RATINGS S&P: "AA" Moody's: "A1" See "RATINGS" herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds the is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

\$10,195,000 CITY OF FOLSOM REFUNDING GENERAL OBLIGATION BONDS, SERIES 2009

(Bank Qualified)

Dated: Date of delivery

Due: August 1, as shown on the inside cover

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The City of Folsom Refunding General Obligation Bonds, Series 2009 (the "Bonds") are issued by the City of Folsom (the "City") for the purpose of (1) refunding certain of the City's outstanding general obligation bonds and (ii) paying certain costs of issuance of the Bonds.

The Bonds have been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its federal corporate income tax for a portion of the interest expense the financial institution is able to allocate to designated "bank qualified" investments. See "THE BONDS — Bank Qualified Investments" herein.

The City is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the City, without limitation as to rate or amount (except as to certain personal property which may be taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS." Interest on the Bonds shall be payable on February 1 and August 1 of each year, commencing February 1, 2010. See "THE BONDS" herein. Principal shall be paid on August 1 of each year, as shown on the inside cover.

Payments of principal of and interest on the Bonds will be made by Union Bank, N.A., as Paying Agent, to The Depository Trust Company ("DTC") for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Payment of Principal and Interest" herein. The Bonds shall be issued in denominations of \$5,000 principal amount each or integral multiples thereof.

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., New York, New York, as nominee of DTC. Purchasers will not receive certificates representing their interests in the Bonds. See "THE BONDS – Form and Registration" herein.

The Bonds are subject to redemption prior to maturity as described more fully herein. See "THE BONDS — Redemption" herein.

The Bonds will be offered when, as and if issued by the City and received by the initial purchasers, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Certain legal matters will be passed upon for the City by its City Attorney and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the City. It is anticipated that the Bonds, in book-entry form, will be available for delivery through DTC in New York, New York, on or about September 2, 2009.

THE BONDS WERE SOLD AT COMPETITIVE BID ON AUGUST 20, 2009. INITIAL REOFFERING PRICES AND YIELDS HAVE BEEN SET BY THE INITIAL PURCHASER.

Dated: August 20, 2009.

MATURITY SCHEDULE

\$10,195,000 CITY OF FOLSOM REFUNDING GENERAL OBLIGATION BONDS, SERIES 2009

(Base CUSIP Number: 344370-)

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix [†]
2010	¢1 210 000	4.00%	0.70%	FK2
2010	\$1,210,000			FLO
	1,225,000	4.00	1.10	
2012	1,280,000	4.00	1.20	FM8
2013	1,335,000	4.00	1.45	FN6
2014	1,385,000	4.00	1.85	FP1
2015	1,445,000	3.00	2.15	FQ9
2016	1,490,000	4.00	2.40	FR7
2017	825,000	4.00	2.65	FS5

[†] Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP number is provided for convenience and reference only.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by the City. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the City.

The Bonds are exempted from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein, other than that furnished by the City, has been obtained from 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 City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

CITY OF FOLSOM

CITY COUNCIL

Steve MiklosJeff StarskyMayorVice Mayor

Kerri Howell Andy Morin
Member Member

Ernie Sheldon *Member*

CITY STAFF

Kerry Miller James Francis
City Manager Finance Director/Chief Financial Officer

Bruce C. Cline Christa Schmidt
City Attorney City Clerk

BOND COUNSEL AND DISCLOSURE COUNSEL

Orrick, Herrington & Sutcliffe LLP San Francisco, California

PAYING AGENT

Union Bank, N.A. San Francisco, California

FINANCIAL ADVISOR

Northcross, Hill & Ach, Inc. San Rafael, California

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OFFICIAL STATEMENT

\$10,195,000 CITY OF FOLSOM REFUNDING GENERAL OBLIGATION BONDS, SERIES 2009

INTRODUCTION

General

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City of Folsom (the "City") of its City of Folsom Refunding General Obligation Bonds, Series 2009 (the "Bonds"). The City has the power and is obligated and has covenanted to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except as to certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds when due. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The City has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the City. See "CONTINUING DISCLOSURE" herein.

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

Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement (as defined herein) providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof. Copies of documents referred to herein and information concerning the Bonds are available from the City through the office of the Finance Director, 50 Natoma Street, Folsom, California 95630. The City may impose a charge for copying, handling and mailing such requested documents.

The City

The City is located approximately 110 miles northeast of San Francisco and 20 miles east of Sacramento in the eastern portion of Sacramento County. The City is served by Highway 50, which runs east-west through the City, connecting Folsom to Sacramento. In West Sacramento, Highway 50 becomes Interstate 80 and continues to San Francisco. The City operates its own local bus transportation service. Light rail transportation is provided by the Sacramento Regional Transit District and connects Folsom to Sacramento.

The City's 2006 population reported by the California Department of Finance was 69,445. The City is primarily a residential community, with commercial and light industrial enterprises. The City's Fiscal Year 2009-10 adopted budget includes over \$173.1 million of expenditures, of which approximately \$70.2 million was allocated to the General Fund of the City and the remainder was allocated to all other funds. As of July 1, 2009, the City employs approximately 504 full-time-equivalent employees. Fiscal Year 2008-09 total assessed valuation of taxable property in the City is \$10,761,107,695.

The City was first incorporated in 1946 and chartered in 1990. The City is governed by an elected City Council (the "City Council") consisting of five members. The members are elected at-large to serve four-year terms, with staggered elections being held every two years. The City Council also elects from its membership a Mayor and Vice Mayor. Steve Miklos and Jeff Starsky have been serving as Mayor and Vice Mayor of the City since December 2008.

For additional information about the City, see APPENDIX A—"INFORMATION RELATING TO THE CITY'S OPERATIONS AND BUDGET."

PLAN OF REFUNDING

The Bonds are being issued for the purpose of refunding the City's 1993 General Obligation Bonds (School Facilities Project), Series C (the "Series C Bonds") in the outstanding principal amount of \$4,650,000 and the City's outstanding 1993 General Obligation Bonds (School Facilities Project), Series D (the "Series D Bonds") in the outstanding principal amount of \$6,395,000. The Series C Bonds and the Series D Bonds are collectively referred to herein as the "Refunded Bonds." The Series C Bonds were issued pursuant to Resolution 4952 adopted by the City Council of the City on January 9, 1996 (the "Series C Resolution") and the Series D Bonds were issued pursuant to Resolution 5298 adopted by the City Council of the City on March 25, 1997 (the "Series D Resolution" and, together with the Series C Resolution, the "Prior Resolutions").

The City will apply a portion of the proceeds from the sale of the Bonds to refund and defease the Refunded Bonds, as described below, which proceeds will be irrevocably deposited with the Finance Director of the City (the "Finance Director") pursuant to the Prior Resolutions. The amounts deposited with the Finance Director will be sufficient to pay the redemption price of, including interest on the Refunded Bonds as the same shall become due upon the redemption thereof on or about October 7, 2009.

THE BONDS

Authority for Issuance; Purpose

The Bonds are issued pursuant to the provisions of Article 1 of Chapter 4 of Division 4 of Title 4 of the Government Code of the State of California, Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, and other applicable laws, and pursuant to the Paying Agent Agreement (the "Paying Agent Agreement") dated as of August 1, 2009, by and between the City and Union Bank, N.A., acting as paying agent, as authorized by the City Council by a resolution adopted on July 28, 2009. The Bonds are being issued for the purpose of (1) refunding certain of the City's outstanding general obligation bonds and (ii) paying certain costs of issuance of the Bonds.

Plan of Distribution

The Bonds were sold at competitive bid on August 20, 2009.

Bank Qualified Investments

The Bonds have been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its federal corporate income tax for a portion of the interest expense the financial institution is able to allocate to designated "bank qualified" investments.

Form and Registration

The Bonds will be issued in fully registered form only, without coupons. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Bonds. Purchases of Bonds under the DTC system must be made by or through a DTC participant, and ownership interests in Bonds and any transfer thereof will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX D— "BOOK-ENTRY ONLY SYSTEM."

Paying Agent

Union Bank, N.A., located in San Francisco, California, will initially act as the registrar, transfer agent, and paying agent for the Bonds (the "Paying Agent"). As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC.

The Paying Agent and the City have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

Payment of Principal and Interest

The Bonds shall be dated the date of delivery, and shall bear interest at the rates set forth on the inside cover page hereof, payable by check on February 1 and August 1 of each year, commencing on February 1, 2010 (each, an "Interest Payment Date"), computed using a year of 360 days comprising twelve 30-day months. Each Bond shall be issued in denominations of \$5,000 principal amount or integral multiples thereof. Bonds authenticated and registered on any date prior to the close of business on January 15, 2010, the first Record Date (as defined below), shall bear interest from the date of the Bonds. Bonds authenticated during the period between any Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date. Any other Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication; provided, however, that if, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Payment of interest on any Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) shall be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof (the "Owner") as of the fifteenth day of the calendar month immediately preceding such Interest Payment Date (the "Record Date"), such interest to be paid by check mailed to such Owner at such Owner's address as it appears on such registration books or at such other address as the Owner may have filed with the Paying Agent for that purpose on or before the applicable Record Date. The Owner of an aggregate principal amount of \$1,000,000 or more of Bonds may request in writing to the Paying Agent that such Owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the applicable Record Date. Principal shall be payable upon maturity or upon redemption prior to maturity, upon surrender of such Bonds at the designated office of the Paying Agent.

The interest, principal and premium, if any, on the Bonds shall be payable in lawful money of the United States of America. So long as all outstanding Bonds are held in book-entry form and registered in the name of a securities depository or its nominee, all payments of principal of, premium, if any, and interest on the Bonds and all notices with respect to such Bonds shall be made and given, respectively, to such securities depository or its nominee and not to Beneficial Owners. So long as the Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX D—"BOOK-ENTRY ONLY SYSTEM."

No Redemption

The Bond are <u>not</u> subject to optional or mandatory sinking fund redemption prior to their respective stated maturity dates.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Bonds Original Issue Premium Total Sources	\$10,195,000.00 771,860.90 \$10,966,860.90				
Uses of Funds					
Redemption of Refunded Bonds Costs of Issuance ⁽¹⁾	\$10,799,321.56 143,718.55				
Underwriter's Discount	23,820.79				
Total Uses	\$10,966,860.90				

¹ Includes fees and expenses of bond counsel, rating agency, printer, and other miscellaneous fees and expenses.

DEBT SERVICE SCHEDULE

Scheduled debt service payable with respect to the Bonds is as follows:

 ${\color{blue} City\ of\ Folsom} \\ {\color{blue} Refunding\ General\ Obligation\ Bonds,\ Series\ 2009^{\dagger}} \\$

Year Ending			Annual Debt
(August 1)	Principal	<u>Interest</u>	Service
2010	\$ 1,210,000	\$ 359,478	\$ 1,569,478
2011	1,225,000	344,950	1,569,950
2012	1,280,000	295,950	1,575,950
2013	1,335,000	244,750	1,579,750
2014	1,385,000	191,350	1,576,350
2015	1,445,000	135,950	1,580,950
2016	1,490,000	92,600	1,582,600
2017	825,000	33,000	858,000
TOTAL	\$ <u>10,195,000</u>	\$ <u>1,698,028</u>	\$ <u>11,893,028</u>

[†] Totals may appear inconsistent due to rounding of components.

Total scheduled debt service (principal plus interest) payable with respect to all outstanding general obligation bonds of the City, including the Bonds (assuming no optional prior to maturity), is as follows:

City of Folsom Refunding General Obligation Bonds Total Annual Debt Service Requirements (principal plus interest)[†]

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Total		aht	- O	PVICA

Year Ending Ending August 1	Annual Debt Service of the Bonds	Other Outstanding Bonds	<u>Total</u>
2010	\$ 1,569,478	\$1,759,888	\$ 3,329,366
2011	1,569,950	1,777,208	3,347,158
2012	1,575,950	1,787,005	3,362,955
2013	1,579,750	1,797,065	3,376,815
2014	1,576,350	1,092,000	2,668,350
2015	1,580,950		1,580,950
2016	1,582,600		1,582,600
2017	858,000		858,000
Total:	\$ <u>11,893,028</u>	\$ <u>8,213,166</u>	\$ <u>20,106,194</u>

[†] Totals may appear inconsistent due to rounding of components.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the City is empowered and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the City, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to all other taxes levied upon property within the City. Such taxes, when collected, will be placed by the City's Finance Director in the debt service fund created in the treasury of the City for payment of the Bonds.

Property Tax Revenues

The annual property tax rate for repayment of the Bonds will be based on the total assessed value of taxable property in the City and the scheduled debt service on the Bonds in each year, plus any additional amount the City elects to collect in order to manage its debt obligations and tax burdens, less any other lawfully available funds applied by the City for repayment of the Bonds. Fluctuations in the annual debt service on the Bonds, the assessed value of taxable property in the City, and the availability of such other funds in any year may cause the annual property tax rate applicable to the Bonds to fluctuate. Issuance by the City of additional authorized bonds payable from *ad valorem* property taxes may cause the overall property tax rate to increase.

Property Tax System. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. Cities levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well. The City receives approximately 33% of its total operating revenues from local property taxes.

Local property taxation in California is the responsibility of various county officers. The Assessor of the County of Sacramento (the "County") computes the value of locally assessed taxable property, and upon approval of the various tax rates by the County Board of Supervisors, the County Tax Collector-Treasurer prepares and mails tax bills to taxpayers and collects the taxes. Taxes collected on behalf of the City are remitted to the City's Director of Finance for deposit and safekeeping. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

Assessed Valuation of Property Within the City. Under the California Constitution, taxable property is assessed at its "full cash value," as determined by the county assessor. That "full cash value" generally reflects market value only upon a change in ownership or upon new construction. If no change in ownership has occurred, the assessed value may be increased by not more than two percent per year, or the rate of inflation, if less. Assessed valuation of a property can also be adjusted downward upon a successful taxpayer appeal, if the market value has declined below the most recent assessment.

For assessment and tax collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll."

California law requires that the assessment roll be finalized by August 20 of each year. The greater the assessed value of taxable property in the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds. The table below shows recent history of taxable assessed valuation of property in the City.

CITY OF FOLSOM SUMMARY OF TAXABLE ASSESSED VALUATION

Fiscal Year	Local Secured	<u>Utility</u>	Unsecured	<u>Total</u>
2002-03	\$ 5,871,384,589	\$1,532,447	\$173,821,142	\$ 6,046,738,178
2003-04	6,469,456,878	1,024,195	196,753,500	6,667,234,573
2004-05	7,204,676,395	1,039,861	195,792,490	7,401,508,746
2005-06	8,218,520,288	1,034,557	228,134,242	8,447,689,087
2006-07	9,436,974,390	1,021,471	238,430,027	9,676,425,888
2007-08	10,107,408,384	184,685	263,165,495	10,370,758,564
2008-09	10,460,557,782	184,685	300,365,228	10,761,107,695

Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the City is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed collectively as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other state-assessed property is allocated to the County by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formulae generally based on the distribution of taxes in the prior year.

Ongoing changes in the structure of California electric utility industry and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, including the City.

Assessed Valuation by Land Use. The following table gives a distribution of taxable property located in the City by principal purpose for which the land is used, and the assessed valuation and number of parcels by land uses for Fiscal Years 2008-09.

CITY OF FOLSOM 2008-09 ASSESSED VALUATION AND PARCELS BY LAND USE

2008-09 2008-09 Assessed Valuation Taxable Parcels Assessed Number % of Valuation⁽¹⁾ % of Total of Parcels Total Non-Residential: Agricultural \$ 203,845 0.00% 2 0.01% Commercial 1,018,599,074 9.74 332 1.37 Vacant Commercial 64,368,493 0.62 0.32 77 Office/Professional/Business Park 1,287,436,876 12.31 265 1.10 VacantOffice/Professional/Business 29,137,374 0.28 27 0.11 Park Industrial 155,166,456 1.48 40 0.17 Vacant Industrial 12,151,455 12 0.05 0.12 Recreational 61,095,929 0.58 16 0.07 70,302,552 Government/Social/Institutional 0.67 444 1.84 Miscellaneous 906,768 0.01 675 2.79 Subtotal Non-Residential \$2,699,368,822 25.81 1,890 7.81% Residential Single Family Residence 75.99% \$6,679,756,306 63.86% 18,382 Mobile Home 6,762,201 0.06 237 0.98 Mobile Home Park 12,720,876 0.12 10 0.04 Hotel/Motel 59,298,655 0.57 9 0.04 Condominium/Planned Unit 391,451,828 3.74 1,998 8.26 Development 2-4 Residential Units 64,622,735 0.62 241 1.00 5+ Residential Units/Apartments 404,066,083 3.86 42 0.17 Vacant Residential 141,365,862 1.35 1,371 5.67 \$7,760,044,546 22,290 Subtotal Residential 74.18% 92.15% Unknown Use \$1,144,414 0.01% 9 0.04%**TOTAL** \$10,460,557,782 100.00% 24,189 100.00%

Source: California Municipal Statistics, Inc.

⁽¹⁾ Local Secured Assessed Valuation, excluding tax-exempt property.

Average and Median Assessed Valuations of Single Family Homes within City. Over 70% of taxable parcels, as well as taxable property values, are in residential properties and over 60% of taxable assessed value is in single family homes. The table below shows the Fiscal Year 2008-09 aggregate, average and median assessed valuations of single family homes within the City and a breakdown of single family homes by assessed valuation range.

CITY OF FOLSOM
PER PARCEL 2008-09 ASSESSED VALUATION OF SINGLE FAMILY HOMES

		No. of Parcels	2008-09 Assessed <u>Valuation</u>	Average Assessed Valuation		Median sed Valuation
Single Family Resi	dential	18,382	\$6,679,756,3	06 \$363,386	\$	348,696
2008-09 <u>Assessed Valuation</u> \$0 - \$24,999 \$25,000 - \$49,999 \$50,000 - \$74,999 \$75,000 - \$99,999 \$100,000 - \$124,999 \$125,000 - \$149,999 \$175,000 - \$174,999 \$175,000 - \$199,999 \$200,000 - \$224,999 \$225,000 - \$249,999 \$250,000 - \$274,999 \$275,000 - \$299,999 \$300,000 - \$324,999 \$325,000 - \$349,999	No. of Parcels (1) 114 218 199 154 162 217 443 803 983 1,093 1,223 1,282 1,187 1,182	% of Total 0.620% 1.186 1.083 0.838 0.881 1.181 2.410 4.368 5.348 5.946 6.653 6.974 6.457 6.430	Cumulative % of Total 0.620% 1.806 2.889 3.726 4.608 5.788 8.198 12.567 17.914 23.860 30.514 37.488 43.945 50.375	Total Valuation \$ 1,324,487 8,580,601 12,802,328 13,667,295 18,200,584 30,044,682 72,915,393 151,260,370 209,415,427 259,967,310 321,214,075 368,672,457 371,072,126 399,208,859	% of Total 0.020% 0.128 0.192 0.205 0.272 0.450 1.092 2.264 3.135 3.892 4.809 5.519 5.555 5.976	Cumulative % of Total 0.020% 0.148 0.340 0.545 0.817 1.267 2.358 4.623 7.758 11.650 16.459 21.978 27.533 33.509
\$350,000 - \$374,999 \$375,000 - \$399,999 \$400,000 - \$424,999 \$425,000 - \$449,999	1,216 1,270 1,167 980	6.615 6.909 6.349 5.331	56.991 63.899 70.248 75.579	440,856,614 491,777,707 481,270,552 428,516,939	6.600 7.362 7.205 6.415	40.109 47.471 54.676 61.092
\$450,000 - \$474,999 \$450,000 - \$474,999 \$475,000 - \$499,999 \$500,000 and greater Total	784 735 <u>2,970</u> 18,382	4.265 3.998 <u>16.157</u> 100.000%	79.844 83.843 100.000	362,418,643 358,090,419 1,878,479,438 \$6,679,756,306	5.426 5.361 <u>28.122</u> 100.000%	66.517 71.878 100.000

⁽¹⁾ Improved single family residential parcels. Excludes condominiums and parcels with multiple family units. *Source*: California Municipal Statistics, Inc.

Largest Taxpayers in the City. The twenty taxpayers in the City with the greatest combined assessed valuation of taxable property on the 2008-09 tax roll, and the assessed valuations thereof, are shown in the following table. The more property (by assessed value) owned by a single taxpayer, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. In 2008-09, no single taxpayer owned more than 5.43% of the total taxable property in the City.

CITY OF FOLSOM TWENTY LARGEST TAXPAYERS

Largest 2008-09 Local Secured Taxpayers

			2008-09	
			Assessed	% of
	Property Owner	Primary Land Use	Valuation	Total ⁽¹⁾
1.	Intel Corporation	Industrial	\$ 567,788,489	5.43%
2.	Parkshore Plaza Office Property	Office Building	64,770,000	0.62
	Owner LLC			
3.	Kikkoman Foods Inc.	Industrial	64,307,240	0.61
4.	Spectrum Waples Street LP	Apartments	62,399,030	0.60
5.	Braddock & Logan Venture Group LP	Commercial	59,750,721	0.57
6.	Chelsea Financing Partnership LP	Commercial	57,423,457	0.55
7.	Cowifi Iron Point LLC	Office Building	52,020,000	0.50
8.	Broadstone Market Place LLC	Commercial	52,217,394	0.49
9.	Blue Ravine Investors LLC	Apartments	41,796,618	0.40
10.	Lakeridge Innovation LLC	Residential Development	40,686,556	0.39
11.	Rollingwood Commons Apartments	Apartments	40,325,904	0.39
	LLC	-		
12.	Commonwealth Folsom LLC	Shopping Center	39,270,000	0.38
13.	Folsom Broadstone Inc.	Shopping Center	38,914,407	0.37
14.	Elliott Homes Inc	Residential Development	38,723,911	0.37
15.	Sherwood Apartments LLC	Apartments	36,627,873	0.35
16.	Kaiser Foundation Hospitals	Hospital	36,407,132	0.35
17.	Folsom Corporate Center Investors	Office Building	35,550,000	0.34
	LLC	C		
18.	WL Homes LLC/WL Parkway IJ	Residential Development	34,461,851	0.33
	Assocs LP	1	, ,	
19.	Iron Point LLC	Apartments	33,555,395	0.32
20.	Folsom Central Investors LLC	Shopping Center	32,668,560	0.31
		11 6	\$1,428,664,538	13.66%

(1) 2008-09 Local secured assessed valuation: \$10,460,557,782

Source: California Municipal Statistics, Inc.

Property Tax Rates. The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Bonds in a given year depends on the assessed value of taxable property in that year. (Unsecured property is taxed at the secured property tax rate from the prior year.) Property values could be reduced by factors beyond the City's control, such as a depressed real estate market due to general economic conditions in the Sacramento area. The City is located in a seismically active area, and property within the City could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the region's economic activity. Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Tax Collections and Delinquencies. A city's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in Fiscal Year 1978-79, as adjusted

according to a complex web of statutory modifications enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Tax Collector-Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: The first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a ten percent penalty attaches. If taxes remain unpaid by June 30, the tax is deemed to be in default. Penalties then begin to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction.

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed. To collect unpaid taxes, the County Tax Collector-Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Tax Collector-Treasurer may also bring a civil suit against the taxpayer for payment.

The following table shows a recent history of real property tax collections and delinquencies in the City.

CITY OF FOLSOM SECURED TAX CHARGES AND DELINQUENCIES

		Amount Delinquent	% Delinquent
Fiscal Year	Secured Tax Charge ⁽¹⁾	June 30	June 30
2003-04	\$3,391,392.91	\$26,742.07	0.79%
2004-05	2,835,023.77	22,414.18	0.79
2005-06	2,717,215.00	26,523.00	0.98
2006-07	2,969,276.83	56,178.61	1.89
2007-08	2,899,760.00	62,538.00	2.16

⁽¹⁾ Debt service levy only.

Source: California Municipal Statistics, Inc.

Teeter Plan. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, the County distributes to each participating local tax-levying agency, including the City, the amount levied on the secured and supplemental tax rolls, instead of the amount actually collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency in the absence of the Teeter Plan. The County applies the Teeter Plan to taxes levied for repayment of general obligation bonds.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of the County's fiscal year (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions duly adopted by the governing boards of at least two-thirds of the participating revenue districts in the County. The Board of Supervisors may, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls in that agency.

Direct and Overlapping Debt. The following table was prepared by California Municipal Statistics Inc., and is included for general information purposes only. The City has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which had outstanding debt as of July 1, 2009, and whose territory overlaps the City in whole or in part. The

second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the City. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the City.

The table generally includes long-term obligations sold in the public credit markets by the public agencies listed. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land 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.

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CITY OF FOLSOM DIRECT AND OVERLAPPING DEBT As of July 1, 2009

 $\begin{array}{lll} 2008\text{-}09 \text{ Assessed Valuation:} & \$10,761,107,695 \\ \text{Redevelopment Incremental Valuation:} & \frac{765,226,464}{\$9,995,881,231} \\ \end{array}$

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/09
Los Rios Community College District	6.642%	\$ 9,917,170
Folsom Cordova Unified School District School Facilities Improvement District No. 2	98.536	42,337,394
Folsom Cordova Unified School District School Facilities Improvement District No. 3	3.822	955,448
San Juan Unified School District	0.714	1,954,334
City of Folsom	100.	20,665,000 ⁽¹⁾
City of Folsom 1915 Act Bonds	100.	23,975,000
Special District 1915 Act Bonds (Estimate)	0.008-1.693	84,179
Folsom Community Facilities District No. 2	100.	13,110,000
Folsom Community Facilities District No. 3	100.	1,725,000
Folsom Community Facilities District No. 4	100.	2,650,000
Folsom Community Facilities District No. 7	100.	27,925,000
Folsom Community Facilities District No. 8	100.	3,965,000
Folsom Community Facilities District No. 9	100.	1,565,000
Folsom Community Facilities District No. 10	100.	64,265,000
Folsom Community Facilities District No. 11	100.	8,530,000
Folsom Community Facilities District No. 14	100.	18,320,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$241,943,525
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Sacramento County General Fund Obligations	7.898%	\$28,362,471
Sacramento County Pension Obligations	7.898	73,769,313
Sacramento County Board of Education Certificates of Participation	7.898	880,627
Los Rios Community College District Certificates of Participation	6.642	444,682
Folsom-Cordova Unified School District Certificates of Participation	62.522	24,027,205
San Juan Unified School District Certificates of Participation	0.715	23,169
Sacramento Metropolitan Fire District Pension Obligations	0.189	125,967
City of Folsom General Fund Obligations	100.	<u>15,050,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$142,683,434
Less: Sacramento County self-supporting obligations		587,611
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$142,095,823
GROSS COMBINED TOTAL DEBT		\$384,626,959(2)
NET COMBINED TOTAL DEBT		\$384,039,348 ⁽²⁾

⁽¹⁾ Excludes issue to be sold.

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

Ratios to 2008-09 Assessed Valuation:

Direct Debt (\$20,665,000)	0.19%
Total Direct and Overlapping Tax and Assessment Debt	2.25%
Ratios to Adjusted Assessed Valuation:	

Combined Direct Debt (\$35,715,000)	0.36%
Gross Combined Direct Debt	3.85%
Net Combined Direct Debt.	3.84%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

Source: California Municipal Statistics, Inc.

STATE BUDGET

General

The City adopted its Fiscal Year 2009-10 budget prior to the adoption of the Fiscal Year 2009-10 State Budget. The City receives a relatively small amount of its revenues directly from the State. However, a significant portion of the City's revenues, including property taxes, sales tax, motor vehicle in-lieu license fees, and other revenue may be subject to actions that the State legislature might take in response to State budget difficulties. Therefore, we provide the following information about the State budget.

State Budget Process

According to the State Constitution, the Governor of the State (the "Governor") is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

The Governor signed the 2008-09 Budget Act on September 24, 2008 (the latest in State history), and the 2009-10 Budget Act (the "2009-10 February Budget") on February 20, 2009 (the earliest). The 2009-10 February Budget contained \$42 billion in budget solutions, but it was balanced by assuming the passage of certain ballot measures, which required approval of the State's electorate at a special statewide election held on May 19, 2009. All of those measures failed, resulting in a loss of \$6 billion worth of budget solutions, thus necessitating further revisions. On July 24, 2009, the Legislature approved a new budget package containing an additional \$24 billion in budget solutions, which the Governor signed on July 28, 2009 (the "2009-10 Final Budget") after vetoing \$489 million in general fund appropriations. Taken together, the 2009-10 February Budget and 2009-10 Final Budget contain \$60 billion worth of budget solutions and close the largest budget gap the State has ever confronted, both in dollar amount and as a percent of general fund revenues. The impact of the 2009-10 Final Budget on local governments, including the City, is discussed further below.

The 2008-09 and 2009-10 State Budget

On September 24, 2008, the Governor signed the State Budget for Fiscal Year 2008-09 (the "2008-09 State Budget"). It is widely acknowledged that by the time of passage of the 2008-09 State Budget, revenue estimates were already too optimistic, in light of continuing weak performance in the California economy and unprecedented adverse developments in the global and national financial markets, particularly after September 15, 2008. The Governor declared a fiscal emergency in December 2008, and called three concurrent special legislative sessions in order to address the budget deficit then estimated to be \$42 billion.

Although the Governor signed the 2009-10 February Budget, it relied on passage of five ballot measures proposed to the State's electorate on May 19, 2009. All five failed to gain the required majority vote. The 2009-10 February Budget also relied on revenue and expenditure projections for Fiscal Year 2009-10 that, like the revenue estimates supporting the 2008-09 State Budget, also quickly became out of date. The Governor proposed revisions to the 2009-10 February Budget on May 14, 2009 and July 1, 2009, but it was not until July 24, 2009 that the

Legislature approved a new budget package. The Governor signed the 2009-10 Final Budget on July 28, 2009, after vetoing \$489 in general fund appropriations in order to provide funding for a \$500 million general fund reserve. This final budget package contains \$16.1 billion in spending cuts, \$2.2 billion of borrowing, \$3.5 billion of new revenues, \$1 billion in fund shifts and \$1.4 billion in other accounting changes.

According to the Legislative Analyst's Office, features of the 2009-10 Final Budget affecting local governments include the following:

Proposition 1A Suspension. The 2009-10 Final Budget includes a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. The City's share of the Proposition 1A diversion is expected to be \$2,452,868. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. See "CONSTITUTIONAL AND STATUTORY LIMITS ON REVENUES – Proposition 1A" herein.

Mandates. The 2009-10 Final Budget suspends for one year the requirements of most mandates, with the exception of mandates relating to public safety, elections or tax collection.

Williamson Act Program Suspension. The Governor vetoed essentially all funding for this program, which backfills property tax revenues that local governments forego when property owners agree to preserve land for agriculture or open space.

CONSTITUTIONAL AND STATUTORY LIMITS ON REVENUES

Article XIIIA of the California Constitution

Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one percent limitation does not apply to ad valorem taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the bond 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 Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Section 51 of the Revenue and Taxation Code permits County assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than two percent, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure. 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 the one percent base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than two percent, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than two percent in a single year violate Article XIIIA. In 2003, the Orange County Superior Court declared the recapture practice to be unconstitutional as applied to the plaintiff taxpayer. Orange County appealed the case to the California Court of Appeal and, on March 26, 2004, the Court of Appeal reversed the Superior Court in County of Orange v. Bezaire. The City is unable to predict whether the Court of Appeal decision will be appealed to the California Supreme Court or the outcome of any such appeal or the ultimate the effect, if any, any such appeal might have on assessed values in the City and on the City's property tax revenues. A drop in assessed valuation would not result in any long-term loss of taxes levied to pay the City's bonds, but would instead cause the City to raise the rate of ad valorem taxes to generate revenues sufficient for the payment of principal of and interest on such bonds.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including cities, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIIC also provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the City to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes or to otherwise interfere with performance of the duty of the City with respect to such taxes. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIIID defines "fee" or "charge" to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In addition, by July 1, 1997, under Article XIIID, all property-related fees and charges, including those which have been in existence since prior to the passage of Proposition 218 in November 1996, had to have met the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) 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 in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIIID (relating to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, 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 interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination. The City believes that all of its it taxes, fees and charges are in compliance with the requirements of Proposition 218. The tax to be levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Proposition 1A

Proposition 1A, proposed by the State Legislature in connection with the 2004-05 Budget Act, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the finances of the City.

Constitutional Amendments Affecting Expenditures and Appropriations

Article XIIIB of the California Constitution. In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual "appropriations limit" or "Gann Limit" imposed by Article XIIIB of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and

certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIIIB also does not limit appropriation of local revenues to pay debt service on obligations existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. The City is required to establish an appropriations limit each year.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years. If the State's aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State's contribution to school and college districts.

Future Initiatives.

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Proposition 98 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting City revenues or the City's ability to expend revenues.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX B hereto.

To the extent the issue price of the Bonds of any given maturity date is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of

beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code, or court decisions, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code or court decision may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the City or the beneficial owners to incur significant expense.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") by not later than nine months following the end of the City's fiscal year (currently ending June 30), commencing with the report for the 2008-09 Fiscal Year, which is due no later than April 1, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and any material event notices will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and the notices of material events is summarized in APPENDIX C— "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds, the City's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the City's ability to issue the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the title of City officials to their offices, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds.

There are routinely a number of lawsuits and claims pending against the City. In the opinion of the City, the aggregate amount of the uninsured liabilities of the City under these lawsuits and claims are adequately provided for in the General Fund, and will not materially affect the ability of the City to levy taxes and pay debt service on the Bonds.

LEGAL OPINION

Upon the delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the City, will issue its opinion approving the validity of the Bonds, the proposed form of which opinion is set forth in Appendix C hereto. Certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe LLP as Disclosure Counsel to the City, and by the City Attorney. Orrick, Herrington & Sutcliffe LLP expresses no opinion regarding the accuracy, completeness or fairness of information contained in this Official Statement.

RATINGS

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") have assigned the municipal bond ratings of "AA" and "A1," respectively, to the Bonds. Certain information not included in this Official Statement was supplied by the City to each rating agency to be considered in evaluating the Bonds. The ratings reflect only the views of the rating agencies, and any explanation of the significance of any rating may be obtained only from such credit rating agencies. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

PROFESSIONALS INVOLVED IN THE OFFERING

Northcross, Hill & Ach, Inc., San Francisco, California, has served as Financial Advisor to the City with respect to the sale of the Bonds. The Financial Advisor has assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, and sale of the Bonds. The Financial Advisor has not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the Bonds. Bond Counsel and Disclosure

Counsel will also receive compensation from the City contingent upon the sale and delivery of the Bonds. Union Bank, N.A., San Francisco, California, will act as the City's paying agent, transfer agent and registrar for the Bonds.

INDEPENDENT AUDITORS

The financial statements of the City for the Fiscal Year ended June 30, 2008, have been audited by Gilbert & Associates, Inc., Certified Public Accountants, Sacramento, California, independent auditors, as indicated in its report, which has been filed with and is available from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access database ("EMMA") and are hereby incorporated as if fully set forth herein. The City's audited financial statements for Fiscal Year ended June 30, 2008, are also available at the City's website at http://www.folsom.ca.us/depts/finance/annual/default.asp. The City's website is provided for convenience only and nothing appearing therein shall be deemed to be incorporated into this Official Statement unless fully set forth herein.

The City considers its financial statements to be public information, and accordingly has neither requested nor obtained the consent of Gilbert & Associates, Inc. to include such financial statements herein and Gilbert & Associates, Inc. has not reviewed this Official Statement nor performed any procedures subsequent to rendering its opinion on such financial statements.

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CITY OF FOLSOM	
Ву	/s/ Kerry Miller City Manager

The City has duly authorized the delivery of this Official Statement.

By /s/ James Francis
Finance Director/Chief Financial Officer



APPENDIX A

INFORMATION RELATING TO THE CITY'S OPERATIONS AND BUDGET

APPENDIX A

INFORMATION RELATING TO THE CITY'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the City of Folsom and the City's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the General Fund of the City. The Bonds are payable from the proceeds of an advalorem tax approved by the voters of the City pursuant to all applicable laws and Constitutional requirements, and required to be levied by the City on taxable property within the City in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the front section of this Official Statement.

General

The City of Folsom (the "City") is located in the eastern portion of Sacramento County (the "County"), approximately 110 miles northeast of San Francisco and 20 miles east of Sacramento. The City was first incorporated in 1946 and was chartered in 1990. The City is located along the eastern end of the Highway 50 corridor in an area of the Sacramento Valley that has experienced considerable growth over the past 10 years.

Population

The following table sets forth historical and estimated population figures for the City.

TABLE A-1 CITY OF FOLSOM AND SACRAMENTO COUNTY POPULATION

Year	City of Folsom	Sacramento County
2000	51,884	1,223,499
2001	56,744	1,252,690
2002	59,119	1,287,557
2003	62,295	1,318,012
2004	64,194	1,345,646
2005	66,151	1,368,333
2006	67,671	1,386,185
2007	68,857	1,402,728
2008	70,537	1,418,763
2009	71,018	1,433,187

Source: The 2000 total is the U.S. Census figure. The 2001 through 2009 figures are from annual estimates provided by the State Department of Finance as of January 1.

Major Employers

The following table gives recent employment information for the City's largest employers.

TABLE A-2 CITY OF FOLSOM MAJOR EMPLOYERS June 30, 2009

Employer	Product/Service	Employees
Intel	Electronic Manufacturers	6,000
California State Prison – Sacramento	Government Entities	1,200
Folsom State Prison	Government Entities	1,200
Verizon	Telecommunications	1,200
Folsom Cordova Unified School District	Education	785
Mercy Hospitals	Health Care Facilities	628
California ISO	Utilities	585
Maximus	Consulting	550
City of Folsom	Government Entities	504
Folsom Lake College	Education	500

Source: City of Folsom.

City Government

The City was incorporated in 1946 and chartered in 1990. The City's primary governing body is the City Council, composed of five members who are elected at large and who serve four-year terms. The council members choose a mayor and vice mayor from among their members. Current City Council members are:

Member	Term Expires	
Steve Miklos (Mayor)	11/2010	
Jeff Starsky (Vice Mayor)	11/2012	
Andy Morin	11/2010	
Kerri Howell	11/2010	
Ernie Sheldon	11/2012	

The City operates under a Council-Manager form of government. The City Manager is responsible for daily administration of City affairs. Kerry Miller has served as City Manager since 2006. The City Manager is appointed by and serves at the will of the City Council. The City Manager is responsible for implementation of City Council policy, enforcement of City laws and ordinances, appointment and discipline of City officers and employees, oversight of City departments, preparation and submission of the City budget to the City Council, and other related functions.

City Budget Process

The City's annual budget is adopted by the City Council on or before the last working day of June. If the City Council fails to adopt a budget by such date, the budget proposed by the City Manager shall be deemed adopted. The City Manager may transfer moneys between departments and divisions, and programs and accounts within departments and divisions, but only the City Council may by resolution transfer moneys between funds and from un-appropriated balances or fund balances to any fund or appropriation account. The City Council adopted the Fiscal Year 2010 budget on June 9, 2009.

Budget information is adopted on an annual basis for the General Fund, special revenue funds and debt service funds. The budget is adopted on a project length basis for capital projects funds. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- A. Department heads prepare a budget request based upon the previous year's expenditures.
- B. Meetings are held between the department heads, the Chief Financial Officer and City Manager for the purpose of reviewing and prioritizing budget requests.
- C. The City Manager submits the proposed city budget to the City Council, who makes decisions regarding department budgets.
- D. Transfers between funds and changes in the total budget must be approved by the City Council.

Budget information is presented for the General Fund, Folsom Redevelopment Agency, Special Revenue Fund and Development Special Revenue Fund as required supplementary information. The budget information is presented on a basis consistent with generally accepted accounting principles. Appropriations, except open project appropriations and unexpended grant appropriations, lapse at the end of each fiscal year.

Revenues and expenditures relating to the City's general governmental operations are budgeted and accounted for in the City's General Fund, including public safety, highways and streets, health and welfare and culture and recreation. General taxes and fees support most of these activities. The City's Fiscal Year 2010 adopted budget includes over \$199.2 million in expenditures across all funds. Of this amount, approximately \$70.2 million was allocated to the General Fund of the City. The balance of this Appendix A is concerned with the operations and performance of the City's General Fund, unless otherwise noted.

Housing Market and Foreclosures

The State of California and the nation have experienced a severe downturn in the housing market for the past few years. In June 2009, bank repossessions accounted for 53.9% and short sales accounted for 16.6% of total home sales in the Sacramento region. The median price of homes sold in the Sacramento region in June 2009 was \$180,000. By comparison, only 24.1% of home sales in the City were bank repossessions and the median price of homes sold in June 2009 was \$382,000. In June 2009, short sales in the City accounted for 19.0% of the total home sales, with a median sales price of \$370,000. The total median home price in the City dropped 0.6% from June 2008, compared with an 18.2% drop in the median home price in the Sacramento region.

Financial Management and Recent Developments

In the second quarter of Fiscal Year 2009 (Fall of 2008), recognizing the significant economic downturn and its effect on the City's budget, the City took several actions to quickly and thoroughly address the financial situation. The financial projections for Fiscal Year 2009 reflected an \$8.6 million shortfall of revenue, primarily from sales taxes and charges for service (building permits). The City's fiscal goals were to minimize the use of fund balance in Fiscal Year 2009 and produce a balanced budget in Fiscal Year 2010.

First of all, given the magnitude of the fiscal impact, it was recognized that to adequately address the issues a longer time frame was needed. Therefore, the City decided to work on developing an 18 month budget that would last through June 30, 2010. This was to be accomplished by completing next fiscal year's (Fiscal Year 2010) budget appropriation and then using the second half of Fiscal Year 2009 to phase in the implementation. The goal was to save approximately \$4.0 million in expenditures in Fiscal Year 2009.

Second, it was determined that it would be best to review all budget requests as a series of program options, starting with considering whether the City needed to provide each service at all. From that a series of decision options were presented showing the impact of different levels of service. Departments were asked to prepare their budgets on a program basis and show at least 4 different levels of service. A base level of 80% of their current appropriation was the starting point, with alternatives that had both increased and decreased levels of

funding. Finally, department directors were asked to make their recommendations for program levels that averaged the 80% level of funding across all the programs under their direction. Some could be at full funding or even at an increased funding level as long as other programs were eliminated or reduced in funding to a level that met the 80% of funding criteria for the department.

Third, in order to preserve services to the community, the City recognized that it had to take actions that would minimize cost increases both now and in the future. This set the tone for the City's collective bargaining strategy with all of the City's bargaining units. The result of these negotiations was the following:

- The City implemented a retirement incentive that resulted in the retirement of 29 employees from various departments. These retirements were all effective prior to May 30, 2009. None of these positions were filled, although in some cases they were traded for other positions. This reduced the number of planned layoffs that the City had to actually process.
- A wage freeze was agreed to by all bargaining units for Fiscal Year 2010 and the City's largest unit
 agreed to a wage freeze for Fiscal Year 2011 also. This included COLA's, step increases, and
 reclassifications.
- The non-public safety units agreed to a one day a month furlough from January 2009 through June 2011. The police union agreed to a one day furlough every two months from January 2009 through December 2009.
- Although there was no agreement with the fire union on furloughs, other significant actions were taken with that union, including a wage freeze, several positions to be left vacant, and the removal of an engine unit from the line at the Fire Chief's discretion.

All of the above actions helped to reduce the general fund budget from an appropriated \$77.8 million for Fiscal Year 2009 to an appropriated \$70.2 million for Fiscal Year 2010.

City's General Fund Revenues

In addition to property taxes, the City has several other major tax and fee revenue sources, as described below. The following table summarizes the City's actual or estimated general fund revenues from Fiscal Year 2007 through 2010.

TABLE A-3 CITY OF FOLSOM GENERAL FUND REVENUES

	Fiscal Year 2007 Actual	Fiscal Year 2008 Actual	Fiscal Year 2009 Estimated ⁽¹⁾	Fiscal Year 2010 Estimated
Property Taxes	\$ 16,028,626	\$ 17,331,885	\$ 20,215,303	\$ 20,187,518
Sales Tax	18,218,021	17,905,327	15,563,383	16,336,885
Transient Occupancy	1,408,355	1,358,637	1,360,000	1,350,000
Real Property Transfer	577,954	286,598	300,000	200,000
Licenses and Permits	515,927	563,408	1,685,389	1,820,200
Intergovernmental Revenue	6,594,759	6,323,361	5,736,746	6,520,000
Charges for Services	4,859,875	6,962,238	10,963,424	8,725,510
Fines and Forfeitures	274,734	358,724	311,235	352,000
Interest	760,787	737,242	524,749	185,000
Miscellaneous	2,265,823	1,016,605	2,763,005	2,287,165
Total Revenue	\$ 51,504,861	\$ 52,844,025	\$ 59,423,234	\$ 57,964,278

⁽¹⁾ During Fiscal Year 2009 the City of Folsom moved several Special Revenue, Enterprise and an Internal Service Fund into the General Fund.

Source: City of Folsom.

Sales and Use Tax. The sales tax is an excise tax imposed on retailers for the privilege of selling or leasing tangible personal property. The use tax is an excise tax imposed for the storage, use, or other consumption of tangible personal property purchased from any retailer. The City receives one cent, or 12.12% of the total 8.25 cent statewide Sales Tax levied on each dollar of taxable sales. In addition, Sacramento County voters approved a half-cent supplemental sales tax in 1988 to fund a twenty-year transportation improvement plan for Sacramento County, which has resulted in a 8.75% countywide sales tax. Currently, all of the Sales Tax received by the City is used in the General Fund. The estimate for the year is based on the sales tax received and on the amount received from the State for the "Triple Flip", where the City is reimbursed for the reduction of local sales taxes through a shift of local property tax revenues.

Transient Occupancy Tax. The transient occupancy tax ("TOT"), also known as the hotel tax, is an 8% tax on the gross room charge for rental of transient lodging; it is paid by the hotel guest. Occupancy rates have remained stable, but room prices have become more competitive given the slowing economy. The City anticipates that TOT for Fiscal Year 2010 will be \$1,350,000.

In October 2002, the City Council established the Folsom Tourism Business Improvement District ("FTBID"). FTBID was established to put forth a positive image for Folsom to attract more visitors to the City. With the creation of FTBID, the City Council authorized an assessment of 2% gross room receipts, effective January 2003 until January 2013, on all existing and future hotels within the City having more than 16 rooms. Revenue from this assessment is not available for general fund purposes but is to be used by FTBID to promote tourism.

Real Property Transfer Tax. The City collects a tax on the value of any documented sale or transfer of real property with a value greater than \$500 within the City at a rate of 27.5 cents per \$500 value. The tax is due when the transfer is recorded with the County. Title companies collect the tax as part of the sale closing process and remit the funds to the County when sales or transfers are finalized. The County remits the amounts due monthly, and the amounts are credited to the General Fund. The City anticipates that property transfer tax for Fiscal Year 2010 will be \$200,000.

Other Revenues. The City also collects additional General Fund revenues from franchise fees, license and permit fees, and other more minor sources.

City Expenditures

The largest part of the City's General Fund budget is used to pay salaries and benefits for its employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. In its Fiscal Year 2010 budget, the City projects that it will expend approximately \$53.2 million in salaries and benefits, or approximately 75.9% of its General Fund expenditures.

Labor Relations. As of July 1, 2009, the City employed approximately 504 full-time employees. There are five employee associations as shown below. In addition, the City employs approximately 39 management employees who are not represented by a union or other collective bargaining agent, as well as 22 permanent and full-time equivalent employees who also are not represented. The City has not experienced any work stoppages or strikes by its employees.

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TABLE A-4 CITY OF FOLSOM LABOR RELATIONS As of July 1, 2009

Labor Organization	Represented Employees	Contract Expiration
Operating Engineers Local 39	228	June 30, 2011
Folsom Police Officers Association	99	June 30, 2010
Folsom Fire Fighters Association	57	December 31, 2008
Mid-Management Miscellaneous Workers	53	June 30, 2012
City of Folsom Fire Department Middle Management Employees	6	December 31, 2008

Source: City of Folsom.

The contracts with the Folsom Fire Fighters Association and the City of Folsom Fire Department Middle Management Employees each expired on December 31, 2008. The City is actively in negotiations with the respective bargaining units to reach successor agreements. The City considers its relationship with its employees to be good.

Retirement Programs. The City contributes to two plans in the California Public Employees' Retirement System ("CalPERS"). The safety plan covers all of the City's full-time sworn uniformed fire employees, sworn uniformed police employees, and all chiefs in both departments. The miscellaneous plan covers all remaining eligible employees.

As of June 30, 2007, the date of the most recent actuarial study report, the safety plan and the miscellaneous plan were each 75.2% funded. For the safety plan, the actuarial accrued liability was \$77 million and the actuarial value of assets was \$58 million, resulting in an unfunded actuarial accrued liability ("UAAL") of \$19 million. For the miscellaneous plan, the actuarial accrued liability was \$85 million and the actuarial value of assets was \$64 million, resulting in a UAAL of \$21 million.

For the year ended June 30, 2008, the City's annual pension cost of \$3,274,360 for the safety plan and \$3,892,686 for the miscellaneous plan were equal to the City's required contributions. Based on the City's Fiscal Year 2008 Comprehensive Annual Financial Report, the three-year trend information for the safety and miscellaneous plans combined is as follows:

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$ 6,686,686	100%	_
6/30/2007	6,707,466	100%	_
6/30/2008	7,167,046	100%	_

Other Post-Employment Benefits. In 2004, the Government Accounting Standards Board ("GASB") issued Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions ("GASB 45"). GASB 45 requires governmental agencies to change their accounting for Other Post-Employment Benefits ("OPEB") from a pay-as-you-go to an accrual basis. The City has implemented the requirements of GASB 45, including financial statement reporting and disclosure requirements. Among other things, employers that participate in single-employer or agent multiple-employer defined benefit OPEB plans are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan, with certain adjustments. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan.

The City sponsors and administers a single-employer defined benefit post-employment healthcare plan (the "Healthcare Plan") to provide healthcare insurance benefits to eligible retired employees and their dependents. The City pre-funds the Healthcare Plan though a Futuris Public Entity Investment Trust and a Retirement Board of Authority made up of the Mayor, one at large City Council member, the City Manager, the Finance Director, and the Human Resources Director. The Retirement Board of Authority delegated authority of the trust to the Benefit Trust Company. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. For fiscal year 2008, the City contributed \$1,915,619 to the plan, including \$1,265,619 for current premiums and an additional \$650,000 to prefund benefits.

For more information regarding the City's OPEB liabilities, see note 11 to the City's audited financial statements for the year ending June 30, 2008, on file with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access database ("EMMA").

Other Expenditures. The balance of budgeted expenditures includes services and materials, capital outlay, and internal services provided by one department or program to another.

Summary of City Revenues and Expenditures

The following table summarizes the City's actual or budgeted General Fund revenue, expenditures and fund balances from Fiscal Year 2007 through 2010. Certain adjustments may be made throughout the year based on actual State funding and actual City experience with revenues and tax collections. The City cannot make any predictions regarding the disposition of additional pending budget legislation or its effect on the City. The City's budget is a planning tool and does not represent a prediction as to the actual achievement of any of the budgeted revenues or fund balances. See also the City's audited financial statements for the year ending June 30, 2008, on file with EMMA.

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TABLE A-5 CITY OF FOLSOM GENERAL FUND Fiscal Year 2007 through Fiscal Year 2010

	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Projected Fiscal Year 2009 ⁽¹⁾	Adopted Budget Fiscal Year 2010
REVENUES:				
Taxes:				
Property	\$ 16,028,626	\$ 17,331,885	\$ 20,215,303	\$ 20,187,518
Sales and use	18,218,021	17,905,327	15,563,383	16,336,885
Transient occupancy	1,408,355	1,358,637	1,360,000	1,350,000
Real property transfer	577,954	286,598	300,000	200,000
Licenses and permits	515,927	563,408	1,685,389	1,820,200
Intergovernmental	6,594,759	6,323,361	5,736,746	6,520,000
Charges for current services	4,859,875	6,962,238	10,964,122	8,725,510
Fines and forfeitures	274,734	358,724	311,235	352,000
Interest income	760,787	737,242	533,936	185,000
Miscellaneous	2,265,823	1,016,605	2,763,005	2,287,165
Total revenues	\$ 51,504,861	\$52,844,025	\$ 59,433,119	\$ 57,964,278
EXPENDITURES:	* 44 00 6 00 0		* * * * * * * * * * * * * * * * * * *	. 12 10 (1==
General government	\$ 11,996,990	\$ 13,678,122	\$ 14,006,174	\$ 12,486,477
Public safety	33,053,025	35,845,343	35,692,258	32,924,423
Public ways and facilities	8,145,652	8,706,038	12,402,074	12,298,748
Culture and recreation	5,965,548	6,459,402	13,848,481	12,238,600
Other	-	205,131	<u> </u>	A (0.040.040
Total expenditures	\$ 59,161,215	\$ 64,894,036	\$ 75,948,987	\$ 69,948,248
REVENUES OVER (UNDER) EXPENDITURES	\$ (7,656,354)	\$(12,050,011)	\$(16,515,868)	\$ (11,983,970)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of property	-	\$ 580,000	-	-
Proceeds from capital leases	-	205,131	-	-
Transfers in	\$ 11,645,672	11,201,787	\$ 10,880,474	\$ 12,199,709
Transfers out	(4,096,118)	(4,488,622)	(510,707)	(215,739)
Total other financing sources (uses)	\$ 7,549,554	\$ 7,498,296	\$ 10,369,767	\$ 11,983,970
Net change in fund balances	\$ 106,800)	\$ (4,551,715)	\$(6,146,101)	0
FUND BALANCES:				
Beginning of year	\$ 21,681,620	\$ 21,574,820	\$ 17,023,105	\$ 6,978,787
Adjustment to Fund Balance	-		(3,889,030)	-
End of year	\$ 21,574,820	\$ 17,023,105	\$ 6,987,974	\$ 6,978,787

⁽¹⁾ During Fiscal Year 2009 the City of Folsom moved several Special Revenue, Enterprise and an Internal Service fund into the General Fund.

Source: City of Folsom.

City Debt Structure

General Obligation Bonds. The City has obtained voter approval from time to time to finance specific public works projects and capital improvement programs through the issuance of general obligation bonds. The bonds are payable from a special *ad valorem* tax levied each year at the same rate on all taxable property in the City, in an aggregate amount sufficient to pay the debt service coming due in that year.

In addition to the Refunded Bonds, in 2003, the City issued general obligation refunding bonds in the aggregate principal amount of \$15,610,000 (the "2003 Bonds"). The 2003 Bonds bear interest at rates between 1.10% and 4.00% and the final maturity date is August 1, 2014. As of August 1, 2009, the principal balance outstanding was \$7,405,000.

The following table reflects scheduled principal payments for all of the City's general obligation bonds following the issuance of the Bonds and defeasance of the Refunded Bonds. Interest obligations are not shown.

TABLE A-6 CITY OF FOLSOM OUTSTANDING GENERAL OBLIGATION BONDS PRINCIPAL MATURITY SCHEDULE

Year Ending August 1	2003 Bonds	The Bonds	Total
2010	\$ 1,490,000	\$ 1,210,000	\$ 2,700,000
2011	1,555,000	1,225,000	2,780,000
2012	1,620,000	1,280,000	2,900,000
2013	1,690,000	1,335,000	3,025,000
2014	1,050,000	1,385,000	2,435,000
2015		1,445,000	1,445,000
2016		1,490,000	1,490,000
2017		825,000	825,000

Tax Allocation Bonds. Under California law, a city or county can create a redevelopment agency in order to remedy "blight." Upon formation of a "project area" of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including cities and school districts, from that time forward. The tax increment revenues may fund current operations of the redevelopment agency, and may be pledged to repayment of "tax allocation bonds," which are not payable from revenues, taxes, or the general fund of the city, and are not a debt of the city. Cities and other taxing agencies are generally deprived of tax revenues by the formation of a project area, although the redevelopment law has been amended to require certain pass-through agreements be paid to such overlapping taxing jurisdictions. When a project area is formed by a redevelopment agency controlled by a city, the city generally benefits from the ability to finance redevelopment projects through the agency despite any loss of tax revenues to the city's general fund. Property taxes collected for payment of debt service on general obligation bonds are not affected or diverted to the redevelopment agency.

The City Council sits as the governing board of the Redevelopment Agency of the City of Folsom (the "Redevelopment Agency"). The Redevelopment Agency created the Central Folsom Redevelopment Project Area in 1983 (the "Project Area"). The Project Area encompasses a mixture of residential and commercial uses, and some vacant buildings. In 1997, the Redevelopment Agency issued tax allocation refunding bonds in the aggregate principal amount of \$7,000,000 for the purpose of refunding tax allocation bonds previously issued by the Redevelopment Agency (the "1997 RDA Bonds"). The interest rates on such bonds range from 3.80% to 5.25%, with a final maturity date of August 1, 2013. As of July 1, 2009, the principal balance outstanding was \$2,935,000. In 2005, the Redevelopment Agency issued tax allocation bonds in the aggregate principal amount of \$10,190,000 with interest rates ranging from 4.00% to 4.50% for the purpose of financing certain projects in the Project Area. As of July 1, 2009, the principal balance outstanding was \$10,190,000. In 2006, the Redevelopment Agency issued

additional tax allocation bonds in the aggregate principal amount of \$16,945,000 with interest rates ranging from 4.000% to 4.375% for the purpose of financing certain projects in the Project Area. As of July 1, 2009, the principal balance outstanding was \$16,945,000. The City expects that the Redevelopment Agency will issue an additional approximately \$20,000,000 of tax allocation bonds for the purpose of refunding the 1997 RDA Bonds and funding additional projects in the Project Area in September 2009.

Capital Improvement Program

Capital Improvement Program funding comes mainly from Impact Fees and a number of other special revenue funds, as well as grants and loans. Within each program category, the City identifies resources that it will commit to priority capital projects. Capital Improvement Program costs include both one-time expenses and recurring expenses related to capital rehabilitation.

The City's Capital Improvement Program for Fiscal Year 2010 is smaller than the previous two years. Several projects that have been in the planning and design stages for several years will be ready for construction during Fiscal Year 2010. The City's CIP for Fiscal Year 2010 is approved at \$33.8 million. The projects in the City's Redevelopment area make up \$9.2 million of the approved amount.

Investment Policy

The City's Investment Policy is codified in Section 3.030.30 of the City of Folsom Municipal Code and is set forth below:

It is the primary duty of the city officers having responsibility for investing city moneys to protect, preserve and maintain cash and investments placed in their trust on behalf of the citizens of the city. To that end, those investment officers shall comply with the following guidelines and procedures:

- A. Interest yield on investments shall be secondary to the basic requirements of safety and liquidity of moneys.
- B. The city investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the city's risk constraints, cash flow characteristics of the investment portfolio, this chapter, this code and state law.
- C. The city investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
- D. All city investment officers shall adhere to the guidance provided by the "prudent man rule" as more specifically set out in the Probate Code Section 16040.
- E. All participants in the investment process shall act as custodians of the public trust. Investment officers shall recognize that the investment portfolio is subject to public review and evaluation.
- F. The city's chief investment officer shall each month submit an investment report to the city council, which report shall include all required elements as prescribed by California Government Code Section 53646. Additionally, at the option of the city chief investment officer, the report may include:
 - 1. Interest earned to date;
 - 2. Average weighted yield;
 - 3. Average days to maturity;
 - 4. Actual transactions;

5. Percent distribution to each type of investment.

The following table shows the type of investments and other information on the portfolio as of June 30, 2009.

TABLE A-7 CITY OF FOLSOM PORTFOLIO SUMMARY As of June 30, 2009

Investment	Adjusted Cost Rate		Market Value	Par Value	
Cash in Bank	\$ 874,120.00	0%	\$ 874,120.00	\$ 874,120.00	
Money Market Accounts	4,340,577.03	0.10%	4,340,577.03	4,340,577.03	
Local Agency Investment Fund	63,287,965.09	1.51%	63,287,965.09	63,287,965.09	
Certificates of Deposit	8,000,000.00	1.98-4.00%	8,000,000.00	8,000,000.00	
Federal Agency Notes	8,988,360.00	2.75-4.60%	9,175,410.00	9,000,000.00	
Corporate Notes	2,683,608.00	1.33-5.00%	2,126,810.00	2,700,000.00	
Total	\$88,174,630.12	•	\$87,804,882.12	\$88,202,662.12	

Source: City of Folsom

Insurance, Risk Pooling and Joint Powers Arrangements

The City participates in pooled insurance programs offered by the Northern California Cities Self Insurance Fund ("NCCSIF"), a joint powers agency that provides the City with a shared risk layer of coverage above its self-insured \$100,000 retention for liability and workers' compensation. NCCSIF also provides claims servicing to the City for its banking layer, which represents the City's self insurance. NCCSIF consists of 20 municipal or public agency members, all located within the northern California. It provides pooled claims processing administrative services, risk management services, and actuarial studies. The City's deposit for the fiscal year ended June 30, 2008, was \$2,080,112, and for the fiscal year ended June 30, 2007, was \$1,544,841. For the Fiscal Year ended June 30, 2008, NCCSIF had net assets of \$18,503,811 and a net loss of \$2,638,002.

Additional Financial and Demographic Information

Effective Buying Income. Effective Buying Income is defined as personal income less personal tax and nontax payments, a number often referred to as disposable or after-tax income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.), and personal contributions to social insurance.

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The following table summarizes the median household Effective Buying Income for the County, the State, and the United States for the calendar years 2002 through 2007. Effective Buying Income data for the City is not available.

TABLE A-8
COUNTY, STATE, AND UNITED STATES
MEDIAN HOUSEHOLD
EFFECTIVE BUYING INCOME
2002-2007

Year	City of Folsom ⁽¹⁾	County of Sacramento	California	United States
2002		\$ 39,879	\$ 42,484	\$ 38,035
2003	\$ 60,937	40,448	42,924	38,201
2004	63,071	41,593	43,915	39,324
2005	79,382	51,793	51,831	44,389
2006	90,435	53,930	55,319	48,201
2007	97,012	56,823	55,734	50,233
2008	104,988	64,461	59,928 ⁽²⁾	$53,300^{(2)}$

⁽¹⁾ No data available for 2002.

Source: U.S. Census Bureau.

Commercial Activity. The following table provides taxable sales in the City for calendar years 2003 through 2008, as reported by the State Board of Equalization. Quarterly and annual figures are not yet available for 2008.

TABLE A-9 CITY OF FOLSOM Taxable Sales 2003 through 2007 (In Thousands)

	2003	2004	2005	2006	2007
Retail stores:					
Apparel stores	\$ 67,820	\$ 90,033	\$ 94,238	\$ 95,799	\$ 100,125
General merchandise	172,768	247,340	267,446	281,609	272,647
Food Stores	48,540	55,126	55,958	59,398	59,550
Eating & Drinking places	94,468	106,467	117,814	129,339	134,127
Home furnishings, appliances	35,113	34,396	32,476	33,513	33,563
Building matl., farm implements	119,710	147,862	140,949	110,933	99,283
Auto dealers, auto supplies	577,142	586,651	592,884	547,928	464,039
Service stations	49,082	55,019	63,955	70,347	47,225
Other retail stores	131,159	204,092	235,679	219,205	195,438
Retail Stores Total	1,295,802	1,526,986	1,601,399	1,548,071	1,432,997
All Other Outlets	128,410	217,481	123,092	121,396	198,193
TOTAL ALL OUTLETS	\$1,424,212	\$1,744,467	\$1,724,491	\$1,669,467	\$1,631,190

Source: California State Board of Equalization.

⁽²⁾ Estimated.

Construction Activity. Building activity for Fiscal Year 2005 through Fiscal Year 2009 in the City is shown in the following table.

TABLE A-10 CITY OF FOLSOM Building Permit Valuation Fiscal Year 2005 through Fiscal Year 2009

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Permit Valuation					
New Single-family	\$134,156,183	\$ 77,979,773	\$49,705,056	\$38,949,344	\$16,278,541
New Multi-family	27,908,416	53,146,554	7,694,395	2,959,259	4,233,066
Res. Alterations/Additions	27,522,912	24,133,597	8,529,182	7,394,291	4,862,295
Res. Other	5,821,608	6,290,630	23,569,148	14,431,623	12,623,028
Total Residential	\$195,409,119	\$161,550,554	\$89,497,781	\$63,734,517	\$37,996,930
New Commercial	\$ 9,611,274	\$ 9,194,930	\$23,547,032	\$34,084,590	\$57,875,028
New Industrial	_	_	_	_	_
Comm./Ind. Alterations/Additions	34,346,214	39,858,191	39,505,203	19,914,758	20,149,411
Non Res. Other	2,992,058	2,371,210	7,472,415	5,459,309	23,960,896
Total Nonresidential	\$46,949,546	\$51,424,331	\$70,524,650	\$59,458,657	\$101,985,335
New Dwelling Units					
Single Family	600	298	169	154	53

Source: City of Folsom, Community Development and Finance Departments.

Community Facilities

The four-county Sacramento Metropolitan Area offers multiple parks, playgrounds, theaters and golf courses. Recreational activities offered along the American and Sacramento Rivers include fishing, swimming, boating, biking, horseback riding and hiking. Varied cultural opportunities include art galleries and museums, two major symphonies, three ballet companies, scores of movie theaters showing first run films and many theater groups offering live stage plays.

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

Education

The Folsom-Cordova Unified School District operates schools both in the City and in the Sacramento suburb of Rancho Cordova, which borders the City to the west. In the City, the district now has three high schools, two middle schools, and ten elementary schools. The district headquarters are located in the City.

Institutions of higher learning are situated in the central area of metropolitan Sacramento and include three community colleges, McGeorge School of Law, California State University Sacramento, and the University of California at Davis, which includes a medical school and a law school. Folsom Lake College is located in the City and is part of the Los Rios Community College District, which includes Sacramento City College, American River College, and Consumnes River College. In addition to its Folsom Lake main campus, this college also operates the El Dorado and Rancho Cordova centers and enrolls more than 8,000 students.

Utilities

The Sacramento Municipal Utility District ("SMUD") supplies electricity to the City and throughout Sacramento County. SMUD's electrical rates continue to be among the lowest in the nation.

The Pacific Gas and Electric Company ("PG&E") supplies natural gas to the City and throughout Sacramento County from sources in California, the southwestern United States, and Canada. PG&E is one of the oldest utility companies in California and is the largest in the United States. For many years it has provided natural gas for the continually growing population in its service area.

The City is served by AT&T, which is the principal telephone utility in Sacramento County. However, several telephone firms are active in the area.

The City's water treatment plant produces and delivers high-quality drinking water, supplying water to the entire City. The Water Division of the City's Utilities Department inspects and maintains the over 270 miles of water mains, 20,500 service connections and 2,000 fire hydrants. The City is nearly complete with its three-year Drinking Water Improvement Program to upgrade the Water Treatment Plant to meet the latest state water regulations and ensure a safe and reliable drinking water supply.

The City provides sewage collection services for the entire City. The Sewer Division of the City's Utilities Department inspects and maintains over 200 miles of pipeline, 10 lift stations, and 20,000 connections. Sewage treatment is provided by the Sacramento Regional County Sanitation District.

The City also provides solid waste collection services. The Solid Waste Division of the City's Utilities Department operates a fleet of solid waste vehicles for collection, as well as providing recycling, household hazardous waste pickup and disposal, and neighborhood clean up services for the entire City.



APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

September 2, 2009

City Council City of Folsom

City of Folsom
Refunding General Obligation Bonds, Series 2009
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Folsom (the "City") in connection with the issuance of its \$10,195,000 City of Folsom Refunding General Obligation Bonds, Series 2009 (the "Bonds"). The Bonds are issued pursuant to a resolution of the City Council of the City (the "City Council") adopted on July 28, 2009 (the "Resolution"), and in accordance with the terms of a Paying Agent Agreement dated as of August 1, 2009 (the "Paying Agent Agreement"), by and between the City and Union Bank, N.A., as paying agent (the "Paying Agent").

In such connection, we have reviewed the Resolution, the Paying Agent Agreement, the Tax Certificate of the City, dated the date hereof (the "Tax Certificate"), certificates of the City, the Paying Agent and others, opinion of counsel to the City, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. 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. We have assumed, without undertaking to verify, 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 Resolution, the Paving Agent Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Paying Agent Agreement and the Tax Certificate 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 cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents described in the second paragraph hereof. 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 obligations of the City.
- 2. The Resolution and the Paying Agent Agreement have been duly and legally adopted and constitute valid and binding obligations of the City.

- 3. The City Council has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the City's boundaries subject to taxation by the City (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.
- 4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Folsom (the "City") in connection with the issuance of \$10,195,000 City of Folsom Refunding General Obligation Bonds, Series 2009 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 8534 adopted by the City Council of the City on July 28, 2009 (the "Resolution") and a Paying Agent Agreement, dated as of August 1, 2009 (the "Paying Agent Agreement"), between the City and Union Bank, N.A., as Paying Agent. The City covenants and agrees as follows:

- **Section 1.** Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).
- **Section 2.** <u>Definitions.</u> In addition to the definitions set forth in the Paying Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:
- "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.
- "Dissemination Agent" shall mean the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.
 - "Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.
- "MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Effective July 1, 2009 and until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.
- "Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.
- "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.

Section 3. Provision of Annual Reports.

- (a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's Fiscal Year (presently June 30), commencing with the report for the 2008-09 Fiscal Year (which is due not later than April 1, 2010), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the Comprehensive Annual Financial Report (the "CAFR") 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 they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).
- (b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a), the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

- (c) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB in substantially the form attached as Exhibit A.
- (d) The Dissemination Agent shall (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 to the MSRB.

Section 4. <u>Content of Annual Reports.</u> The Annual Report shall contain or incorporate by reference the following:

The CAFR of the City for the prior Fiscal Year, which includes the audited financial statements of the City prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's CAFR is not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the CAFR shall be provided to the MSRB in the same manner as the Annual Report when they become available.

Any or all of the items listed above may be set forth in one or a set of documents or 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 made available to the public on the MSRB's website. 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 Bonds, if material:
 - a. Principal and interest payment delinquencies.
 - b. Non-payment related defaults.
 - c. Unscheduled draws on debt service reserves reflecting financial difficulties.
 - d. Unscheduled draws on credit enhancements reflecting financial difficulties.
 - e. Substitution of credit or liquidity providers, or their failure to perform.
 - f. Adverse tax opinions or events affecting the tax-exempt status of the security.
 - g. Modifications to rights of security holders.
 - h. Contingent or unscheduled bond calls.
 - i. Defeasances.
 - j. Release, substitution, or sale of property securing repayment of the securities.
 - k. Rating changes.
- (b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.
- (c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with MSRB.

Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (a)(9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Paying Agent Agreement. Effective July 1, 2009, the notice of Listed Event must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

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

- Section 7. <u>Dissemination Agent</u>. 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 Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent 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.** <u>Amendment; Waiver.</u> Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:
- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to he amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Paying Agent Agreement for amendments to the Paying Agent Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(c).

- Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.
- Section 10. <u>Default</u>. 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 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Paying Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. <u>Duties, Immunities and Liabilities of Dissemination Agent.</u> The Dissemination Agent 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 attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date:	September 2, 2009	
		CITY OF FOLSOM
		By:_
		Finance Director / Chief Financial Officer

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of District:	CITY OF FOLSOM
Name of Bond Issue:	CITY OF FOLSOM REFUNDING GENERAL OBLIGATION BONDS, SERIES 2009
Date of Issuance:	September 2, 2009
Bonds as required by Section 4	that the City has not provided an Annual Report with respect to the above-named of the Continuing Disclosure Certificate of the City, dated the Date of Issuance anual Report will be filed no later than]
Dated:	
	CITY OF FOLSOM
	Ito be signed only if filed



APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The information in the following section entitled "DTC's Book-Entry System" has been provided by DTC for use in securities offering documents, and the City takes no responsibility for the accuracy or completeness thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC's Book-Entry System

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the bonds within an issue are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of each Participant and not of DTC (nor its nominee), the City or the paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest and accreted value, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the paying agent, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Discontinuation of Book-Entry Only System; Transfer and Exchange of Bonds

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the transfer, exchange and replacement of the Bonds.

Any Bond may, in accordance with its terms, be transferred, upon the registration books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal corporate trust office of the paying agent, accompanied by delivery of a written instrument of transfer in a form approved by the paying agent, duly executed. The City may charge a reasonable sum for each new Bond issued upon any transfer.

Whenever any Bond shall be surrendered for transfer, the City shall execute and the paying agent shall authenticate and deliver a new Bond for like aggregate principal amount. No transfers of the Bonds shall be required to be made fifteen days prior to the date established by the paying agent for selection of the Bonds for redemption or with respect to a Bond which has been selected for redemption.

The Bonds may be exchanged at the principal office of the paying agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The City may charge a reasonable sum for each new Bond issued upon any exchange (except in the case of any exchange of temporary Bonds for definitive Bonds). No exchanges of the Bonds shall be required to be made fifteen days prior to the date established by the paying agent for selection of the Bonds for redemption or with respect to a Bond after such Bond has been selected for redemption.

