the fund by that name established and held by the Trustee pursuant to Section 4.01 of the Indenture.

"*Act*" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

"*Additional Rental Payments*" means the payments so designated and required to be paid by the City pursuant to Section 3.06 of the Facility Lease.

"*Adjustment Date*" means, with respect to any Bond which is in a Unit Pricing Mode, a Discount Mode or a Term Rate Mode, each Business Day (including the date of initial delivery of such Bond) on which the interest rate or Discount Rate is adjusted and a new Interest Period begins.

"*Alternate Rate*" means, as of any date of determination thereof, an annual interest rate, not in excess of the Maximum Rate, equal to one hundred ten percent (110%) of the 30-day Federal Reserve Dealer Commercial Paper Rate published by the Board of Governors of the Federal Reserve System for such date.

"*Authority*" means the Sacramento City Financing Authority, a joint exercise of powers agency duly organized and existing under the laws of the State.

"*Authority Representative*" means the Chairman of the Authority, the Vice Chairman of the Authority or any other person authorized by resolution of the Board of Directors of the Authority to act on behalf of the Authority under or with respect to the Indenture, the Site Lease, the Facility Lease, the Remarketing Agreement, the Liquidity Facility, and any other related documents.

"*Authorized Denominations*" means one thousand dollars (\$1,000) and any integral multiple thereof.

"*Available Money*" means (a) proceeds of the Bonds held by the Trustee or Paying Agent at all times after receipt in a separate and segregated account for such Bonds in which only Available Money is at any time held, and the proceeds from the investment thereof, (b) money which has been on deposit with the Trustee or Paying Agent as agent and bailee for the Owners during which and prior to which for three hundred sixty-six (366) days there has been and there is no petition in bankruptcy pending or has been filed by or against the Authority under the United States Bankruptcy Code or any successor code, (c) investment income derived from the investment of the foregoing types of money, provided that such proceeds, money or income shall not be deemed to be Available Money or available for payment of the Bonds if, among other things, an injunction, restraining order or stay is in effect preventing such proceeds, money or income from being applied to make such payment, and (d) any other money the application of which could not, in the written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to the Authority, the City, Moody's and S&P and delivered to the Paying Agent, constitute a preference voidable under section 547 of the Bankruptcy Code or recoverable under section 550 of the United States Bankruptcy Code. In determining whether at the time of deposit of any funds and for the specified period thereafter as described in this definition any petition in bankruptcy was on file or filed, the Trustee shall be entitled to rely on a written opinion of counsel regarding such matter.

"*Bank*" means the commercial bank or other financial institution issuing the Initial Liquidity Facility or a Substitute Liquidity Facility.

"Bank Bond Holding Period" means the period commencing on the Expiration Date of the Liquidity Facility and ending on that date which is five years after the Expiration Date of the Liquidity Facility (or such longer period as may be required under state law).

"Bank Bonds" means Bonds with respect to which interest is payable at the Bank Rate.

"Bank Rate" means the rate of interest payable with respect to a Bond held for the benefit of the Bank as a result of a draw on the Liquidity Facility to purchase such Bond, which rate shall be as determined in accordance with Section 2.07 of the Indenture.

"Base Rate" means one of the following from which interest on a Floating Rate Bond will be determined: (a) LIBOR; (b) the Treasury Rate; or (c) such other interest rate basis or formula as may be set forth in Exhibit D to the Indenture for the purpose of seeking a lower interest cost on the Bonds.

"Base Rental Payments" means all rental payments required to be paid by the City to the Authority pursuant to Section 3.03 of the Facility Lease, including any prepayment thereof pursuant to Article IX of the Facility Lease.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable by the City to the Authority pursuant to Section 3.03 of the Facility Lease, which schedule is attached as Exhibit B to the Facility Lease.

"Bond Counsel" means an attorney or a firm of attorneys, acceptable to the Authority and the City, of nationally recognized standing in matters pertaining to bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bond Insurer" means MBIA Insurance Corporation, a New York stock insurance company, as issuer of the Municipal Bond Insurance Policy.

"Bonds" means the seventy-three million seven hundred twenty-five thousand dollars (\$73,725,000) aggregate Principal Amount of Sacramento City Financing Authority 1997 Lease Revenue Bonds (ARCO Arena Acquisition) to be executed, authenticated and delivered pursuant to the Indenture.

"Business Day" means any day other than (a) a Saturday or a Sunday, or (b) a day on which commercial banks in the City of New York, New York, banks and trust companies located in the city in which the Principal Offices of the Trustee or the Paying Agent are located or banks in the city in which the Principal Office of the Bank is located, are required or authorized by law to remain closed, or (c) a day on which the New York Stock Exchange is closed, or (d) with respect to LIBOR Bonds, is also any day other than a day on which banks in London are required or authorized by law to remain closed.

"Calculation Agent" shall be such entity or entities as are designated by the Treasurer and specified in writing to the Authority, the City, the Paying Agent and the Trustee.

"Calculation Date", where applicable pertaining to any Interest Determination Date, means the earlier (i) the tenth (10th) calendar day after such Interest Determination Date, or if any such date is not a Business Day, the next succeeding Business Day, or (ii) the Business Day preceding the applicable Interest Payment Date or Purchase Date or Discount Maturity Date, as the case may be.

"City" means the City of Sacramento, a municipal corporation and charter city duly organized and existing under and by virtue of the Constitution and laws of the State.

"City Representative" means the Mayor, the City Manager, the Treasurer or any other person authorized by resolution of the City Council of the City to act on behalf of the City under or with respect to the Indenture, the Site Lease, the Facility Lease, the Remarketing Agreement and the Liquidity Facility.

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

"Counsel" means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the City or the Trustee) duly admitted to the practice of law before the highest court of any state of the United States of America.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate between the City and the Trustee dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Defeasance Obligations" means (a) cash, or (b) non-callable direct general obligations (including obligations issued or held in book entry form on the books of the Department of the Treasury) of the United States of America.

"Delivery Costs" means all costs and expenses of execution, authentication and initial delivery of the Bonds, including, but not limited to: (a) underwriter's fees other than those taken in the form of a discount on the Closing Date; (b) counsel fees, including Bond Counsel, underwriter's counsel, City Attorney, Authority counsel and special tax counsel fees, as well as any other specialized counsel fees incurred in connection with the financing; (c) financial advisor fees; (d) Rating Agency fees; (e) initial trustee fees and expenses, including trustee counsel fees; (f) title insurance premiums and recording fees; (g) accountant fees; (h) printing costs of the Bonds and of an official statement or other offering documents; (i) premiums for the Municipal Bond Insurance Policy and the Surety Bond; and (j) costs incurred by the Authority and the City in connection with the financing proceedings.

"Discount Amount" means, with respect to any Discount Bond, the Face Amount of such Bond minus the Principal Amount of such Bond; and for purposes of any provision of the Indenture relating to the payment of the accrued portion of the Discount Amount of a Discount Bond, such amount shall be equal to the portion of the Discount Amount based on the number of days elapsed since the preceding Adjustment Date over the number of days from the preceding Adjustment Date to, but not including, the next succeeding Discount Maturity Date.

"Discount Bond" means each Bond which is executed, authenticated and delivered in a Discount Mode.

"Discount Maturity Date" means the Purchase Date with respect to a Discount Bond.

"Discount Mode" means the aggregate of characteristics which apply to Bonds which have been sold for a Principal Amount which is at a discount to the Face Amount of such Bonds.

"Discount Rate" shall mean the rate assigned to each Discount Bond calculated as the product of (a) the Discount Amount divided by the Face Amount, and (b) three hundred sixty (360) days divided by the actual number of days elapsed from the most recent Adjustment Date to the next succeeding Purchase Date with respect to each such Bond.

"Due Date" means any date occurring six (6) Business Days prior to any Interest Payment Date or Principal Payment Date.

"Expiration Date" means the date which is five (5) Business Days after July 18, 2007 and after such date has the meaning set forth in the Liquidity Facility.

"Expiration Tender Date" means the fifth (5th) day (or if such day is not a Business Day, on the next succeeding Business Day) prior to the scheduled Termination Date if no Substitute Liquidity Facility has been delivered pursuant to Section 5.05 of the Indenture in substitution for the then effective Liquidity Facility with respect to the Bonds.

"Event of Default" means an event of default under the Facility Lease, as defined in Section 8.01 of the Facility Lease and as defined under the Indenture.

"Face Amount" means, with respect to each Discount Bond, the amount designated as the Face Amount of such Discount Bond as set forth on the face of such Bond, which amount shall equal the Principal Amount of such Bond plus the Discount Amount of such Bond.

"Facility" means the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena located on the Site, all as more particularly described in the Facility Lease.

"Facility Lease" means the Facility Lease, executed and entered into as of July 1, 1997, by and between the Authority, as lessor, and the City, as lessee, together with any duly authorized and executed amendments thereto.

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

"Financial Guaranty Agreement" means that certain Financial Guaranty Agreement, dated as of July 1, 1997, between the Authority, the City and the Bond Insurer.

"Fitch" means Fitch Investors Service, L.P., its successors and assigns, and, if such corporation shall for any reason no longer perform the function of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized rating agency designated by the Authority with the approval of the City and the Bond Insurer.

"Fixed Rate" means the rate of interest payable with respect to a Bond on and after the Conversion Date on which such Bond is converted to a Fixed Rate Mode, which rate shall be as determined in accordance with Section 2.09 of the Indenture.

"Fixed Rate Mode" means the aggregate of characteristics which apply to Bonds which have been converted to and bear interest at a Fixed Rate to maturity.

"Floating Rate" means the rate of interest payable with respect to a Bond while the Bond is in a Floating Rate Mode, which rate shall be determined in accordance with Section 7.04 of the Indenture.

"Floating Rate Bond" means a Bond bearing interest at a floating rate and determined by reference to a Base Rate.

"Floating Rate Mode" means the aggregate of characteristics which apply to Bonds which have been converted to and bear interest at a Floating Rate.

"Floating Rate Period" means the period specified by the Remarketing Agent during which Bonds shall be in the Floating Rate Mode.

"Immediate Notice" means oral or telephonic notice, promptly followed by written notice by telex, telecopier or other electronic means or first class mail to such address as the addressee shall have directed in writing; *provided*, that verbal or telephonic notice shall be effective notwithstanding any failure to receive such written notice.

"Indenture" means the Indenture, executed and entered into as of July 1, 1997, by and between the Authority and the Trustee, together with any amendments or supplements thereto permitted to be made thereunder.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Authority, the City or the Trustee.

"Index Maturity" means the period to maturity of the instrument or obligation with respect in which a Base Rate is calculated.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, NY 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, NY 10007, Attention: Municipal News Reports; S&P's "Called Bond Record," 25 Broadway, 3rd Floor, New York, NY 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a request of the Authority delivered to the Trustee.

"Initial Interest Rate" shall be the rate for each Floating Rate Bond from the date of initial delivery of such Bond to the Initial Interest Reset Date, as specified in Exhibit D.

"Initial Interest Reset Date" shall be for each Floating Rate Bond the first Interest Rate Reset Date following the Initial Interest Rate, as specified in Exhibit D.

"Initial Liquidity Facility" means a Standby Bond Purchase Agreement by and among the Authority, the City and the Bank, as may be executed and delivered pursuant to Section 5.04 of the Indenture to provide for liquidity upon remarketing of the Bonds, as amended and supplemented from time to time, in accordance with its terms.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to Section 6.01 of the Indenture.

"Insurer Event of Termination" means those dates upon which the obligation of the Liquidity Provider to purchase tendered Bonds (or to otherwise advance funds for the purchase of tendered Bonds) is terminated or suspended without notice or the opportunity to tender Bonds following certain events of default or insolvency of the Bond Insurer, as specified in the Liquidity Facility.

"Interest Determination Date" means for each Floating Rate Bond the date on which the interest rate in effect with respect to such Bond during any interest period commencing as of an Interest Rate Reset Date will be determined and with respect to an Interest Rate Reset Date for (a) LIBOR Bonds will be the second (2nd) London Banking Day preceding such Interest Rate Reset Date, and (b) Treasury Rate Bonds will be the day of the week in which the Interest Rate Reset Date falls on which Treasury Bills are auctioned (Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that such auction may be held on the preceding Friday); *provided*, that if as a result of a legal holiday an auction is held on Friday of the week preceding an Interest Rate Reset Date, the related Interest Determination Date will be the preceding Friday; and *provided further*, that if an auction shall fall on any Interest Rate Reset Date, then the Interest Rate Reset Date will instead be the first (1st) Business Day following such auction.

"Interest Payment Date" means:

(1) With respect to a Bond in a Floating Rate Mode, the Purchase Date, and for a Floating Rate Bond which is reset weekly or monthly, the third Wednesday of each month or on the third Wednesday of January, April, July and October of each year or as specified in Exhibit D to the Indenture or which is reset quarterly, the third Wednesday of January, April, July and October of each year, or which is reset semiannually, on the third Wednesday of each of the two months of each year as specified in Exhibit D to the Indenture, or such other date or dates set forth in Exhibit D to the Indenture as shall subsequently be determined by the Remarketing

Agent at the end of the Initial Floating Rate Period for subsequent Floating Rate Periods during which the Bonds bear interest in the Floating Rate Mode;

(2) With respect to any Bond which is in a Unit Pricing Mode (a) with an Interest Period of 180 days or less, each Purchase Date and (b) with an Interest Period of 181 days or more, the first Business Day of each January and July and the Purchase Date;

(3) With respect to any Bond in a Discount Mode, each Discount Maturity Date;

(4) With respect to any Bond which is in a Term Rate Mode, each January 15 and July 15 prior to the Purchase Date and the Purchase Date;

(5) With respect to any Bond which is in a Fixed Rate Mode, each January 15 and July 15;

(6) With respect to any Bond, each Mandatory Tender Date and the maturity date of such Bond; and

(7) With respect to each Bond which is redeemed in whole or in part, the date fixed for redemption;

provided, that if an Interest Payment Date for a Floating Rate Bond would otherwise fall on a day that is not a Business Day with respect to such Bond, such Interest Payment Date shall be postponed to the next day that is a Business Day, except that in the case of a LIBOR Bond, if such Business Day falls in the next succeeding calendar month, such Interest Payment Date will be advanced to the immediately preceding Business Day, and if the Purchase Date of any Floating Rate Bond would fall on a day that is not a Business Day, the payment of interest may be made on the next succeeding Business Day and no interest on such payment shall accrue for the period from and after the Purchase Date.

"Interest Period" means for Bonds in a Unit Pricing Mode, a Discount Mode or a Term Rate Mode, the period from and including each Adjustment Date to, but not including, the next succeeding Purchase Date (or, with respect to a Discount Bond, the Discount Maturity Date).

"Interest Rate Reset Date" means, in the case of Floating Rate Bonds, the day on which the interest rate on the Floating Rate Bonds will be reset and such day will be, unless otherwise specified in Exhibit D to the Indenture, (a) if the Interest Rate Reset Period is weekly, the Wednesday of each week (with the exception of the weekly reset Treasury Rate Bonds, which reset Tuesday of each week except as provided in Section 2.04 of the Indenture); (b) if the Interest Rate Reset Period is monthly, the third Wednesday of each month; (c) if the Interest Rate Reset Period is quarterly, the third Wednesday of January, April, July and October of each year; and (d) if the Interest Rate Reset Period is semiannually, the third Wednesday of each of the two months specified in Exhibit D to the Indenture. If any Interest Rate Reset Date for any Floating Rate Bond would otherwise be a day that is not a Business Day, then such Interest Rate Reset Date will be postponed to the next succeeding date that is a Business Day except that in the case of a LIBOR Bond, if such Business Day is the next succeeding calendar month, such Interest Rate Reset Date shall be the next preceding Business Day.

"Interest Rate Reset Period" means the period during which an applicable rate of interest on a Floating Rate Bond will be applicable as specified in Exhibit D to the Indenture.

"Interest Reserve Fund" means the fund by that name established and held by the Trustee pursuant to Section 5.10 of the Indenture.

"Interest Reserve Fund Requirement" means, on any date, for Bonds in a Unit Pricing Mode or a Discount Mode an amount equal to the interest that would have accrued at the Maximum Rate during a period of thirty-seven (37) days on the aggregate Principal Amount of Bonds then Outstanding.

"LIBOR Bond" shall mean a Floating Rate Bond the interest on which is determined by reference to LIBOR.

"Liquidity Facility" means the Initial Liquidity Facility or, if a Substitute Liquidity Facility is delivered, such Substitute Liquidity Facility.

"Liquidity Facility Deposit Account" means the fund by that name established within the Purchase Fund and held by the Paying Agent pursuant to Section 3.12 of the Indenture.

"London Banking Day" means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

"Mandatory Tender Date" means, with respect to the Bonds subject to purchase on such date, (i) each Purchase Date while such Bonds are in a Floating Rate Mode, a Unit Pricing Mode, a Discount Mode or a Term Rate Mode, (ii) any Mode Change Date, (iii) any Expiration Tender Date, (iv) any Substitution Tender Date and (v) the date upon which an Initial Liquidity Facility is delivered pursuant to Section 5.04 of the Indenture.

"Maximum Annual Rental" means the aggregate Base Rental Payment installments and Additional Rental Payments for any Rental Period, which amount shall not exceed \$11,058,750.

"Maximum Interest Rate" means a maximum limit, or ceiling, on the rate of interest that may accrue during any Interest Period on Bonds in the Floating Rate Mode, which shall not exceed the Maximum Rate.

"Maximum Rate" means (a) an interest rate equal to fourteen percent (14%) per annum, (b) with respect to a Discount Rate, the discount equivalent of a fourteen percent (14%) Maximum Rate or (c) such higher rate as may be permitted by law.

"Minimum Interest Rate" means a minimum limit, or floor, on the rate of interest which may accrue during any Interest Period on Bonds in the Floating Rate Mode.

"Mode" means a Discount Mode, a Floating Rate Mode, a Unit Pricing Mode, a Term Rate Mode or a Fixed Rate Mode.

"Mode Change" means a change from one Mode to another pursuant to Section 2.10 of the Indenture and shall include remaining in the same Mode at the Purchase Date.

"Mode Change Date" shall be a date set pursuant to Section 2.10 of the Indenture on which a Bond changes from one interest rate mode to another.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall for any reason no longer perform the function of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the Authority with the approval of the City and the Bond Insurer.

"Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer insuring the payment when due of the interest on and principal of the Bonds as provided therein.

"Net Proceeds" means any insurance proceeds or condemnation or title insurance award, paid with respect to the Facility, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Notice Parties" means the Authority, the City, the Trustee, the Bond Insurer, the Remarketing Agent, the Paying Agent and the Bank.

"Original Purchaser" means the original underwriter of the Bonds.

"Outstanding," when used with reference to the Bonds and as of any particular date, means all Bonds theretofore delivered except: (a) any Bond canceled by the Trustee or surrendered for cancellation at or before such date, (b) any Bonds for the payment or redemption of which funds or eligible securities in the necessary amount, including accrued interest or Discount Amount thereon, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds); *provided*, that if such Bonds are to be redeemed prior to maturity, notice shall have been given as provided in Section 3.08 of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (c) any Bond in lieu of, in substitution for or in exchange for which another Bond shall have been delivered pursuant to the Indenture.

"Owner" when used with respect to a Bond means the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Par Bonds" means Bonds paying interest at Floating Rate Mode, a Unit Pricing Rate, a Term Rate, a Fixed Rate or a Bank Rate.

"Par Mode" means any Mode consisting of a Unit Pricing Mode, a Term Rate Mode or a Fixed Rate Mode.

"Partnership" means the Kings ARCO Arena Limited Partnership, a California limited partnership.

"Paying Agent" means First Trust of California, National Association, a banking corporation organized and existing under the laws of the United States of America or any other commercial bank with trust powers or trust company having an office or agency in New York, New York.

"Permitted Investments" means:

1. Cash or direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - a. Farmers Home Administration
Certificates of beneficial ownership
 - b. Federal Housing Administration Debentures (FHA)
 - c. General Services Administration
Participation certificates
 - d. Government National Mortgage Association (GNMA)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations (participation certificates)
 - e. U.S. Maritime Administration
Guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development
Project Notes
Local Authority Bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
 - a. Federal Home Loan Bank System.
Senior debt obligations (Consolidated debt obligations)
 - b. Federal Home Loan Mortgage Corporation. (FHLMC or "Freddie Mac")
Participation Certificates (Mortgage-backed securities)
Senior debt obligations
 - c. Federal National Mortgage Association. (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)
 - d. Student Loan Marketing Association. (SLMA or "Sallie Mae")
Senior debt obligations
 - e. Resolution Funding Corp. (REFCORP)
Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable
 - f. Farm Credit System.
Consolidated systemwide bonds and notes
4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and, if rated by Moody's having a rating of Aaa, Aa1 or Aa2 (including funds of the Trustee or its affiliates).
5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. CD's must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's. The collateral must be held by a third party and the Trustee on behalf of the Owners must have a perfected first security interest in the collateral.
6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC (including BIF and SAIF).
7. Investment Agreements, including guaranteed investment contracts, acceptable to the Certificate Insurer.
8. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.
9. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1+" or better by S&P.

11. Repurchase agreements (repos) providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repos must satisfy the following criteria or be approved by the Bond Insurer.

a. Must be between the Trustee and a dealer bank or securities firm which are:

1. Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P and Moody's, or
2. Banks rated "A" or above by S&P and Moody's.

b. Written contract must include the following:

1. Securities which are acceptable for transfer are:
 - (a) Direct U.S. governments, or
 - (b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA and FHLMC)
2. The term may be up to 30 days
3. The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
4. The Trustee has a perfected first priority security interest in the collateral.
5. Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.
6. Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.
7. Valuation of Collateral
 - (a) The securities must be valued weekly, marked-to-market at the current market price plus accrued interest.
 - (1) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the Trustee:

1. Repo meets guidelines under state law for legal investment of public funds.

- d. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

"Principal Amount", (a) when used with respect to Base Rental Payments, means the total principal components of Base Rental Payments then unpaid, (b) when used with respect to Par Bonds, means the principal amount thereof, and (c) when used with respect to Discount Bonds, means the Face Amount minus the Discount Amount thereof.

"Principal Office" means (a) with respect to the Trustee, the main or principal corporate trust office of the Trustee (which shall be in San Francisco, California, so long as First Trust of California, National Association is the Trustee), and (b) with respect to the Paying Agent, the main or principal corporate trust office of the Paying Agent.

"Principal Payment Date" means the date upon which a principal payments on the Bonds is due pursuant to Section 3.03 of the Indenture, as follows:

- (1) With respect to a Bond in a Floating Rate Mode, the Purchase Date and the third Wednesday of each July, commencing July 15, 2000;
- (2) With respect to a Bond in a Unit Pricing Mode, (a) with an Interest Period of 180 days or less, each Purchase Date, and (b) with an Interest Period of 181 days or more, the first Business Day of each July and the Purchase Date;
- (3) With respect to any Bond in a Discount Mode, each Discount Maturity Date;
- (4) With respect to any Bond in a Term Rate Mode, each July 15 prior to the Purchase Date;
- (5) With respect to any Bond in a Fixed Rate Mode, each July 15;
- (6) With respect to any Bond, each Mandatory Tender Date and the maturity date of such Bond;
- (7) With respect to each Bond which is redeemed in whole or part, the date fixed for redemption;

provided, that if a Principal Payment Date for a Floating Rate Bond would otherwise fall on a day that is not a Business Day with respect to such Bond, such Principal Payment Date shall be postponed to the next day that is a Business Day, except that in the case of a LIBOR Bond, if such Business Day falls in the next succeeding calendar month, such Principal Payment Date will be advanced to the immediately preceding Business Day, and if the Purchase Date of any Floating Rate Bond would fall on a day that is not a Business Day, the payment of principal may be made on the next succeeding Business Day and no interest on such payment shall accrue for the period from and after the Purchase Date.

"Purchase Date" means, (i) for any Bond in a Discount Mode, a Unit Pricing Mode or a Term Rate Mode, a Business Day determined by the Remarketing Agent on the most recent Adjustment Date as the date on which such Bond will be subject to purchase, (ii) for any Bond in a Unit Pricing Mode with respect to which the Remarketing Agent does not or cannot determine a new interest rate, a new Interest Period or a new Purchase Date, each Business Day and (iii) for any Bond in a Floating Rate Mode, the Purchase Date shall initially be July 18, 2007, and thereafter shall be the last Business Day following the Floating Rate Period, as determined by the Remarketing Agent pursuant to Section 2.04. With respect to Discount Bonds, the Purchase Date shall be the Discount Maturity Date thereof.

"*Purchase Fund*" means the fund by that name established pursuant to Section 3.12 of the Indenture.

"*Purchase Price*" means the price at which Bonds are to be purchased on any Mandatory Tender Date which means the Principal Amount thereof.

"*Rating Agency*" means Moody's when the Bonds are rated by Moody's and S&P when the Bonds are rated by S&P.

"*Rating Category*" means any generic rating category of Moody's or S&P, without regard to any refinement of such category by plus or minus sign or by numerical or other qualifying designation.

"*Rating Confirmation Notice*" means a notice from the Rating Agency confirming that the rating then assigned to the Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a Fixed Rate Mode) as a result of the action proposed to be taken.

"*Rating Decline Notice*" means a notice from the Rating Agency indicating that, upon delivery of a Substitute Liquidity Facility, either the short-term or the long-term rating then assigned to the Bonds will be reduced or withdrawn.

"*Record Date*" means the fifteenth (15th) day (regardless of whether it is a Business Day) of the calendar month next preceding an Interest Payment Date or a redemption date, and with respect to Bonds in a Discount Mode, the Business Day immediately preceding a Discount Maturity Date.

"*Redemption Price*" means, when used (i) with respect to a Par Bond or portion thereof to be redeemed, the Principal Amount of such Bond or portion thereof, plus the applicable premium, if any, payable upon redemption or maturity thereof and (ii) with respect to Discount Bonds, the Principal Amount of such Bond or portion thereof, plus the applicable premium, if any, payable upon redemption or maturity thereof.

"*Registration Books*" means the records maintained by the Paying Agent pursuant to Section 2.17 of the Indenture for registration and transfer of ownership of the Bonds.

"*Remarketing Agent*" for all purposes of the Indenture with respect to the Bonds, means the entity designated as such in the Remarketing Agreement.

"*Remarketing Agreement*" means the Remarketing Agreement dated as of July 1, 1997, among the Authority, the City the Original Purchaser, or any subsequent agreement that the Authority may enter into with respect to remarketing provisions for the Bonds.

"*Remarketing Proceeds Account*" means the fund by that name established within the Purchase Fund and held by the Trustee pursuant to Section 3.12 of the Indenture.

"*Renewal Date*" means a date which is forty-five (45) days prior to an Expiration Date.

"*Rental Period*" means each twelve-month period during the Term of the Facility Lease commencing on August 1 in any year and ending on July 31 in the next succeeding year; except for the first rental period which shall commence on August 1, 1997 and shall end on July 31, 1998.

"*Reserve Fund*" means the fund by that name established and held by the Trustee pursuant to Section 5.03 of the Indenture.

"*Reserve Fund Requirement*" means, as of any date of calculation, an amount equal to ten percent (10%) of the Outstanding Principal Amount of the Bonds.

"*Revenue Fund*" means the fund by that name established and held by the Trustee pursuant to Section 5.01 of the Indenture.

"*Revenues*" means all payments received by the City from the Partnership and assigned to the Authority under the Sublease and all Base Rental Payments required to be paid by the City to the Authority under the Facility Lease and any amounts received by the Authority under the Facility Lease with respect to insurance proceeds and eminent domain proceeds and all Swap Revenues.

"*Securities Depositories*" means The Depository Trust Company, 711 Stewart Avenue, Garden City, NY 11530, Fax (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, IL 60605, Fax (312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, PA 19103, Attention: Bond Department, Fax (215) 496-5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a certificate of the Authority delivered to the Trustee.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such entity shall for any reason no longer perform the function of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized rating agency designated by the Authority with the approval of the City and the Bond Insurer.

"*Site*" means that certain real property more particularly described in Exhibit A to the Site Lease and Exhibit A to the Facility Lease.

"*Site Lease*" means the Site Lease, executed and entered into as of July 1, 1997, by and between the City, as lessor, and the Authority, as lessee, together with any duly authorized and executed amendments thereto.

"*Spread*" is the number of basis points above or below the Base Rate applicable to a Floating Rate Bond.

"*Spread Multiplier*" is the percentages of the Base Rate applicable to the interest rate for a Floating Rate Bond.

"*State*" means the State of California.

"*Sublease*" means that certain Sublease dated as of July 1, 1997, by and between the City and the Partnership providing for the sublease of the Facility by the City to the Partnership.

"*Substitute Bond Insurance Policy*" means any municipal bond insurance policy obtained by the Authority pursuant to Section 5.07 of the Indenture.

"*Substitute Credit Date*" means the date of delivery to the Trustee of a Substitute Bond Insurance Policy pursuant to Section 5.07 of the Indenture.

"*Substitute Liquidity Facility*" means a replacement standby bond purchase agreement or other liquidity facility the provider of which is acceptable to the Bond Insurer and which (1) is delivered to the Paying Agent pursuant to Section 5.05 of the Indenture, and (2) in the opinion of the Bond Insurer, contains terms and conditions which are, in all material respects, substantially similar to those contained in the Initial Liquidity Facility. "Substitute Liquidity Facility" does not include extensions or renewals of the Liquidity Facility then in effect.

"*Substitution Date*" means the date of delivery to the Paying Agent of a Substitute Liquidity Facility by the Authority pursuant to Section 5.05 of the Indenture.

"Substitution Tender Date" means the fifth (5th) day (or if such day is not a Business Day, on the next succeeding Business Day) prior to the date upon which an Substitute Liquidity Facility is to be substituted for the Liquidity Facility then in effect if the Trustee has not received a Rating Confirmation Notice with respect to such substitution.

"Surety Bond" means the debt service reserve fund surety bond issued by the Bond Insurer for deposit in the Reserve Fund.

"Swap Agreement" means that certain ISDA Master Agreement, U.S. Municipal Counterparty Schedule and related Confirmation, each dated as of July 17, 1997, and each by and between the Swap Provider and the Authority, as may be amended or supplemented from time to time.

"Swap Payments" means all amounts payable by the Authority to the Swap Provider pursuant to the Swap Agreement other than Uninsured Termination Payments and which amounts shall not exceed, together with principal and interest due on the Bonds, the Maximum Annual Rental in any Rental Period.

"Swap Policy" means the interest rate swap insurance policy issued by the Bond Insurer to Merrill Lynch Capital Services, Inc. with respect to the Swap Agreement.

"Swap Provider" means Merrill Lynch Capital Services, Inc., or its successor or assign pursuant to the terms of the Swap Agreement or a provider of a swap or hedge pursuant to Section 2.10(c) of the Indenture.

"Swap Revenues" means all amounts received by the Authority from the Swap Provider, or its successors or assigns, pursuant to the Swap Agreement.

"Termination Date" means (i) the date specified in a notice of termination given by the Liquidity Provider to the Trustee and the Paying Agent specifying the date on which the Liquidity Provider will no longer be obligated to purchase Bonds (or otherwise advance funds for the purchase of tendered Bonds) pursuant to the Liquidity Facility, which date shall be at least thirty (30) days from the date of receipt of such notice by the Trustee and the Paying Agent and (ii) the Expiration Date of the Liquidity Facility if no Substitute Liquidity Facility is delivered. "Termination Date" does not include the date of termination of the Liquidity Facility following an Insurer Event of Termination or any date following a voluntary termination by the City per Section 2.11 of Initial Liquidity Facility.

"Term of the Facility Lease" means the time during which the Facility Lease is in effect, as provided in Section 3.02 of the Facility Lease.

"Term Rate" means that annual rate of interest, determined for the applicable Interest Period pursuant to Section 2.08 of the Indenture by the Remarketing Agent.

"Term Rate Mode" means the aggregate of the characteristics which apply to Bonds which bear interest at a Term Rate for an Interest Period exceeding one year.

"Treasurer" means the Treasurer of the City.

"Treasury Bills" means direct obligations of the United States of America.

"Treasury Rate Bonds" means Floating Rate Bonds the interest on which is determined by reference to the Treasury Rate.

"Trustee" means First Trust of California, National Association, a national banking association duly organized and existing under the laws of the United States of America or any successor thereto acting as Trustee pursuant to the Indenture.

"Uninsured Termination Payments" means all amounts payable pursuant to Section 6 which are described in Section 4(f)(vi) of the Swap Agreement by the Authority to the Swap Provider upon the designation of an Early Termination Date, which amounts are not insured by the Bond Insurer pursuant to the terms of the Swap Policy, and which constitute "Uninsured Amounts" under the Swap Agreement and which amounts are subordinate to payments of principal and interest due on the Bonds and Swap Payments and which amounts shall not exceed, together with principal and interest due on the Bonds, the Maximum Annual Rental in any Rental Period.

"Unit Pricing Mode" means the aggregate of the characteristics which apply to Bonds which are payable as to interest at the Unit Pricing Rate.

"Unit Pricing Rate" means that annual rate of interest determined for the applicable Interest Period pursuant to Section 2.05 of the Indenture by the Remarketing Agent.

THIS PAGE INTENTIONALLY LEFT BLANK

FACILITY LEASE

Dated as of July 1, 1997

by and between the

SACRAMENTO CITY FINANCING AUTHORITY

and the

CITY OF SACRAMENTO

(ARCO ARENA ACQUISITION)

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

Page

ARTICLE I
DEFINITIONS; INTERPRETATION;
AUTHORIZATION; EXHIBITS

Section 1.01. Definitions 1
Section 1.02. Interpretation 1
Section 1.03. Authorization 2
Section 1.04. Exhibits 2

ARTICLE II
REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.01. Representations, Covenants and Warranties of the Authority 2
Section 2.02. Representations, Covenants and Warranties of the City 3

ARTICLE III
AGREEMENT TO LEASE; TERM OF FACILITY LEASE;
RENTAL PAYMENTS

Section 3.01. Lease of Facility 4
Section 3.02. Term of Facility Lease 4
Section 3.03. Base Rental Payments 4
Section 3.04. Quiet Enjoyment 7
Section 3.05. Title 7
Section 3.06. Additional Rental Payments 7
Section 3.07. Abatement 7
Section 3.08. No Merger 8

ARTICLE IV
MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

Section 4.01. Maintenance, Utilities, Taxes and Assessments 8
Section 4.02. Insurance 8
Section 4.03. Modification of the Facility 9
Section 4.04. Advances 10
Section 4.05. Liens 10
Section 4.06. Effect of Sublease 10

ARTICLE V
DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Section 5.01. Eminent Domain 10
Section 5.02. Title Insurance 10

ARTICLE VI
DISCLAIMER OF WARRANTIES; ACCESS

Section 6.01. Disclaimer of Warranties 10
Section 6.02. Access to the Facility 10

**ARTICLE VII
SUBLEASING AND AMENDMENT**

Section 7.01. Subleasing by the City	10
Section 7.02. Amendment of the Facility Lease	10

**ARTICLE VIII
EVENTS OF DEFAULT AND REMEDIES**

Section 8.01. Events of Default Defined	11
Section 8.02. Remedies on Event of Default	11
Section 8.03. No Remedy Exclusive	12
Section 8.04. Agreement to Pay Attorneys' Fees and Expenses	13
Section 8.05. No Additional Waiver Implied by One Waiver	13
Section 8.06. Application of Proceeds	13

**ARTICLE IX
PREPAYMENT OF BASE RENTAL PAYMENTS**

Section 9.01. Security Deposit	13
Section 9.02. Optional Prepayment	14
Section 9.03. Mandatory Prepayment From Net Proceeds of Insurance or Condemnation or Title Insurance Awards	14
Section 9.04. Mandatory Prepayment During Bank Bond Holding Period.	14

**ARTICLE X
MISCELLANEOUS**

Section 10.01. Notices	15
Section 10.02. Binding Effect	16
Section 10.03. Severability	16
Section 10.04. Triple Net Lease	16
Section 10.05. Further Assurances and Corrective Instruments	16
Section 10.06. Execution in Counterparts	16
Section 10.07. Applicable Law	16
Section 10.08. Authority and City Representatives	16
Section 10.09. Bond Insurer is Third Party Beneficiary	16
Section 10.10. Captions	16
Section 10.11. Waiver of Personal Liability	16
Section 10.12. Bond Insurer Consent	16

- EXHIBIT A:** Definitions
- EXHIBIT B:** Schedule of Base Rental Payments
- EXHIBIT C:** Description of the Site

FACILITY LEASE

This Facility Lease (the "Facility Lease"), dated as of July 1, 1997, by and between the Sacramento City Financing Authority, a joint exercise of powers agency duly organized and existing under the laws of the State of California (the "Authority"), and the City of Sacramento, a municipal corporation and charter city duly organized and existing under the Constitution and laws of the State of California (the "City");

W I T N E S S E T H:

WHEREAS, the City has determined that the acquisition of the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena (the "Facility"), as more particularly described herein, is necessary and proper for the City and is in the public interest;

WHEREAS, to effect such acquisition, the City proposes to lease the site more particularly described in Exhibit C attached hereto and by this reference incorporated herein and made a part hereof (the "Site") to the Authority pursuant to a Site Lease, dated as of the date hereof (the "Site Lease"), so that the Facility can be leased by the Authority to the City pursuant hereto; and

WHEREAS, the City and the Authority have requested that the Bond Insurer provide certain financial guaranty insurance policies, guaranteeing certain payments by the Authority relating to the Bonds; and the City, the Authority and the Bond Insurer have entered into a Financial Guaranty Agreement as a condition to the issuance of such policies and for the purpose, inter alia, of providing security for the obligations of the City and the Authority to the Bond Insurer;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND THE MUTUAL COVENANTS CONTAINED HEREIN, THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS; INTERPRETATION; AUTHORIZATION; EXHIBITS

Section 1.01. Definitions. The terms defined in Exhibit A, attached hereto and by this reference incorporated herein and made a part hereof, shall for all purposes hereof have the meanings ascribed to them therein, unless the context clearly requires some other meaning.

Section 1.02. Interpretation.

(a) Unless the context otherwise indicates, all words expressed in the singular shall include the plural and vice versa, and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) All headings of the articles and sections and subsections hereof and the table of contents hereof are solely for convenience of reference and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subsections are to the corresponding Articles, Sections or subsections hereof, and the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to the Facility Lease as a whole and not to any particular Article, Section or subsection hereof.

Section 1.03. Authorization. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into the Facility Lease and has taken all actions necessary to authorize the execution of the Facility Lease by the officers and persons signing it on its behalf.

Section 1.04. Exhibits. The following Exhibits are attached to and by this reference incorporated herein and made a part hereof:

Exhibit A: Definitions.

Exhibit B: Initial schedule of principal components of Base Rental Payments to be paid by the City hereunder showing the Due Date and amount of each such principal component.

Exhibit C: Description of the Site.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.01. Representations, Covenants and Warranties of the Authority. The Authority represents, covenants and warrants to the City as follows:

(a) *Due Organization and Existence*. The Authority is a joint exercise of powers agency duly organized and existing under the laws of the State, has power to enter into the Site Lease, the Facility Lease, the Indenture, the Swap Agreement, the Financial Guaranty Agreement and the Remarketing Agreement and to purchase the Municipal Bond Insurance Policy, is possessed of full power to own, hold, lease, as lessor and lessee, and sell real and personal property, and has duly authorized the execution and delivery of all of the aforesaid agreements.

(b) *Authorization*. The laws of the State authorize the Authority to enter into the Site Lease, the Facility Lease, the Indenture, the Swap Agreement, the Financial Guaranty Agreement and the Remarketing Agreement and to purchase the Municipal Bond Insurance Policy and to enter into the transactions contemplated by and to carry out its obligations under all of the aforesaid agreements, the Authority has duly authorized and executed all of the aforesaid agreements, and such agreements constitute legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

(c) *No Encumbrances*. The Authority will not pledge the Base Rental Payments or any other of its rights under the Facility Lease and will not mortgage or encumber the Facility, except as provided under the terms of the Facility Lease or the Indenture.

(d) *No Violations*. Neither the execution and delivery of the Site Lease, the Facility Lease, the Indenture, the Swap Agreement, the Financial Guaranty Agreement or the Remarketing Agreement or the purchase of the Municipal Bond Insurance Policy, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction, agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Authority or upon the Facility, except Permitted Encumbrances.

(e) *No Assignment or Sublease.* The Authority will not (except as otherwise provided under the terms of the Facility Lease or the Indenture) assign the Facility Lease, its right to receive Base Rental Payments and Additional Rental Payments from the City or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in this section. Other than the Sublease, any sublease of the Facility Lease shall be subject to the Bond Insurer's prior written consent.

(f) *Title to Site.* The Authority warrants that it has, pursuant to the Site Lease, acquired and is the leasehold owner of the Site.

(g) *Execution and Delivery.* The Authority has duly authorized, executed and delivered the Facility Lease in accordance with the laws of the State, and the Facility Lease constitutes a legal, valid and binding agreement of the Authority, enforceable against the Authority in accordance with its terms.

Section 2.02. Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Authority as follows:

(a) *Due Organization and Existence.* The City is a municipal corporation and charter city duly organized and existing under the Constitution and laws of the State, has power to enter into the Site Lease, the Facility Lease, the Financial Guaranty Agreement and the Remarketing Agreement, is possessed of full power to own, hold, lease, as lessor and lessee, and sell real and personal property, and has duly authorized the execution and delivery of all of the aforesaid agreements.

(b) *Authorization.* The laws of the State authorize the City to enter into the Site Lease, the Facility Lease, the Financial Guaranty Agreement and the Remarketing Agreement and to enter into the transactions contemplated by and to carry out its obligations under both of the aforesaid agreements, the City has duly authorized, executed and delivered the aforesaid agreements, and such agreements constitute legal, valid and binding agreements of the City, enforceable against the City in accordance with their respective terms.

(c) *No Violations.* Neither the execution and delivery of the Site Lease, the Facility Lease, the Financial Guaranty Agreement or the Remarketing Agreement, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction, agreement or instrument to which the City is now a party or by which the City is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the City or upon the Facility, except Permitted Encumbrances.

(d) *Execution and Delivery.* The City has duly authorized, executed and delivered the Facility Lease in accordance with the laws of the State, and the Facility Lease constitutes a legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms.

(e) *Continuing Disclosure.* The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Facility Lease, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default hereunder or under the Indenture; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds, shall) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

(f) The City covenants and represents that (i) it will take all necessary action, in accordance with applicable laws, to satisfy all payment obligations under the Financial Guaranty Agreement, and that (ii) nothing has come to its attention which would indicate that funds are not or will not be legally available to satisfy such payment obligations.

ARTICLE III

AGREEMENT TO LEASE; TERM OF FACILITY LEASE; RENTAL PAYMENTS

Section 3.01. Lease of Facility. The Authority hereby leases the Facility to the City, and the City hereby leases the Facility from the Authority, upon the terms and conditions set forth herein.

Section 3.02. Term of Facility Lease. The Term of the Facility Lease shall commence on August 1, 1997, or the date of recordation of the Facility Lease or a memorandum thereof in the Office of the Sacramento County Recorder, whichever is earlier, and shall end on July 31, 2027; *provided*, that if, prior to July 31, 2027, all Base Rental Payments and the interest accrued thereon and all Additional Rental Payments and the interest accrued thereon and all fees and expenses of the Trustee, the Paying Agent and the Remarketing Agent and all costs and expenses of counsel, auditors, engineers and accountants shall have been paid by the City (as provided herein), the Term of the Facility Lease shall end on the date that the City gives the Authority and the Trustee notice of such payment; and *provided further*, that if on July 31, 2027, the Bonds, the Swap Payments, the Uninsured Termination Payments and amounts owed the Bond Insurer under the Financial Guaranty Agreement shall not have been fully paid, then the Term of the Facility Lease shall be extended until the date of the full payment of all Bonds and Swap Payments, the Uninsured Termination Payments and amounts owed the Bond Insurer under the Financial Guaranty Agreement, but not later than July 31, 2037.

Section 3.03. Base Rental Payments.

(a) Amount of Payments. Subject to the provisions of Articles V and IX, the City agrees to pay to the Authority (or directly to the Bond Insurer following an event of default pursuant to Section 12.01(f) of the Indenture), as rental for the use and occupancy of the Facility during each Rental Period, the Base Rental Payments (denominated in components of principal and interest) in accordance with the Base Rental Payment Schedule specified in Exhibit B, attached hereto and by this reference incorporated herein and made a part hereof, as the same may be amended from time to time (i) by the filing of a new Exhibit D to the Indenture or (ii) following an event of default pursuant to Section 12.01(f) of the Indenture, in accordance with Section 3.07 of the Financial Guaranty Agreement. The Authority hereby assigns and pledges its right to receive Base Rental Payments to the Trustee for the benefit of the holders of the Bonds. The pledge of Base Rental Payments shall be valid and binding from the time the pledge is made for the benefit of the holders of the Bonds and successors thereto against all parties irrespective of whether the parties have notice of the claim. Base Rental Payments shall be made in installments, due and payable on the Due Dates; *provided*, however, that if an event of default occurs pursuant to Section 12.01(f) of the Indenture, Base Rental Payments shall thereafter be due on January 15, April 15, July 15 and October 15 during the remainder of the Term of the Facility Lease. The Base Rental Payment shall vary from time to time, as required by the Authority to pay the principal of and interest on the Bonds, the Swap Payments, and amounts owed to the Bond Insurer pursuant to the Financial Guaranty Agreement and subordinate thereto the Uninsured Termination Payments; *provided* that the aggregate Base Rental Payment installments for any Rental Period together with Additional Rental Payments shall not exceed \$11,038,750.00 (15% of par amount of Bonds) in any Rental Period (the "Maximum Annual Rental"); and *provided further* that to the extent the Authority has received revenues available to pay debt service on the Bonds, the Swap Payments, and amounts owed to the Bond Insurer pursuant to the Financial Guaranty Agreement and subordinate thereto the Uninsured Termination Payments and has deposited such revenues with the Trustee by the fifteenth (15th) Business Day preceding the Due Dates (or January 1, April 1, July 1 or October 1 after an event of default pursuant to Section 12.01(f) of the Indenture), the City shall receive a credit to the extent of such revenues on the installment of the Base Rental Payment for said month. For the purpose of calculating the amount of Base Rental Payments relating to Bonds bearing interest at a variable rate which has not yet been determined the Maximum Rate shall be assumed. Base Rental Payments shall

have the respective principal component initially specified in Exhibit B and the respective interest or Discount Amount components computed in accordance with Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.08 and 2.09 of the Indenture or if an event of default occurs pursuant to Section 12.01(f) of the Indenture, the interest component shall be calculated as that rate of interest equal to the Late Payment Rate (as defined in the Financial Guaranty Agreement). The Paying Agent shall send written notification to the Authority, the City and the Trustee at least fifteen (15) Business Days prior to each Due Date, which notification will indicate the Base Rental Payment due on the next succeeding Due Date (including all rental payments that are made by the Partnership to and received by the Trustee from the Partnership under and pursuant to the Sublease). If the Trustee shall not have received the Base Rental Payment due, then the Trustee shall send written notification to the Authority, the Paying Agent, the City, the Bank and the Bond Insurer on the Business Day next succeeding the Due Date that such Base Rental Payment has not been received by it.

Any amount held in the Revenue Fund on any Due Date (other than amounts resulting from the prepayment of the Base Rental Payments in part, but not in whole, pursuant to Article IX and other than amounts required for payment of Bonds not yet surrendered) shall be credited towards the Base Rental Payment then due and payable on such Due Date; and no Base Rental Payment need be made by the City on any Due Date if the amount then held in the Revenue Fund and available for such purpose is at least equal to the Base Rental Payment then due. Any interest or income on any amounts in the Interest Reserve Fund paid or accrued with respect to the preceding month shall be credited towards the interest component of Base Rental Payments payable on the succeeding Due Date. The Base Rental Payments for the Facility payable in each Rental Period shall be for the use and occupancy of the Facility during such Rental Period.

(b) *Effect of Prepayment.* If the City prepays or causes the prepayment of all remaining Base Rental Payments in full pursuant to Article IX, then the City's obligations under the Facility Lease shall thereupon cease and terminate; subject to the provisions of the second paragraph of Section 9.01 in the case of prepayment by application of a security deposit. If the City prepays or causes the prepayment of the Base Rental Payments in part, but not in whole, pursuant to Sections 9.02 or 9.03, then such prepayment shall be credited towards the prepayment of the Base Rental Payments as follows: (i) the principal components of each remaining Base Rental Payment shall be reduced on a *pro rata* basis in integral multiples of Authorized Denominations; and (ii) the interest component or Discount Amount of each remaining Base Rental Payment shall be reduced by the aggregate corresponding amount of interest or Discount Amount which would otherwise be payable with respect to the Bonds thereby redeemed pursuant to Article III of the Indenture.

Upon prepayment of any Base Rental Payment, the City shall prepare (or cause to be prepared) a revised Exhibit D to the Indenture as provided in the Indenture which shall take into account such prepayment. Following conversion of the interest rate with respect to the Bonds to a Fixed Rate, the City shall prepare (or cause to be prepared) a revised Exhibit D to the Indenture as provided in the Indenture.

(c) *Rate on Overdue Payments.* Except to the extent provided otherwise pursuant to the Liquidity Facility, if the City should fail to make any of the payments required to be made by this section, then the payment in default shall continue as an obligation of the City (limited in accordance with subsection (e) of this section) until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at a rate equal to the interest rate on the Bonds with respect to payments in respect of principal and interest on the Bonds or the Default Rate (as defined in the Swap Agreement) with respect to Swap Payments and Uninsured Termination Payments, as appropriate or the Late Payment Rate (as defined in the Financial Guaranty Agreement) with respect to payments due under the Financial Guaranty Agreement.

(d) *Fair Rental Value.* The Base Rental Payments and the Additional Rental Payments for each Rental Period shall constitute the total rental for the Facility during each such Rental Period and shall be paid by the City in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Facility during such Rental Period. The parties hereto have agreed and determined that the total Base Rental Payments and the total Additional Rental Payments for the Facility, assuming that the Maximum Rate is in effect throughout the Term of the Facility Lease, do not exceed the fair rental value thereof,

and in making such determination, consideration has been given to the value of the Facility, the cost of acquiring the Facility, the other obligations of the parties under the Site Lease and the Facility Lease, the uses and purposes which may be served by the Facility and the benefits therefrom which will accrue to the City and the general public.

(e) *Obligation of the City.* The City's obligation to make the Base Rental Payments and to perform and observe the other agreements contained herein shall (subject to Section 3.07) be absolute and unconditional and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the City or the Authority of any obligation of the City or the Authority or otherwise with respect to the Facility, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority. Until such time as all of the Base Rental Payments shall have been fully paid or prepaid, the City (a) will not suspend, abate or discontinue any Base Rental Payments provided for in this section, (b) will perform and observe all other agreements contained in the Facility Lease, and (c) will not terminate the Facility Lease for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Facility, commercial frustration of purpose, any change in the tax or other laws of the State or any political subdivision thereof or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Facility Lease or the Indenture.

The City covenants to take such action as may be necessary to include all such Base Rental Payments and Additional Rental Payments in its budget and to make the necessary annual appropriations for such amounts. Such covenant on the part of the City herein contained shall be deemed to be and shall be construed to be a ministerial duty imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenant agreed to be carried out and performed by the City.

If the Authority shall fail to perform any agreements on its part contained herein, then the City may institute such action against the Authority as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the first sentence of the preceding paragraph; *provided*, that the City may, at the City's own cost and expense and in the City's name or in the name of the Authority, prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's right of possession, occupancy and use hereunder, and in such event the Authority hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

(f) *Liquidity Facility.*

(i) At the time of execution and delivery of this Facility Lease, the Authority and the City have not provided a Liquidity Facility. The provisions herein related to the Liquidity Facility and the Bank shall apply if and when a Liquidity Facility is provided pursuant to Section 5.04 of the Indenture.

(ii) It is the understanding of the parties hereto that the City shall reimburse the Bank for payments made under the Liquidity Facility in accordance with the provisions thereof (but payable solely in accordance with subparagraph (e) of this section). The obligations of the City hereunder to pay Base Rental Payments shall be deemed satisfied and discharged at such time and to the extent that Available Money is applied by the Paying Agent to such obligation pursuant to the terms of the Indenture and the Liquidity Facility.

(iii) The City authorizes and directs the Trustee pursuant to the Indenture, and the Trustee agrees pursuant to the Indenture, to reimburse the Bank for draws under the Liquidity Facility from money on deposit in the Revenue Fund, including investment earnings thereon, under the circumstances and to the extent provided for in the Indenture.

(iv) At its option, the City may deliver to the Paying Agent a Substitute Liquidity Facility if, but only if, the conditions set forth in Section 5.05 of the Indenture have first been met.

Section 3.04. Quiet Enjoyment. During the Term of the Facility Lease, the Authority shall provide the City with quiet use and enjoyment of the Facility, and the City shall, during such Term, peaceably and quietly have and hold and enjoy the Facility, without suit, trouble or hindrance from the Authority, except as expressly set forth herein. The Authority will, at the request of the City, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so.

Section 3.05. Title.

(a) During the Term of the Facility Lease, the Authority shall hold title to any and all additions which comprise fixtures, repairs, replacements or modifications to the Facility, except for those fixtures, repairs, replacements or modifications which are added to the Facility by the City at its own expense and which may be removed without damaging the Facility and except for any items added to the Facility by the City.

(b) If the City prepays or causes prepayment of the Base Rental Payments in full pursuant to Article IX or makes the security deposit permitted by Section 9.01, or pays all Base Rental Payments during the Term of the Facility Lease as the same become due and payable, all right, title and interest of the Authority under the Facility Lease in and to the Facility (determined in accordance with Sections 3.01 or 3.03) shall be transferred to and vested in the City, and the Authority agrees to take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer, including the deposit in escrow of appropriate quitclaim deeds.

Section 3.06. Additional Rental Payments.

(a) In addition to the Base Rental Payments, the City shall pay, when due, all costs and expenses incurred by the Authority in complying with the provisions of the Indenture, including without limitation all Delivery Costs (to the extent not paid from amounts on deposit in the Acquisition Fund), compensation and reimbursable expenses due to the Trustee, the Bank, the Bond Insurer, the Paying Agent and the Remarketing Agent and all costs and expenses of counsel, auditors, engineers and accountants.

(b) The City covenants to take such action as may be necessary to include all such amounts in its budget and to make the necessary appropriations for such amounts. Such covenant on the part of the City herein contained shall be deemed to be and shall be construed to be a ministerial duty imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenant agreed to be carried out and performed by the City.

Section 3.07. Abatement. To the extent any portion of the Base Rental Payments or Additional Rental Payments is required to be made from the general funds of the City, such portion of the Base Rental Payments or Additional Rental Payments shall be abated during each Rental Period in which by reason of damage or destruction of the Facility there is substantial interference with the use and occupancy by the City of the Facility by the amount of the difference between the annual fair rental value of the portion of the Facility with respect to which there is no such substantial interference, as set forth in a certification of the City accompanied by a written appraisal of a qualified appraiser acceptable to the Bond Insurer (both delivered to the Trustee), and the amount of the Base Rental Payments and Additional Rental Payments becoming due in such Rental Period, and the City waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of the damage or destruction or condemnation of such portion of the Facility and ending with the substantial completion of the work of repair or replacement of such portion of the Facility so damaged or destroyed or condemned.

Section 3.08. No Merger. It is the express intention of the parties hereto that the Facility Lease and the obligations of the parties hereunder shall be and remain separate and distinct from the Site Lease and the obligations of the parties thereunder, and that, during the term of the Site Lease, no merger of title or interest shall occur or be deemed to occur as a result of the position of the City as lessor under the Site Lease and as lessee hereunder or the position of the Authority as lessee under the Site Lease and as lessor hereunder.

ARTICLE IV

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

Section 4.01. Maintenance, Utilities, Taxes and Assessments. During the Term of the Facility Lease, as part of the consideration for the rental of the Facility, all operation, maintenance and repair of the Facility shall (subject to Section 4.06) be provided by the City. In exchange for the Rental Payments herein provided, the Authority agrees to provide only the Facility, as hereinbefore more specifically set forth, and the City waives the benefits of subsections 1 and 2 of section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms hereof.

All taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Facility or the respective interests or estates therein shall be paid by the City; *provided*, that the City may in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom.

Section 4.02. Insurance. The City shall (subject to Section 4.06) procure and maintain throughout the Term of the Facility Lease insurance against the following risks in the following respective amounts:

(1) insurance against loss or damage to the Facility by fire and lightning, with an extended coverage endorsement (which extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance) and vandalism and malicious mischief insurance and sprinkler system leakage insurance and boiler insurance, which such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of the Facility (excluding the cost of excavations, of grading and filling and of the land) and which such insurance may be subject to deductible clauses similar in amount and type to the deductible clauses applicable to insurance maintained by the City for other real property owned by it and which such insurance shall explicitly waive any co-insurance penalty; *provided*, that such insurance shall in any event be in an amount sufficient, in the event of total or partial loss, to enable the City to restore the Facility to the condition existing before such loss or to permit the City to prepay the Principal Amount of all then unpaid Base Rental Payments;

(2) rental income interruption insurance against loss, total or partial, of the use and occupancy of the Facility as a result of any of the hazards covered by the insurance required by paragraph (1) hereof, in an amount sufficient to pay the Base Rental Payments for a twenty-four (24)-month period;

(3) workers' compensation insurance covering all employees working on the Facility, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work (and the City shall also require any other person or entity working on the Facility to carry the foregoing amount of workers' compensation insurance); and

(4) a standard comprehensive public entity liability insurance policy or policies in protection of the City, the Authority and its members, officers and employees and the Trustee, indemnifying and defending such parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the possession, operation or use of the Facility, with minimum liability limits of one million dollars (\$1,000,000) for personal injury or death of each person and three

million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of two hundred thousand dollars (\$200,000) (subject to a deductible clause of not to exceed one hundred thousand dollars (\$100,000)) for damage to property resulting from each accident or event; *provided*, that such public liability and property damage insurance may be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks and may be maintained as part of or in conjunction with any other liability insurance carried by the City.

Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraphs (1), (3) and (4) above, the City may provide a self-insurance method or plan of protection, which such self-insurance maintained by the City shall comply with the following terms:

- (i) the self-insurance program shall have a claims reserve fund out of which the self-insured claims shall be paid and which shall provide for coverage in accordance with the terms hereof;
- (ii) the actuarial sufficiency of the self-insurance claims reserve fund shall be evaluated on an annual basis by the City and the City shall file a copy of each annual evaluation attesting to the actuarial sufficiency of the self-insurance program's assets with the Bond Insurer and the Trustee, and any deficiencies in the self-insurance claims fund shall be remedied by the City as soon as practicable;
- (iii) the self-insurance claims fund shall be held in a separate fund by the City; and
- (iv) if the self-insurance program shall be discontinued, then the actuarial sufficiency of its self-insurance claims reserve fund shall be maintained by the City.

Any insurance policy issued pursuant to this section shall be issued by a commercial insurer rated in the two highest Rating Categories of Moody's and S&P and shall be written or endorsed to list the Trustee, the Authority and the City as additional named insureds and to make losses, if any, payable to the Trustee, the Authority and the City as their respective interests may appear, except that the Net Proceeds, if any, of the insurance policy described in paragraph (2) of this section shall be deposited in Revenue Fund, and each insurance policy provided for in this section shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Trustee or the Authority or the City or fail to renew such policy without first giving written notice thereof to the Trustee and the Authority and the City at least sixty (60) days in advance of such intended cancellation or modification or failure to renew; *provided*, that the Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustments, compromise or settlement of any loss agreed to by it.

The City shall file a certificate with the Trustee not later than July 15 of each Fiscal Year certifying that the insurance (or any authorized self-insurance) required by this section is in full force and effect for such Fiscal Year and that the Trustee is named as a loss payee on each insurance policy which this section requires to be so endorsed.

If the City shall fail to maintain the full insurance coverage required hereby, then the Trustee may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same, and all amounts so advanced therefor by the Trustee shall constitute Additional Rental Payments.

Section 4.03. Modification of the Facility. The City shall have the right to remodel the Facility or to make additions, modifications and improvements to the Facility which shall not affect the operation thereof.

Section 4.04. Advances. If the City shall fail to perform any of its obligations under this article, the Authority, the Trustee may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the City shall be obligated to repay all such advances as soon as possible, with interest at a rate equal to twelve percent (12%) per annum.

Section 4.05. Liens. The City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Facility, other than the respective rights of the Authority and the City as herein provided and Permitted Encumbrances.

Section 4.06. Effect of Sublease. Notwithstanding anything to the contrary contained herein, the obligations of the City contained in Sections 4.01 and 4.02 shall be deemed satisfied in full by the City to the extent the Partnership complies with the conditions and terms of the Sublease.

ARTICLE V

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Section 5.01. Eminent Domain. If the Facility shall be taken in whole or in part under the power of eminent domain or sold to a governmental entity or agency (including the City) threatening to exercise the power of eminent domain, the proceeds thereof shall be paid to the Trustee and deposited in the Insurance and Condemnation Fund for application as set forth in Section 6.01 of the Indenture.

Section 5.02. Title Insurance. The Net Proceeds of any title insurance award shall be paid to the Trustee and deposited in the Insurance and Condemnation Fund for application as set forth in Section 6.01 of the Indenture.

ARTICLE VI

DISCLAIMER OF WARRANTIES; ACCESS

Section 6.01. Disclaimer of Warranties. THE AUTHORITY MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE FACILITY OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE FACILITY, AND IN NO EVENT SHALL THE AUTHORITY BE LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE SITE LEASE, THE FACILITY LEASE OR THE INDENTURE FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR CITY'S USE OF THE FACILITY.

Section 6.02. Access to the Facility. The City agrees that the Authority shall have the right at all reasonable times to enter upon and to examine and inspect the Facility. The City further agrees that the Authority shall have such rights of access to the Facility as may be reasonably necessary to cause the proper maintenance of the Facility in the event of failure by the City to perform its obligations hereunder.

ARTICLE VII

SUBLEASING AND AMENDMENT

Section 7.01. Subleasing by the City. The Facility may not be subleased by the City except as provided in the Sublease.

Section 7.02. Amendment of the Facility Lease.

(a) The City shall have, and is hereby granted, the option at any time and from time to time during the Term of the Facility Lease to release or substitute any portion of the Site from the Facility Lease; *provided*, that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release or substitution:

(i) The City shall file with the Authority, the Paying Agent, the Bank, the Bond Insurer and the Trustee an amended Exhibit A to the Site Lease which describes the Site as revised by such release or substitution;

(ii) The City shall file with the Authority, the Paying Agent, the Bank, the Bond Insurer and the Trustee an amended Exhibit C to the Facility Lease which describes the Site as revised by such release or substitution;

(iii) The City shall deliver to the Trustee, the Paying Agent, the Bank, the Bond Insurer and the Authority evidence that the release or substitution of such portion of the Site will not impair in any way the operation of the Facility and that the fair rental value of the Facility will not be reduced by reason of such release or substitution; and

(iv) The City shall have received the prior written consent of the Bond Insurer to such release or substitution.

(b) The City and the Authority will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Facility Lease without the Bond Insurer's prior written consent, excepting only such alteration or modification relating to the substitution or release or substitute of any portion of the Site in accordance with this section.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01. Events of Default Defined. The following shall be "Events of Default" hereunder and the term "Event of Default" shall mean, whenever it is used herein, any one or more of the following events:

(i) Failure by the City to pay any Base Rental Payment required to be paid hereunder at the time specified herein.

(ii) The occurrence of an Event of Default under, and as defined in, the Indenture, and notice from the Authority or the City or the Bank to the Trustee of such occurrence.

Section 8.02. Remedies on Event of Default. Subject to the prior consent of the Bond Insurer, whenever any Event of Default shall have happened, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant hereto; *provided*, that notwithstanding anything herein or in the Indenture to the contrary, there shall be no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable. Subject to the prior consent of the Bond Insurer, the Authority may exercise any and all rights of entry and re-entry upon the Facility, and also, at its option, with or without such entry, may terminate the Facility Lease as provided in subsection (b) of this section; *provided*, that no such termination shall be effected either by operation of law or acts of the parties hereto except in the manner herein expressly provided. In the event of such Event of Default and notwithstanding any re-entry by the Authority, the City shall continue to remain liable for the payment of the Base Rental Payments and/or damages for breach hereof and the performance of all agreements and covenants herein contained and, in any event such rent and/or damages shall be payable to the Authority at the time and in the manner as herein provided, to wit:

(a) If the Authority does not elect to terminate the Facility Lease in the manner hereinafter provided for in subsection (b) of this section, then the City agrees to and shall remain liable for the payment of all Base Rental Payments and for the performance of all agreements and covenants herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Facility, or, if the Authority does not re-lease the Facility, then for the full amount of all Base Rental Payments to the end of the Term hereof, but such Base Rental Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Base Rental Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Facility or the exercise of any other remedy by the Authority. The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Facility in the Event of Default by the City in the performance of any agreements and covenants herein contained to be performed by the City and to remove all personal property whatsoever situated upon the Facility to place such property in storage or other suitable place in Sacramento County, California, for the account of and at the expense of the City, and the City hereby exempts and agrees to hold harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Facility and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Facility as herein provided and all claims for damages that may result from the destruction of or injury to the Facility and all claims for damages to or loss of any property belonging to the City that may be in or upon the Facility. The City agrees that the terms hereof shall constitute full and sufficient notice of the right of the Authority to re-lease the Facility in the event of such re-entry without effecting a surrender hereof, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination hereof irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such Event of Default by the City, the right to terminate the Facility Lease shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subsection (b) of this section. The City further waives the right to any rental obtained by the Authority in excess of the Base Rental Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Facility.

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

Notwithstanding any other provisions hereof, so long as the Municipal Bond Insurance Policy is in effect, the Bond Insurer shall have the joint right to direct the remedies to be taken upon any Event of Default hereunder, and the Bond Insurer's consent shall be required for any remedial action taken by the Trustee or the Authority hereunder whether at the direction of the Authority or the Owners.

Section 8.03. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed

to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this article it shall not be necessary to give any notice, other than such notice as may be required in this article or by law.

Section 8.04. Agreement to Pay Attorneys' Fees and Expenses. If either party hereto should default under any of the provisions hereof and the non-defaulting party should employ attorneys or incur other expenses for the collection of money or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, then the defaulting party agrees that it will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party.

Section 8.05. No Additional Waiver Implied by One Waiver. If any agreement contained herein should be breached by either party and thereafter waived by the other party, then such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 8.06. Application of Proceeds. All other amounts derived by the Authority or the Trustee as a result of an Event of Default hereunder shall be deemed for all purposes under the Indenture to be Base Rental Payments to be paid to Owners or the Swap Provider, shall be transferred to the Trustee promptly upon receipt thereof and shall be deposited by the Trustee in the Revenue Fund to be applied to the payment of the Bonds and the Swap Payments, and subordinate thereto the Uninsured Termination Payments; provided, however, that following the occurrence of an event of default pursuant to Section 12.01(f) of the Indenture, such amounts shall be paid directly to the Bond Insurer and applied by the Bond Insurer to payment obligations under the Financial Guaranty Agreement.

ARTICLE IX

PREPAYMENT OF BASE RENTAL PAYMENTS

Section 9.01. Security Deposit. Notwithstanding any other provision hereof, the City may, on any date occurring after the Mode Change Date relating to change to a Fixed Rate Mode, secure the payment of all or a portion of the Base Rental Payments remaining due by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement as provided in Section 13.02(b) of the Indenture, of: (a) in the case of a security deposit relating to all Base Rental Payments, either (i) an amount which, together with amounts on deposit in the Revenue Fund, the Interest Reserve Fund and the Insurance and Condemnation Fund (all of which shall be Available Money), is sufficient to pay all unpaid Base Rental Payments, including the principal and interest or Discount Amount components thereof, in accordance with the Base Rental Payment schedule set forth in Exhibit B, and, including the Swap Payments, the amounts owed to the Bond Insurer pursuant to the Financial Guaranty Agreement and the Uninsured Termination Payments, as applicable, or (ii) Defeasance Obligations derived from Available Money, together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of money or Defeasance Obligations then on deposit and interest earnings thereon in the Revenue Fund and the Insurance and Condemnation Fund (all of which shall be Available Money), be fully sufficient to pay or repay all unpaid Base Rental Payments on or before their respective Payment Dates, including the Swap Payments, the amounts owed to the Bond Insurer pursuant to the Financial Guaranty Agreement and the Uninsured Termination Payments, as applicable; or (b) in the case of a security deposit relating to a portion of the Base Rental Payments, a certificate of the City designating the portion of the Base Rental Payments to which the deposit pertains, and either (i) an amount derived from Available Money which is sufficient to pay the portion of the Base Rental Payments designated in such certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations derived from Available Money, together with cash, if required, in such amount as will, together with interest to be received thereon, if any, in the opinion of an independent certified public accountant, be fully sufficient to pay the portion of the Base Rental Payments designated in the aforesaid certificate. Any prepayment pursuant to this Section 9.01 shall be subject to the Bond Insurer's prior written consent.

In the event of a deposit pursuant to this section to secure the payment of all Base Rental Payments, including the Swap Payments, the amounts owed to the Bond Insurer pursuant to the Financial Guaranty Agreement and the Uninsured Termination Payments, as applicable, all obligations of the City hereunder shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all payments from the deposit made by the City pursuant to this section, and title to the Facility shall be affected thereby as described in Section 3.05.

Section 9.02. Optional Prepayment.

(a) *Unit Pricing Mode, Discount Mode or Term Rate Mode.* During a Unit Pricing Mode, a Discount Mode or a Term Rate Mode, the City may, at its option, prepay the principal components of Base Rental Payments, in whole or in part, at a prepayment price equal to one hundred percent (100%) of the Principal Amount being prepaid, plus accrued interest, if any, to the date fixed for prepayment (such date to correspond to the date fixed for redemption set forth in the Indenture and such prepayment to be subject to the terms and conditions relating to the redemption of Bonds set forth in the Indenture).

(b) *Floating Rate Mode.* During a Floating Rate Mode, the City may, at its option, prepay the principal components of Base Rental Payments, in whole or in part, in Principal Amounts of \$100,000 and an integral multiple of \$1,000 in excess thereof at a prepayment price equal to one hundred percent (100%) of the Principal Amount being prepaid, plus accrued interest, if any, to the date fixed for prepayment (such date to correspond to the date fixed for redemption set forth in the Indenture and such prepayment to be subject to the terms and conditions relating to the redemption of Bonds set forth in the Indenture).

(c) *Fixed Rate Mode.* During a Fixed Rate Mode, the City may, at its option, prepay the principal components of Base Rental Payments, in whole or in part, at a prepayment price and prepayment date corresponding to the applicable redemption price and redemption date set forth in the notice establishing such conversion of the Mode Change to a Fixed Rate Mode.

Any optional prepayment of the principal components of Base Rental Payments must be made from Available Money and may only be made if a pro rata portion of the Swap Agreement is terminated and the City has sufficient available funds to make any payments in connection therewith. Any payment of the prepayment premium must be made by the City to the Trustee at least thirty (30) days prior to the date on which notice of redemption of the Bonds is given, and on the date of such payment, the City shall give written notice to the Trustee of the Principal Amount to be optionally prepaid on the applicable prepayment date.

Section 9.03. Mandatory Prepayment From Net Proceeds of Insurance or Condemnation or Title Insurance Awards. The City shall prepay or be deemed to have prepaid the Base Rental Payments in whole or in part in any integral multiple of an Authorized Denomination on any Payment Date on which the Bonds are subject to redemption pursuant to Section 3.02 of the Indenture, from and to the extent of any Net Proceeds of property or casualty insurance or condemnation or title insurance award theretofore transferred from the Insurance and Condemnation Fund to the Revenue Fund for such purpose pursuant to Article VI hereof and Article VI of the Indenture.

Section 9.04. Mandatory Prepayment During Bank Bond Holding Period. During the Bank Bond Holding Period, the City shall prepay the Base Rental Payments to the extent allowed under state law (such dates to correspond to the date fixed for prepayment set forth in the Indenture and such prepayment to be subject to the terms and conditions relating to the redemption of Bonds set forth in the Indenture).

ARTICLE X

MISCELLANEOUS

Section 10.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received ninety-six (96) hours after deposit in the United States mail in registered or certified form with postage fully prepaid:

If to the City:	City of Sacramento City Hall 915 I Street Sacramento, California 95814 Attention: City Clerk
If to the Authority:	Sacramento City Financing Authority 926 J Street, Suite 300 Sacramento, California 95814-2709 Attention: City Treasurer
If to the Trustee:	First Trust of California, National Association One California Street, Suite 400 San Francisco, California 94111 Attention: Corporate Trust Department
If to the Remarketing Agent:	Merrill Lynch, Pierce, Fenner & Smith Incorporated World Financial Center - North Tower 250 Vesey Street New York, NY 10281-1309 Attention: Money Market Operations
If to the Paying Agent:	First Trust of California, National Association One California Street, Suite 400 San Francisco, California 94111 Attention: Corporate Trust Department
If to Moody's:	Moody's Investors Service 99 Church Street New York, NY 10007 Attention: Public Finance Department
If to S&P:	Standard & Poor's Ratings Services 25 Broadway New York, NY 10004 Attention: Municipal Finance
If to Bond Insurer:	MBIA Insurance Corporation 113 King Street Armonk, New York 10504 Attention: Insured Portfolio Management - Western Region

The Authority, the Trustee, the Bank, the Remarketing Agent, the Paying Agent and the City, by notice given hereunder, may designate different addresses to which subsequent notices, certificates or other communications will be sent.

Section 10.02. Binding Effect. The Facility Lease shall inure to the benefit of and shall be binding upon the Authority and the City and their respective successors and assigns.

Section 10.03. Severability. If any provision hereof shall be held invalid or unenforceable by any court of competent jurisdiction, then such holding shall not invalidate or render unenforceable any other provision hereof.

Section 10.04. Triple Net Lease. The Facility Lease shall be deemed and construed to be a "triple net lease" and the City hereby agrees that the Base Rental Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

Section 10.05. Further Assurances and Corrective Instruments. The Authority and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Facility hereby leased or intended so to be or for carrying out the expressed intentions hereof.

Section 10.06. Execution in Counterparts. The Facility Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 10.07. Applicable Law. The Facility Lease shall be governed by and construed in accordance with the laws of the State.

Section 10.08. Authority and City Representatives. Whenever under the provisions hereof the approval of the Authority or the City is required, or the Authority or the City is required to take some action at the request of the other, such approval or such request shall be given for the Authority by an Authority Representative and for the City by a City Representative, and each party hereto shall be authorized to rely upon any such approval or request.

Section 10.09. Bond Insurer is Third Party Beneficiary. The Bond Insurer is a third party beneficiary under this Facility Lease.

Section 10.10. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provision or section hereof.

Section 10.11. Waiver of Personal Liability. No officer, agent or employee of the City or the Authority shall be individually or personally liable for the payment of Base Rental Payments or Additional Rental Payments hereunder; but nothing herein contained shall relieve any such person from the performance of any official duty provided herein.

Section 10.12. Bond Insurer Consent. If the Bond Insurer is in default under the Municipal Bond Insurance Policy, any provision herein requiring the Bond Insurer's approval shall be of no effect.

IN WITNESS WHEREOF, the Authority has caused the Facility Lease to be executed in its corporate name by its duly authorized officers; and the City has caused the Facility Lease to be executed in its name by its duly authorized officers and sealed with its corporate seal, as of the day and year first above written.

SACRAMENTO CITY FINANCING AUTHORITY

By _____
Chairman

Attest:

Secretary

CITY OF SACRAMENTO

By _____
Mayor

(SEAL)

Attest:

City Clerk

Approved as to Form:

City Attorney and Authority Counsel

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX D

PROPOSED FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF SACRAMENTO (the "City") in connection with the issuance by the Sacramento City Financing Authority (the "Authority") of its \$73,725,000 1997 Lease Revenue Bonds (ARCO Arena Acquisition) (the "1997 Bonds"). The 1997 Bonds are being issued pursuant to an Indenture, dated as of July 1, 1997 (the "Indenture"), by and between the Authority and First Trust of California, National Association, as Trustee (the "Trustee"). The City hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the 1997 Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. The definitions set forth in the Indenture apply to any capitalized term used in this Disclosure Certificate, unless such terms are otherwise defined in this Section 2 below:

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 1997 Bonds (including persons holding 1997 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 1997 Bonds for federal income tax purposes.

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

"Holders" shall mean either the registered owners of the 1997 Bonds, or, if the 1997 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in this Disclosure Certificate in Exhibit B hereto.

"Participating Underwriter" shall mean any of the original underwriters of the 1997 Bonds required to comply with the Rule in connection with the offering of the 1997 Bonds.

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

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

"State" shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The City shall not later than 210 days after the end of the City's fiscal year (which presently ends on June 30), commencing with the report for the end of the 1996-97 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate and shall, or shall cause the Dissemination Agent, if applicable, to provide such Annual Report to each Repository not later than 210 days after the end of the City's fiscal year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date (in which event the City shall include its unaudited financial statements in such Annual Report as provided in Section 4 below). If the City's fiscal year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

(c) If the City is unable to provide the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

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

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following:

(i) a table showing the gross assessed values, tax allocations and tax collections for all taxable property of the City substantially in the form of Table 11 included in Appendix A to the Official Statement, dated July 17, 1997, relating to the 1997 Bonds (the "Official Statement");

(ii) a table showing the General Fund Obligation Debt Service of the City substantially in the form of Table 14 included in Appendix A to the Official Statement;

(iii) the Annual Budget of the City; and

(iv) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Government Accounting Standards Board. If the City's audited financial statements are not available at the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the

Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 1997 Bonds, if the City determines that such event is material under federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of 1997 Bond Holders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the 1997 Bonds;
8. unscheduled draws on credit enhancements reflecting financial difficulties;
9. unscheduled draws on the insurance policies reflecting financial difficulties;
10. substitution of the provider of any municipal bond insurance, or any failure by any insurer to perform on any municipal bond insurance policy; and
11. release, substitution or sale of property securing repayment of the 1997 Bonds.

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file such notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected 1997 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the 1997 Bonds. If such termination occurs prior to the final maturity of the 1997 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if not the City) shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the City.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(i) if the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 1997 Bonds or the type of business conducted;

(ii) the Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 1997 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver either (i) is approved by the Holders of the 1997 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 1997 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of the occurrence of a Listed Event in addition to those which are specifically required by this Disclosure Certificate, the City shall not have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the 1997 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate, provided such action is taken in the federal or State court located in the County of Sacramento, State of California, and provided further that no remedy other than substantial performance may sought or granted against the City. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or the Facility Lease, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the 1997 Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if a separate one is appointed by the City) shall have only such duties as are specifically set forth in this Disclosure

Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or wilful misconduct. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent upon thirty (30) days notice to the City. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 1997 Bonds.

The Dissemination Agent (if not the City) shall not have any responsibility or liability for the failure to report any Listed Event or any financial information or as to which the City did not prepare a report in a format suitable for filing with the Repositories.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Holders from time to time of the 1997 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

Dated: July 31, 1997

CITY OF SACRAMENTO

By: _____
City Treasurer

THIS PAGE INTENTIONALLY LEFT BLANK

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Sacramento City Financing Authority

Name of Bond Issue: \$73,725,000 1997 Lease Revenue Bonds (ARCO Arena Acquisition)

Date of Delivery: July 31, 1997

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named 1997 Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated July 31, 1997. [The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.]

Dated: _____

CITY OF SACRAMENTO

By: _____

Title: _____

EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of July 31, 1997:

Bloomberg Municipal Repositories

P.O. Box 840
Princeton, NJ 08542-0840
Internet address: Munis@Bloomberg.com
(609) 279-3200
FAX (609) 279-5962

Thompson NRMSIR

Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
Internet address: Disclosure@Muller.com
(212) 807-5001 or (800) 689-8466
FAX (212) 989-2078

Disclosure, Inc.

Attn: Document Acquisitions/
Municipal Securities
5161 River Road
Bethesda, MD 20816
Internet Address: Sherri.sewalt@Disclosure.com
(301) 718-2390
FAX (301) 951-1366

Kenny Information Services, Inc.

65 Broadway, 16th Floor
New York, NY 10006
Attn: Kenny Repository Service
(212) 770-4595
FAX (212) 797-7994

Moody's NRMSIR

Public Finance Information Center
99 Church Street
New York, NY 10007
(800) 339-6306
FAX (212) 553-1460

Donnelley Financial

Municipal Securities Disclosure Archive
559 Main Street
Hudson, MA 01749
Internet address: Sspotkill@rrdfin.com
(800) 580-3670
FAX (508) 562-1969

APPENDIX E



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning or any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

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

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: Assistant Secretary

SPECIMEN

ENDORSEMENT

Attached to Policy No. [] (the "Policy") issued by the MBIA INSURANCE CORPORATION (the "Insurer") with respect to the Obligations:

\$[]
Sacramento City Financing Authority
1997 Taxable Lease Revenue Bonds
(ARCO Arena Acquisition)

Notwithstanding the terms and conditions contained in the Policy, it is further understood that (1) the Policy shall be canceled upon delivery to the Paying Agent (as defined in the Indenture dated as of July 1, 1997 between the Issuer and First Trust of California, National Association, as Trustee (the "Indenture")) of a Substitute Bond Insurance Policy in accordance with the provisions of Section 5.07 of the Indenture; provided, however, that the Policy shall remain in effect with respect to any claims for Insured Amounts described in clause (ii) of the Policy resulting from payments made by or on behalf of the Issuer prior to the effective date of the cancellation of the Policy; and (2) the Policy shall guarantee the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent of an amount equal to the Purchase Price (as defined in the Indenture) of any Obligations, plus any interest due thereon and not paid, on the Mandatory Tender Date set forth in Section 3.09(h) of the Indenture, provided that the Insurer shall pay such Purchase Price and interest, if any, no later than 5:00 p.m. New York, New York time on such Mandatory Tender Date.

This endorsement forms a part of the Policy to which it is attached, effective on the inception date of the Policy. Upon the delivery of a Liquidity Facility (as defined in the Indenture) to the Paying Agent in accordance with Section 5.04 of the Indenture, clause (2) of this endorsement will be null and void.

IN WITNESS WHEREOF, the Insurer has caused this endorsement to be executed and attested on its behalf by its President and its Assistant Secretary, this []nd day of July, 1997.

MBIA INSURANCE CORPORATION

President

Attest:

Assistant Secretary

APPENDIX F

BOOK-ENTRY SYSTEM

General

DTC will act as securities depository for the 1997 Bonds. The 1997 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 1997 Bond will be issued for the 1997 Bonds in the aggregate principal amount of the 1997 Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct DTC Participant, either directly or indirectly ("Indirect DTC Participants"). The Rules applicable to DTC and its DTC Participants are on file with the Securities and Exchange Commission.

Purchases of the 1997 Bonds under the DTC system must be made by or through Direct DTC Participants, which will receive a credit for the 1997 Bonds on DTC's records. The ownership interest of each actual purchaser of each 1997 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect DTC Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect DTC Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1997 Bonds are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 1997 Bonds, except in the event that use of the book-entry system for the 1997 Bonds is discontinued.

To facilitate subsequent transfers, all 1997 Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1997 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1997 Bonds; DTC's records reflect only the identity of the Direct DTC Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct DTC Participants, by Direct DTC Participants to Indirect DTC Participants, and by Direct DTC Participants and Indirect DTC Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the 1997 Bonds are in the book-entry-only system, redemption and tender notices shall be sent to Cede & Co. If less than all of the 1997 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1997 Bonds. Under its usual procedures, DTC will mail an Omnibus Proxy to the Authority as soon as possible after the Record Date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct DTC Participants to whose accounts the 1997 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments with respect to the 1997 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Authority, the City, the Trustee, or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct DTC Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect DTC Participants.

Procedures in the Event of a Request of a Beneficial Owner to Tender Its Interest in Any 1997 Bond.

As more fully described in this Official Statement, the Owner of a 1997 Bond may elect to have its 1997 Bond purchased at a Purchase Price, on the Purchase Dates, at the times and in the manner set forth herein. So long as Cede & Co. is the registered owner of the 1997 Bonds, as nominee of DTC, the right of an Owner to tender any 1997 Bond for purchase, the mechanics for exercising such right to tender and the right of such Owner to receive payment of the purchase price of any 1997 Bond tendered for purchase described herein pertain only to the rights of Cede & Co. and not the rights of any Beneficial Owner. The ability of any Beneficial Owner to tender its interest in any 1997 Bond and receive payment therefor is based solely upon and subject to the procedures and limitations of the book-entry only system, including the contractual arrangement of such Beneficial Owner with one of the DTC Participants or Indirect Participants and the contractual arrangements of such DTC Participants or Indirect Participants with DTC. Such procedures and limitations may cause a delay in the ability of a Beneficial Owner to exercise a right to tender its interest in the 1997 Bonds, or to receive timely payment of the purchase price thereof in the manner described in this Official Statement. **As noted above, neither the Authority, the City, the Trustee, the Paying Agent nor the Remarketing Agent will have any responsibility to any Beneficial Owner with respect to the timely exercise by DTC or any DTC Participant or Indirect Participant of any direction by a Beneficial Owner with respect to its election to tender its interest in the 1997 Bonds or with respect to the timely remittance by DTC or any DTC Participant or Indirect Participant of the purchase price of the 1997 Bonds.**

DTC may discontinue providing its services as securities depository with respect to the 1997 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered as described in the Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, securities certificates will be printed and delivered as described in the Indenture.

The Authority and the City cannot and do not give any assurances that DTC will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners, payments of principal of, premium, if any, and interest on the 1997 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority and the City are not responsible or liable for the failure of DTC or any DTC Participant or Indirect DTC Participant to make any payments or give any notice to a Beneficial Owner or any error or delay relating thereto.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the 1997 Bonds, payment of principal, interest and other payments on the 1997 Bonds to DTC Participants, Indirect DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such 1997 Bonds and other related transactions by and between DTC, the DTC Participants, the Indirect DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants, the Indirect DTC Participants nor the Beneficial

Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 1997 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE 1997 BONDHOLDERS OR OWNERS OF 1997 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 1997 BONDS.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 1997 Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the 1997 Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will cause the Trustee to execute and deliver new 1997 Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the Authority. The Trustee shall not be required to deliver such new 1997 Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the 1997 Bonds are registered will become the registered owners of the 1997 Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) 1997 Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate Principal Amount of other Authorized Denominations of the same maturity; (b) the registration of any 1997 Bond may be transferred on the registration books by the Paying Agent for the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such 1997 Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Paying Agent; (c) for every exchange or transfer of 1997 Bonds, the Paying Agent may require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to the same; (d) interest with respect to Par Bonds will be paid to the Owners thereof on each Interest Payment Date; (e) interest payable on a Mandatory Tender Date for, or the maturity date of, a Par Bond without regard to Mode, or, with respect to 1997 Bonds in a Floating Rate Mode, payable on a Purchase Date, shall be paid by check; provided, however, that interest shall be paid by wire transfer of immediately available funds to any Owner of \$1,000,000 in Principal Amount of 1997 Bonds, at the Owner's option; and (f) the Principal Amount of Par Bonds, the Redemption Price and the Purchase Price due with respect to any 1997 Bonds will be payable to the Owner thereof at the principal office of the Paying Agent only upon the presentation and surrender of such 1997 Bonds.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

July 31, 1997

City Council
City of Sacramento
Sacramento, California

Sacramento City Financing Authority
Sacramento, California

Re: Sacramento City Financing Authority 1997 Lease
Revenue Bonds (ARCO Arena Acquisition)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Sacramento City Financing Authority (the "Authority") of \$73,725,000 aggregate principal amount of Sacramento City Financing Authority 1997 Lease Revenue Bonds (the "Bonds"), pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law") and an Indenture, dated as of July 1, 1997 (the "Indenture"), between the Authority and First Trust of California, National Association, as trustee (the "Trustee"), and capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In such connection, we have reviewed the Indenture, a Site Lease, dated as of July 1, 1997 (the "Site Lease"), between the City of Sacramento (the "City") and the Authority, a Facility Lease, dated as of July 1, 1997 (the "Facility Lease"), between the Authority and the City, certificates of the City, the Authority, the Trustee and others, opinions of counsel to the City, the Authority and the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The interest rate mode and certain agreements, requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, and no opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine or to inform any person whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City and the Authority. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions,

referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers agencies and cities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Site Lease, the Facility Lease or the Indenture or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding limited obligations of the Authority.
2. The Site Lease and the Facility Lease have been duly executed and delivered by, and constitute valid and binding obligations of, the City. The Site Lease, the Facility Lease, and the Indenture have been duly executed and delivered by, and constitute valid and binding obligations of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Purchase Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.
3. The obligation of the City to make the Base Rental Payments during the term of the Facility Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.
4. Interest on the Bonds is exempt from California personal income tax. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK