(See "CONCLUDING INFORMATION-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 and is exempt from State of California personal income taxes. 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 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 "CONCLUDING INFORMATION – Tax Exemption" herein.

STATE OF CALIFORNIA

COUNTY OF SACRAMENTO

\$10,540,000 CITY OF FOLSOM COMMUNITY FACILITIES DISTRICT NO. 2 SPECIAL TAX REFUNDING BONDS, SERIES 2010

Dated: Date of Delivery

Due: December 1, as shown below.

The City of Folsom Community Facilities District No. 2 Special Tax Refunding Bonds, Series 2010 (the "Bonds"), are being issued by the City of Folsom (the "City") on behalf of the City of Folsom Community Facilities District No. 2 (the "Community Facilities District") pursuant to the Mello-Roos Community Facilities Act of 1982, the Indenture, dated as of April 1, 2010 (the "Indenture"), by and between the City and Union Bank, N.A., as trustee (the "Trustee"), and will be secured as described herein.

The Bonds are being issued to provide funds to (i) refund the outstanding Prior Bonds (as defined herein), (ii) fund a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS" herein.

The Bonds are being issued in fully registered book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of \$5,000 or any integral multiple thereof. Payments of principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System" and APPENDIX F – "DTC BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are not subject to redemption prior to maturity. See "THE BONDS - No Redemption of the Bonds" herein.

The Bonds are special obligations of the City, payable solely from Net Special Tax Revenues and any other amounts pledged therefor under the Indenture, all as more fully described herein. See "SECURITY FOR THE BONDS" herein.

THE BONDS ARE SPECIAL TAX OBLIGATIONS OF THE CITY, AND THE INTEREST ON AND THE PRINCIPAL OF AND REDEMPTION PREMIUM, IF ANY, ON THE BONDS ARE PAYABLE SOLELY FROM THE PROCEEDS OF THE SPECIAL TAX (INCLUDING PROCEEDS FROM THE SALE OF PROPERTY COLLECTED PURSUANT TO THE FORECLOSURE PROVISIONS OF THE INDENTURE FOR THE DELINQUENCY OF THE SPECIAL TAX) AND CERTAIN AMOUNTS HELD UNDER THE INDENTURE. NEITHER THE GENERAL FUND NOR THE FULL FAITH AND CREDIT OF THE CITY IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, ON THE BONDS. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

MATURITY SCHEDULE

Maturity Date	Principal	Interest		Maturity Date	Principal	Interest	
(December 1)	Amount	Rate	<u>Yield</u>	(December 1)	Amount	Rate	Yield
2010	\$915,000	2.000%	1.050%	2015	\$1,050,000	5.000%	3.480%
2011	915,000	3.000	1.590	2016	1,100,000	5.000	3.950
2012	940,000	3.000	2.250	2017	1,155,000	5.000	4.300
2013	970,000	4.000	2.710	2018	1,215,000	5.000	4.490
2014	1,005,000	4.000	3.120	2019	1,275,000	5.000	4.680

Investment in the Bonds involves risks which may not be appropriate for some investors. See "RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds. This cover page contains information for general reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and delivered to the Underwriters, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about May 4, 2010.

PiperJaffray_®

Southwest Securities

Wedbush Securities

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

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

Certain of the information set forth herein has been obtained from sources which the City and the Underwriters believe to be reliable, but such information is not guaranteed as to accuracy or completeness.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

All summaries of the Indenture or other documents are made subject to the complete provisions thereof and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith. 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.

In connection with the offering of the Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

CITY OF FOLSOM SACRAMENTO COUNTY, CALIFORNIA

City Council

Jeff Starsky, *Mayor*Andy Morin, *Vice Mayor*Kerri Howell, *Councilmember*Steve Miklos, *Councilmember*Ernie Sheldon, *Councilmember*

City Staff

Kerry Miller, City Manager
Evert Palmer, Assistant City Manager
James Francis, Finance Director
Richard Lorenz, City Engineer
Bruce C. Cline, City Attorney
Christa Freemantle, City Clerk

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

Special Tax Consultant N|B|S Temecula, California

Trustee Union Bank, N.A.

San Francisco, California



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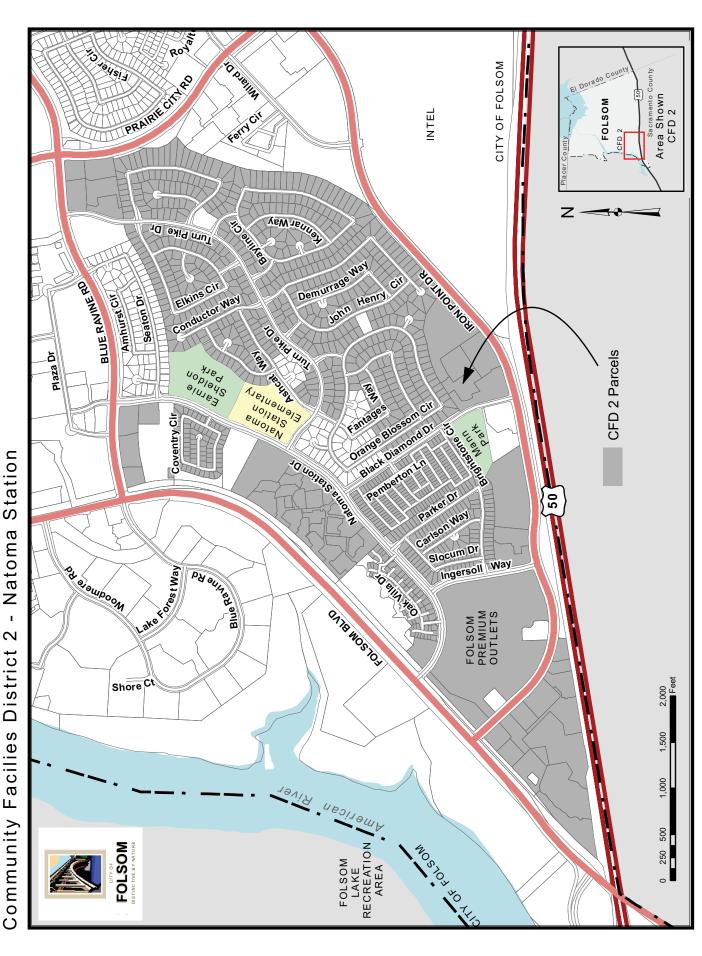
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Station

OFFICIAL STATEMENT

\$10,540,000 CITY OF FOLSOM COMMUNITY FACILITIES DISTRICT NO. 2 SPECIAL TAX REFUNDING BONDS, SERIES 2010

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices, is to provide certain information in connection with the issuance and sale by the City of Folsom (the "City") on behalf of the City of Folsom Community Facilities District No. 2 (the "Community Facilities District") of its City of Folsom Community Facilities District No. 2 Special Tax Refunding Bonds, Series 2010, issued in the aggregate principal amount of \$10,540,000 (the "Bonds"). The Bonds are being issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982 (the "Act") and an Indenture, dated as of April 1, 2010 (the "Indenture"), by and between the City and Union Bank, N.A., as trustee (the "Trustee"). Capitalized terms not defined elsewhere in this Official Statement have the meanings assigned to such terms in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS."

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

The Bonds are being issued to (i) refund the outstanding City of Folsom Community Facilities District No. 2 1997 Special Tax Refunding Bonds (Natoma Station) (the "Prior Bonds"), (ii) fund a debt service reserve fund for the Bonds and (iii) pay the costs of issuing the Bonds.

Pursuant to the Act, the qualified electors of the City approved the levy of a special tax (the "Special Tax") within the boundaries of the Community Facilities District. The Bonds are payable from the Special Taxes levied on property within the Community Facilities District. All of the real property in the Community Facilities District, unless exempted by law or by the provision of the Special Tax Formula for the Community Facilities District (the "Rate and Method"), shall be taxed for the purposes, to the extent and in the manner set forth in the Indenture and the Rate and Method. See "SECURITY FOR THE BONDS" and APPENDIX A – "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The Bonds are special tax obligations of the City, and the interest on and the principal of the Bonds are payable solely from the Net Special Tax Revenues (including proceeds from the sale of property collected pursuant to the foreclosure provisions of the indenture for the delinquency of the Special Tax) and certain amounts held under the Indenture. Neither the general fund nor the full faith and credit of the City is pledged for the payment of the interest on or the principal of the Bonds. The Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory debt limitation or restriction. As defined in the Indenture, the term "Net Special Tax Revenues" means Special Tax Revenues, less amounts required to pay Administrative Expenses. See "SECURITY FOR THE BONDS."

No authorization remains for the City to issue any additional bonds to finance facilities under the Rate and Method. The City may, however, refund the Bonds under the Act, but those issuances, if any,

must meet the requirements of the Act for refundings, including no extension of the final maturity of the Bonds, and overall debt service savings.

The Community Facilities District

The Community Facilities District is a community facilities district organized by the City Council under the Act for the purpose of providing for the acquisition and construction of certain public improvements to serve property within the Community Facilities District. The City established the Community Facilities District pursuant to Resolution No. 2800 adopted by the City Council of the City on October 2, 1989.

The Community Facilities District consists of approximately 395 net acres of land located in the central portion of the City. The property within the Community Facilities District includes a mix of commercial and office space and single family and multi-family residential housing units. Over 93% of the land area in the Community Facilities District is developed. Approximately 98% of the Special Tax Revenues from the Community Facilities District is derived from developed property. The Community Facilities District is situated on the southern boundary of the City, bounded by Folsom Boulevard on the west, U.S. Highway 50 on the south, Prairie City Road on the east and Blue Ravine on the north. See "THE COMMUNITY FACILITIES DISTRICT."

Further Information

Brief descriptions of the Bonds, the Indenture, the Continuing Disclosure Certificate, the security for the Bonds, the Community Facilities District, the City and certain other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, the Continuing Disclosure Certificate and other documents.

Copies of such documents may be obtained from the office of the Finance Director of the City, City of Folsom, City Hall, 50 Natoma Street, Folsom, California 95630.

PLAN OF FINANCE

The Bonds are being issued, in part, to redeem and refund the Prior Bonds. The Prior Bonds are outstanding in the aggregate principal amount of \$12,300,000. The City will irrevocably deposit a portion of the proceeds of the Bonds together with other funds available therefore with the trustee for the Prior Bonds to refund, on a current basis, the Prior Bonds on June 1, 2010, at a redemption price equal to 100% of the principal amount of the Prior Bonds being so redeemed, plus accrued interest to the date fixed for redemption. See "SOURCES AND USES OF FUNDS."

THE BONDS

Authority for Issuance

The Bonds are authorized to be issued by the City under and subject to the terms of the Act and the Indenture.

General

The Bonds will be issued in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC").

DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as DTC is acting as securities depository for the Bonds, principal, premium, if any, and interest payments with respect to the Bonds will be made directly to DTC. See "THE BONDS – Book-Entry Only System" and APPENDIX F – "DTC BOOK-ENTRY ONLY SYSTEM."

The Bonds will be dated their date of delivery and will bear interest at the rates per annum and will mature on the dates and in the principal amounts, all as set forth on the cover page hereof.

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2010 (each, an "Interest Payment Date"), to the persons in whose names ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as otherwise provided in the Indenture. Such interest will be paid by check mailed by the Trustee on such Interest Payment Date, by first class mail, postage prepaid, to such registered Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The principal of the Bonds will be payable upon presentation and surrender thereof upon maturity at the principal corporate trust office (the "Trust Office") of the Trustee in Los Angeles, California. Principal of and premium, if any, and interest on the Bonds will be paid in lawful money of the United States of America; provided, however, that so long as DTC or its nominee is the registered owner of the Bonds, interest payments will be made as described in APPENDIX F – "DTC BOOK-ENTRY ONLY SYSTEM."

No Redemption of the Bonds

The Bonds are not subject to redemption prior to maturity.

Transfers and Exchanges

So long as the Bonds remain in book-entry form, the Bonds may be transferred or exchanged only as described under "Book-Entry Only System." However, should the Bonds cease to be in book-entry form, then they may be transferred or exchanged as provided in the Indenture. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX F – "DTC BOOK-ENTRY ONLY SYSTEM."

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds and other available moneys are set forth in the following table:

Sources of Funds

Principal Amount of Bonds Net Original Issue Premium Underwriter's Discount Transfer from Special Tax Fund for Prior Bonds Prior Debt Service Reserve Fund	\$10,540,000.00 395,243.60 (137,020.00) 1,528,679.57 1,497,267.40
Total Sources	\$13,824,170.57
Uses of Funds	
Cash Deposit with Trustee for Redemption of Prior Bonds	\$12,620,906.25
Deposit to Debt Service Reserve Fund	1,054,000.00
Deposit to Cost of Issuance Fund ⁽¹⁾	149,264.32
Total Uses	\$13,824,170.57

⁽¹⁾ Includes legal, financial advisor, printing, and rating agency costs and fees, and other miscellaneous costs of issuance relating to the Bonds.

DEBT SERVICE REQUIREMENTS

The debt service requirements with respect to the Bonds are set forth below:

Year Ending			
December 1	Principal	Interest	Total Debt Service
2010	\$915,000.00	\$254,552.50	\$1,169,552.50
2011	915,000.00	424,400.00	1,339,400.00
2012	940,000.00	396,950.00	1,336,950.00
2013	970,000.00	368,750.00	1,338,750.00
2014	1,005,000.00	329,950.00	1,334,950.00
2015	1,050,000.00	289,750.00	1,339,750.00
2016	1,100,000.00	237,250.00	1,337,250.00
2017	1,155,000.00	182,250.00	1,337,250.00
2018	1,215,000.00	124,500.00	1,339,500.00
2019	1,275,000.00	63,750.00	1,338,750.00
Total	\$10,540,000.00	\$2,672,102.50	\$13,212,102.50

SECURITY FOR THE BONDS

General

The Bonds are payable from and secured solely by all of the Net Special Tax Revenues and any other amounts held in the Bond Fund and the Reserve Fund established under the Indenture, which amounts consist primarily of a portion of the annual Special Taxes to be levied and collected on the real property within the Community Facilities District subject to the Special Taxes and the proceeds, if any,

from the sale of such property for delinquency of such Special Taxes to the extent described in the Indenture. See "— The Teeter Plan" for further information regarding the collection and distribution of delinquent Special Taxes.

The Bonds are special obligations of the City, payable from and secured by Net Special Tax Revenues and the other assets pledged therefor under the Indenture, to the extent provided therein. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Indenture), the City or the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

Special Tax Fund

All Special Tax Revenues received by the City are deposited into the Special Tax Fund. "Special Tax Revenues" are defined under the Indenture to mean the proceeds of Special Taxes received by or on behalf of the City, including any payments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon. Amounts in the Special Tax Fund may be used to pay debt service on the Bonds and Administrative Expenses; provided, however, that no withdrawal is to be made to pay Administrative Expenses if the amount remaining in the Special Tax Fund would not be sufficient to transfer, on the next succeeding date on which such transfer is required to be made, funds to (1) pay debt service on the Bonds, and (2) replenish the Reserve Fund. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The amount of Special Taxes the City may levy in any year is strictly limited by the maximum rates approved by the qualified electors within the Community Facilities District. See "—Rate and Method of Apportionment" and APPENDIX A – "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

Reserve Fund

The Indenture provides that a Reserve Fund must be maintained for the Bonds in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined under the Indenture to mean, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service. Amounts in or credited to the Reserve Fund are to be used solely for the purpose of making transfers to the Bond Fund for the Bonds in the event of any deficiency of the amount then required for payment of the principal of and interest on such Bonds. The Reserve Fund will initially be funded in an amount equal to the Reserve Requirement. See "SOURCES AND USES OF FUNDS." See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Reserve Fund."

The Special Taxes

The City has covenanted in the Indenture that so long as any of its Bonds are outstanding it will levy the Special Taxes each year up to the maximum permitted rates in an amount which, together with other amounts on deposit in the Special Tax Fund and available to the City for such purpose, will be sufficient to pay (a) the principal of, and interest on, the Bonds when due, (b) the amount required for any necessary replenishment of the Reserve Fund and (c) the Administrative Expenses of the City during such year. No assurance can be given that the foregoing amount will in fact be collected in any given year due to a variety of factors, including the limitation imposed by the maximum Special Tax rates. See "The Teeter Plan" and "RISK FACTORS – Right to Vote on Taxes Act" below.

The Special Taxes imposed by the City are customarily billed with *ad valorem* property taxes and collected by the County of Sacramento (the "County"). When received, the Special Taxes will be

deposited in the Special Tax Fund to be held first for the payment of debt service on the Bonds or for deposit in the Reserve Fund established under the Indenture to restore the balance therein to the Reserve Requirement and then to Administrative Expenses, subject to the maximum annual amounts of Special Taxes authorized to be levied by the qualified electors of the City. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Although the Special Taxes will be levied against, and constitute a lien against, taxable parcels within the Community Facilities District, they do not constitute a personal indebtedness of the respective property owners. There is no assurance that the property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so.

Rate and Method of Apportionment

The City is legally authorized and has covenanted to cause the levy of the Special Taxes in an amount determined according to the Rate and Method, which the City Council and the qualified electors within the Community Facilities District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the Community Facilities District as more particularly described in APPENDIX A hereto. The full text of the Rate and Method of Apportionment is set forth in APPENDIX A hereto.

No Additional Parity Indebtedness

The City has previously issued its City of Folsom Community Facilities District No. 2 1997 Special Tax Refunding Bonds (the remaining outstanding of which being the "Prior Bonds" herein for the purpose of refinancing a portion of the costs of certain public facilities for the benefit of the Community Facilities District. **No further authorization remains for the City to issue any additional bonds under the Rate and Method.** The City may, however, refund the Bonds under the Act, but those issuances, if any, must meet the requirements of the Act for refundings, including no extension of the final maturity of the Bonds, and overall debt service savings.

The City shall not incur any obligations payable from Net Special Tax Revenues on a basis senior to the Bonds. The City shall not incur any obligations payable from Net Special Tax Revenues on a parity with the Bonds, except as provided in the Indenture as summarized in the paragraph above. The City may from time to time incur obligations payable from Net Special Tax Revenues on a basis subordinate to the Bonds; provided, however, that Net Special Tax Revenues shall not be applied to the payment of any such subordinate obligations, or transferred, set aside or allocated for the payment thereof, in any Bond Year unless (a) no Event of Default shall have occurred and be continuing under the Indenture, and (b) amounts sufficient to pay all remaining debt service on the Bonds payable in such Bond Year have been transferred, set aside or allocated for the payment thereof.

Existing Liens

The property within the Community Facilities District is not subject to other assessment liens or special tax liens. The lien for the Special Taxes is co-equal to the lien for general property taxes. See "THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt." The City is unaware of any present or contemplated community facilities district, assessment district or improvement district that includes property within the Community Facilities District.

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the City is authorized by the Act to order institution of an action in the Superior Court of the State to foreclose any

lien therefor. In such action the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The Community Facilities District is a participant in the County's Teeter Plan, which is an alternative method for the distribution of secured property taxes to local agencies. See "— The Teeter Pan" below. So long as the Community Facilities District remains a participant in the County's Teeter Plan and is paid under the Teeter Plan for all Special Taxes levied, the proceeds of any foreclosure sale will be paid to the County's Teeter Plan and not to the City.

Such judicial foreclosure proceedings are not mandatory. If the total Special Tax delinquency for a Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year and the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement, the City is not required to order foreclosure proceedings. Notwithstanding the foregoing, the City has covenanted that it will commence judicial foreclosure proceedings if any single property owner is delinquent in the payment of the Special Tax in a cumulative amount in excess of \$25,000, not later than November 1. In such instances, the City will order and cause to be commenced, and diligently pursue to completion, such foreclosure proceedings. In a foreclosure proceeding, the City is entitled to recover penalties and interest on the delinquent Special Taxes through the date that an order of sale is entered; provided, however, that so long as the Community Facilities District is a participant in the County's Teeter Plan and is paid under the Teeter Plan for all Special Taxes levied, the proceeds of any foreclosure sale will be paid to the County's Teeter Plan and not to the City. See "— The Teeter Plan.".

Prompt commencement of foreclosure proceedings may not, in and of itself, result in a timely or complete resolution of the arrearage. In the event of delinquencies in the payment of Special Taxes, there could be a default or a delay in payments of debt service on the Bonds pending prosecution of foreclosure proceedings and receipt by the City of foreclosure sale proceeds, if any.

The ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the obligee in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation. See "RISK FACTORS – Bankruptcy," "– Billing of Special Taxes" and "– Payments by FDIC and Other Governmental Agencies."

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the City) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (i.e., a property owner) has 120 days from the date of service of the Notice of Levy in which to redeem the property to be sold, which period may be shortened to 20 days for parcels other than those on which a dwelling unit for not more than four persons is located. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (Section 701.680 of the California Code of Civil Procedure). The constitutionality of the aforementioned legislation, which repealed a former one-year redemption period, has not been tested; there can be no assurance that, if tested, such legislation will be upheld.

The Teeter Plan

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of the Teeter Plan by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they

are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Sacramento County Board of Supervisors has adopted the Teeter Plan, and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the Community Facilities District, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See "RISK FACTORS – Teeter Plan Termination." The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help protect the Owners of the Bonds from the risk of delinquencies in Special Taxes.

THE CITY OF FOLSOM

The Community Facilities District is located in the City of Folsom. The Special Tax Bonds are not general obligations of the City but, rather, are limited obligations of the City secured solely by the Special Tax to be paid by the owners of the property in the Community Facilities District and certain funds and accounts held pursuant to the Indenture. Information with respect to the City, including financial information, a summary of City debt and certain economic and demographic information, is contained in APPENDIX B. This information concerning the City is presented solely as background information.

THE COMMUNITY FACILITIES DISTRICT

General

The Community Facilities District is a community facilities district organized by the City Council under the Act for the purpose of providing for the acquisition and construction of certain public

improvements to serve property within the Community Facilities District. The City established the Community Facilities District pursuant to Resolution No. 2800 adopted by the City Council on October 2, 1989.

The Community Facilities District comprises approximately 395 net acres located in the central portion of the City. The City is located in the eastern section of the greater Sacramento area, approximately 22 miles east of the central business district of the City of Sacramento. The Community Facilities District is situated on the southern boundary of the City, bounded by Folsom Boulevard on the West, U.S. Highway 50 on the south, Prairie City Road on the east and Blue Ravine Road on the north. See "—Estimated Debt Service Coverage."

Topography

The topography of the Community Facilities District is rolling to gently rolling, with a vegetative cover of native grasses and scattered clumps of oak trees. The property within the Community Facilities District is shown on the Federal Emergency Management Agency flood insurance rate map as being within Flood Zone C and thus is subject to minimal flooding. The Community Facilities District is not located near any identified active earthquake fault and is not within the boundaries of an Alquist-Priolo Special Studies Zone. However, these factors do not necessarily preclude the possibility of seismic activity in the future.

Land Use

More than 93% of the land area within the Community Facilities District, which is zoned for residential or commercial development, has been developed. Developed property represents approximately 98% of the Special Tax Revenues. Table 1 summarizes the land use categories within the Community Facilities District.

Summary of Community Facilities District Proceedings

Pursuant to the Act, the City Council established the Community Facilities District on October 2, 1989 for the purpose of providing the financing of certain public facilities in and for the Community Facilities District. Pursuant to an election conducted pursuant to the Act, the eligible landowner electors within the Community Facilities District authorized the issuance of not to exceed \$25,000,000 principal amount of special tax bonds for the Community Facilities District for the purposes of financing such public facilities and the annual levy of the Special Tax in the Community Facilities District to be used for the purpose, among others, of paying the interest on and principal of and redemption premium, if any, on such bonds. Pursuant to a resolution of the City Council adopted on August 26, 1997, any authorized but unissued portion of special tax bonds to finance public facilities for the Community Facilities District was canceled and no additional bonds secured by the Special Tax, except refunding bonds, may be issued. See "SECURITY FOR THE BONDS – No Additional Parity Indebtedness."

Development in the Community Facilities District

The property within the Community Facilities District includes a mix of commercial and office space and single family and multi-family residential housing units. Nearly all of the taxable acreage in the Community Facilities District has been developed. The actual development within the Community Facilities District is significantly different from the plans originally approved by the City Council in 1989. These differences are due to changes in market conditions and community requirements.

The following table sets forth the Special Taxes levied in the Community Facilities District for Fiscal Year 2009-10.

Table 1
Special Taxes Levied
in the Community Facilities District
Fiscal Year 2009-10

Land Use Class	2009-10 Special Tax	Percent of Total Special Taxes Levied	2009-10 Maximum Special Tax	Percent of Maximum Special Taxes Levied
Developed Single Family	\$720,284.48	46.8%	\$871,027.30	46.8%
Developed Multi- Family	157,477.46	10.2	190,434.39	10.2
Developed Commercial	250,927.94	16.3	303,441.36	16.3
Developed Office	294,387.96	19.1	355,996.95	19.1
Other Developed	91,403.14	5.9	110,531.70	5.9
Undeveloped	23,941.56	1.6	28,951.98	1.6
CFD Total	\$1,538,422.54	100.0%	\$1,860,383.68	100.0%

Source: N|B|S

Special Tax Levies, Collections and Delinquencies

The following Table 2 sets forth the Special Tax levies and delinquencies for Fiscal Years 2005-06 through 2009-10 on property within the Community Facilities District as of February 23, 2010. Table 3 sets forth the Special Tax levies and delinquencies for Fiscal Years 2005-06 through 2009-10 on property within the Community Facilities District as of May of each Fiscal Year.

Table 2 Community Facilities District Special Tax Collections As of February 23, 2010

Fiscal Year	No. of Parcels Levied	Total Special Taxes Levied	Amount Delinquent	No. of Parcels Delinquent	Percentage of Special Taxes Remaining Delinquent as of February 23, 2010
2005-06	1,154	\$ 1,548,670.16	\$ 0.00	0	0.00%
2006-07	1,501	1,546,205.60	1,520.41	3	0.10
2007-08	1,501	1,541,824.94	5,705.45	8	0.37
2008-09	1,501	1,539,954.10	8,748.08	11	0.57
$2009-10^{(1)}$	1,501	769,211.27	18,498.53	43	2.40

⁽¹⁾ Represents the 1st installment of the total Fiscal Year 2009-10 special tax levy of \$1,538,422.54. Source: N|B|S

Table 3
Community Facilities District
Special Tax Collections
As of May of Each Fiscal Year

Fiscal Year	No. of Parcels Levied	Total Special Taxes Levied	Amount Delinquent	No. of Parcels Delinquent	Percentage of Special Taxes Delinquent
2005-06	1,154	\$ 1,548,670.16	\$ 9,542.26	24	0.62%
2006-07	1,501	1,546,205.60	95,149.97	65	6.15
2007-08	1,501	1,541,824.94	28,805.12	55	1.87
2008-09	1,501	1,539,954.10	50,174.12	85	3.26
$2009-10^{(1)}$	1,501	769,211.27	18,498.53	43	2.40

Represents the 1st installment of the total Fiscal Year 2009-10 special tax levy of \$1,538,422.54 and amount delinquent as of February 23, 2010. Total amount delinquent not available until May 2010.

Source: N|B|S

Estimated Debt Service Coverage

The following tables summarize the estimated annual debt service on the Bonds and the coverage produced by the maximum Special Tax authorized to be levied in the Community Facilities District, and the summary coverage information by type of property and by ownership.

Table 4
Community Facilities District
Coverage by Type of Property
Based on 2009-10 Maximum Special Taxes
for Developed Property⁽¹⁾

Bond Year Ending Dec. 1	Maximum Special Taxes: Single Family Developed	Maximum Special Taxes: Multi-Family Developed	Maximum Special Taxes: Commercial Developed	Maximum Special Taxes: Total Developed	Bonds Debt Service	Coverage from Developed Property	Total Coverage ⁽²⁾
2010	\$871,027.30	\$190,434.39	\$769,970.01	\$1,831,431.70	\$1,169,552.50	1.57	1.59
2011	871,027.30	190,434.39	769,970.01	1,831,431.70	1,339,400.00	1.37	1.39
2012	871,027.30	190,434.39	769,970.01	1,831,431.70	1,336,950.00	1.37	1.39
2013	871,027.30	190,434.39	769,970.01	1,831,431.70	1,338,750.00	1.37	1.39
2014	871,027.30	190,434.39	769,970.01	1,831,431.70	1,334,950.00	1.37	1.39
2015	871,027.30	190,434.39	769,970.01	1,831,431.70	1,339,750.00	1.37	1.39
2016	871,027.30	190,434.39	769,970.01	1,831,431.70	1,337,250.00	1.37	1.39
2017	871,027.30	190,434.39	769,970.01	1,831,431.70	1,337,250.00	1.37	1.39
2018	871,027.30	190,434.39	769,970.01	1,831,431.70	1,339,500.00	1.37	1.39
2019	871,027.30	190,434.39	769,970.01	1,831,431.70	1,338,750.00	1.37	1.39

⁽¹⁾ Of the 1,501 taxable parcels, only two parcels are considered undeveloped (no structure value). Their total maximum special tax represents \$28,951.98.

Assessed Values

No estimates are available for the market value of the property in the Community Facilities District. The gross assessed valuation may not be representative of the actual market value of property in

 $^{^{(2)}}$ The total maximum special tax for the Community Facilities District is \$1,860,383.68. Source: N|B|S

the Community Facilities District because Article XIIIA of the California Constitution limits any increase in assessed value to no more than 2% a year unless a property is sold or transferred. See "RISK FACTORS – Property Values." As a consequence, assessed values are typically less than actual market values unless the property has recently changed ownership or has been reassessed.

The Fiscal Year 2009-10 assessed valuation of the taxable parcels within the Community Facilities District is \$626,504,939. The assessed valuation was reduced by approximately 2.6% from Fiscal Year 2008-09, primarily due to distressed sales of single family homes within the Community Facilities District.

The tables on the following page show the historical assessed valuation for taxable property in the Community Facilities District for Fiscal Years 2005-06 through 2009-10 and the historical growth rate for taxable property in the Community Facilities District for Fiscal Years 2005-06 through 2009-10.

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Table 5
Historical Assessed Valuation
for Taxable Parcels in the Community Facilities District

Parcels Residential Levied Parcels

Source: N|B|S

Table 6
Historical Growth Rates
for Taxable Parcels in the Community Facilities District

% Increase		12.33%	4.20%	2.84%	-2.64%
Total Assessed Value	\$524,752,309	598,553,259	624,783,491	643,065,784	626,504,939
% Increase		42.11%	0.00%	0.00%	0.00%
Number of Commercial Units					
% Increase					
Number of Residential Units	1,121	1,444	1,444	1,444	1,444
% Increase					
Number of Parcels Levied	1,154	1,501	1,501	1,501	1,501
% Increase		-0.16%	-0.28%	-0.12%	-0.10%
Special Tax Levy	\$1,548,670.16	1,546,205.60	1,541,824.94	1,539,954.10	1,538,422.54
Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10

Source: NBS

[Remainder of page intentionally left blank.]

Direct and Overlapping Debt

Contained within the Community Facilities District are numerous overlapping local agencies providing public services. Some of such local agencies have outstanding bonds issued in the form of general obligation, special tax and special assessment bonds. Additional indebtedness could be authorized by other public agencies at any time.

Estimated Debt

Direct and overlapping bonded indebtedness as of February 24, 2010, is shown in the following table compiled by California Municipal Statistics, Inc. The City has not independently verified the information in the table and makes no representations as to completeness or accuracy. After issuance of the Bonds and upon redemption of the Prior Bonds on June 1, 2010, the direct debt for the Community Facilities District will be \$10,540,000. The Los Rios Community College District, Folsom-Cordova Unified School District School Facilities Improvement District No. 2, and the City of Folsom are payable from *ad valorem* property taxes.

Table 7
Direct and Overlapping Debt
for Taxable Parcels in
Community Facilities District No. 2

2009-10 Local Secured Assessed Valuation of Taxable Parcels: \$626,504,939

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/10	
Los Rios Community College District	0.411%	\$ 821,240	
Folsom-Cordova Unified School District School Facilities Improvement District No. 2	6.082	2,504,958	
City of Folsom	6.012	1,058,112	
City of Folsom Community Facilities District No. 2	100.	12,300,000 ⁽¹⁾	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$16,684,310	
OVERLAPPING GENERAL FUND DEBT:			
Sacramento County General Fund Obligations	0.533%	\$1,863,263	
Sacramento County Pension Obligations	0.533	4,964,643	
Sacramento County Board of Education Certificates of Participation	0.533	56,285	
Los Rios Community College District Certificates of Participation	0.443	29,659	
Folsom-Cordova Unified School District Certificates of Participation	4.053	1,367,077	
City of Folsom General Fund Obligations	6.475	901,320	
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$9,182,247	
Less: Sacramento County self-supporting obligations		38,683	
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$9,143,564	
GROSS COMBINED TOTAL DEBT		\$25,866,557(2)	
NET COMBINED TOTAL DEBT		\$25,827,874	

Ratios to 2009-10 Local Secured Assessed Valuation:

Direct Debt (\$12,300,000)	1.96%
Total Direct and Overlapping Tax and Assessment Debt	
Gross Combined Total Debt	
Net Combined Total Debt	4.12%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09:	\$0

Source: California Municipal Statistics, Inc.

⁽¹⁾ Excludes Mello-Roos Act bonds to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Value-to-Lien Analysis

Set forth below are tables that show (1) the value-to-lien ratios for taxable parcels in the Community Facilities District, and (2) the value-to-lien ratios for property owned by the top ten Special Tax payers in the Community Facilities District for the 2009-10 Special Tax levy.

Table 8
Value-to-Lien Ratios for Taxable Parcels in the Community Facilities District

Value-to-Lien Ratio ⁽¹⁾	Number of Parcels	2009-10 Special Tax Levy	% of 2009- 10 Special Tax Levy	2009 Assessed Value ⁽²⁾	Community Facilities District Debt ⁽³⁾	Total Debt
Less than 1.0:1	0	\$0.00	0.00%	\$0	\$0	\$0
Between $1:1 - 3.0:1$	0	0.00	0.00%	0	0	0
Between $3.1:1 - 5.0:1$	1	23,321.36	1.52%	622,327	159,779	159,779
Between $5:1 - 10.0:1$	0	0.00	0.00%	0	0	0
Greater than 10:1	1,500	1,515,101.18	98.48%	625,882,612	10,380,221	10,380,221
Totals	1,501	\$1,538,422.54	100.00%	\$626,504,939	\$10,540,000	\$10,540,000

The numerator is the 2009-10 assessed value and the denominator equals the principal amount of the Bonds in the amount of \$10,540,000.

Table 9
Value-to-Lien Ratios for
Top Ten Special Tax Payers⁽¹⁾
in the Community Facilities District

		Number of	2009-10 Special Tax	Percent of 2009-10 Special Tax	2009 Assessed		Total Value-to- Lien
Property Owner	Land Use ⁽¹⁾	Parcels	Levy	Levy	Value ⁽²⁾	Total Debt(3)	Ratio ⁽⁴⁾
Cowifi Iron Point LLC	Office	5	\$125,300.46	8.14%	\$53,060,400	\$858,455.21	61.81:1
Chelsea Financing	Commercial	1	96,100.92	6.25	58,451,335	658,401.90	88.78:1
Partnership LP							
Lakeridge Innovation LLC	Multi-Family	280	86,060.80	5.59	41,500,101	589,618.40	70.38:1
Marvin L. Oates trust	Office	1	55,671.38	3.62	13,927,473	381,414.29	36.52:1
SYUFY Enterprises	Recreational/Theater	1	48,652.64	3.16	9,465,498	333,327.69	28.40:1
SCC Properties	Office	2	27,676.18	1.80	4,944,267	189,614.32	26.08:1
OBF & Philip D. Oates	Vacant Commercial	1	23,321.36	1.52	622,327	159,778.69	3.89:1
Iron Point Props LLC	Commercial	1	19,221.78	1.25	4,708,578	131,691.75	35.75:1
CP Inv Group II LLC	Commercial	1	16,733.32	1.09	3,785,715	114,642.88	33.02:1
Apple Six Hospitality	Hotel	1	16,031.44	1.04	11,984,221	109,834.18	109.11:1
Ownership Inc.					_		
Subtotal: Major Tax		294	\$514,770.28	33.46%	\$202,449,915	\$3,526,779.31	57.40 :1
Payers							
Residential Property		1164	\$792,321.34	51.50%	\$346,612,443	\$5,428,332.46	63.85:1
Owners							
Commercial Property		43	\$231,330.92	15.04%	\$77,442,581	\$1,584,888.23	48.86:1
Owners							
Subtotal: Remaining		1207	\$1,023,652.26	66.54%	\$424,055,024	\$7,013,220.69	60.47:1
Tax Payers Total CFD ⁽⁵⁾		1501	\$1,538,422.54	100.00%	\$626,504,939	\$10,540,000.00	59.44:1

^{(1) 2009-10} Sacramento County secured roll land use designation as of January 1, 2009.

⁽²⁾ 2009-10 Sacramento County secured roll information as of January 1, 2009.

 $^{^{(3)}}$ Represents the estimated principal amount of the Bonds in the estimated amount of \$10,540,000. Source: N|B|S

⁽²⁾ 2009-10 Sacramento County secured roll information as of January 1, 2009.

⁽³⁾ Represents the principal amount of the Bonds in the amount of \$10,540,000.

⁽⁴⁾ The numerator is the 2009-10 assessed value and the denominator equals the estimated principal amount of the Bonds in the amount of \$10,540,000. Source: N|B|S

Assuming no payments by the top seven of the top ten taxpayers listed in the table above, Maximum Special Taxes on the remaining property is expected to equal 100% of debt service on the Bonds.

RISK FACTORS

The purchase of the Bonds involves certain investment risks. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. The discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds, and this Official Statement should be read in its entirety for the purpose of making an informed investment decision.

Risks of Real Estate Secured Investments Generally

The Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (a) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of homes or institutional facilities and/or sites in the event of sale or foreclosure, (b) changes in real estate tax rates, governmental rules (including, without limitation, zoning laws) and fiscal policies, and (c) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the Community Facilities District will be based primarily on such parcel's land use classification. See "SECURITY FOR THE BONDS – Rate and Method of Apportionment." The collection of the Special Taxes will be dependent on the willingness and ability of the owners of property to pay Special Taxes when due. See "SECURITY FOR THE BONDS – The Special Taxes."

The Act provides that if any property within the Community Facilities District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operative effect of these provisions have not been tested in the courts. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government, or another public agency, subject to the limitation of the maximum Special Tax rates, the Special Taxes will be reallocated to the remaining properties within the Community Facilities District. This would result in the owners of such properties paying a greater amount of the Special Tax and could have an adverse effect on the timely payment of the Special Tax.

The Bonds are Special Obligations of the City

Funds for the payment of the principal of and interest on the Bonds are derived from Special Taxes levied in the Community Facilities District. The Special Taxes could be insufficient to pay the principal of and interest on the Bonds, due to non-payment of such annual Special Taxes or insufficient proceeds received from the sales of land within the Community Facilities District due to delinquencies.

The City's obligation with respect to delinquent Special Taxes is limited to the institution of judicial foreclosure proceedings under certain circumstances with respect to parcels for which Special Taxes are delinquent. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure."

The Special Taxes Are Not Personal Obligations of the Property Owners

The obligation to pay Special Taxes levied within the Community Facilities District does not constitute a personal obligation of the current or subsequent owners of the property in the Community Facilities District. Enforcement of payment obligations by the City is limited to judicial foreclosure in the Sacramento County Superior Court. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure." There is no assurance that any current or subsequent owner of a parcel subject to Special Taxes will be able to pay the Special Taxes, or that such owner will choose to pay such Special Taxes, even though financially able to do so.

Special Tax Delinquencies

The Special Taxes are billed to the properties within the Community Facilities District on the ad valorem property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do ad valorem property tax installments. For so long as the County continues on the Teeter Plan, the County is obligated to pay the City 100% of the amount of the Special Taxes actually levied in the Community Facilities District, regardless of any delinquencies. However, the County is required to terminate the Teeter Plan if twothirds of the participants so petition the Board of Supervisors and may discontinue the Teeter Plan as to the Community Facilities District if its delinquency rate exceeds 3%. See "- Teeter Plan Termination" and "SECURITY FOR THE BONDS - The Teeter Plan." Significant delinquencies in the payment of annual Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in a default in the payment of the debt service on the Bonds. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure," for a discussion of the provisions that apply, and the procedures that the City is obligated to follow, in the event of delinquencies in the payment of Special Taxes. See "- Bankruptcy" and "- Payments by FDIC and Other Governmental Agencies" below, for a discussion of the limitations on the City's ability to foreclose on the lien of the Special Taxes in certain circumstances and the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes.

Teeter Plan Termination

The County has implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the Community Facilities District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect Owners from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the Community Facilities District would eliminate such protection from delinquent Special Taxes. See "SECURITY FOR THE BONDS – The Teeter Plan."

Property Values

The value of property within the Community Facilities District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of an installment of Special Taxes, the City's only remedy is to judicially foreclose on that

property. Prospective purchasers of the Bonds should not assume that the property within the Community Facilities District could be sold for the assessed values described herein at a foreclosure sale for delinquent Special Taxes or for an amount adequate to pay delinquent Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT – Assessed Values." In addition to the foregoing, property values are not evenly distributed throughout the Community Facilities District. This disparity of values across the Community Facilities District is significant because, in the event of nonpayment of Special Taxes, the City's only remedy is to foreclose against the delinquent parcel. See "SECURITY FOR THE BONDS."

The assessed values for the property within the Community Facilities District are the property values determined by the County Assessor for property tax purposes. Such assessed value determinations may be subject to appeal by property owners. Assessment appeals are filed with the County Assessment Appeals Board for a hearing and resolution. At the time of filing, applicants are required to estimate an opinion of value. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner. Although such a result would not reduce the Special Tax levy on the property, any reduction in the assessed taxable values of property within the Community Facilities District would have an adverse impact on the value-to-lien ratios discussed herein and could lessen the ability or willingness of the owners of such property to pay their Special Taxes. Moreover, assessed values do not necessarily represent the current market value for any parcel.

Article XIIIA of the California Constitution allows the "full cash value" of properties to be increased at a rate not to exceed 2% per year to account for inflation. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 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 2% in a single year violate Article XIIIA. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place. Any reduction in the assessed values of property in the Community Facilities District would have an adverse impact in the value-to-lien ratios described herein.

Bankruptcy

The payment of Special Taxes and the ability of the City to foreclose the lien of a delinquent Special Tax may be limited by bankruptcy, insolvency or other laws generally affecting creditor's rights or by the laws of the State relating to judicial foreclosure.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full. The prosecution of foreclosure proceedings could also be delayed for other reasons, including crowded court calendars and procedural delaying tactics.

Disclosures to Future Purchasers

The City has recorded a Notice of Special Tax Lien in the Office of the County Recorder of the County. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such obligation for Special Taxes in the purchase of property within the Community Facilities District or the lending of money thereon. Failure to disclose the existence of the Special Taxes or the full amount of the pro rata share of debt on the land in the Community Facilities District may affect the willingness and ability of future owners of land within the Community Facilities District to pay the Special Taxes when due.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the City is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Payments by FDIC and Other Governmental Agencies

The ability of the City to collect the Special Taxes and interest and penalties specified by State law, and to foreclose the lien of delinquent Special Taxes, may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal governmental agencies has or obtains an interest. On June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will

not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. With respect to property in California owned by the FDIC on January 9, 1997, and that was owned by the Resolution Trust Corporation ("RTC") on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The City is unable to predict what effect the FDIC's application of the Policy Statement would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the City will be unable to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Bonds.

Cumulative Burden of Parity Taxes and Special Assessments

The Special Taxes constitute a lien against the parcels of land on which they have been levied. Such lien is on a parity with all special taxes levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property.

The City does not have control over the ability of other entities to issue indebtedness secured by *ad valorem* taxes, special taxes or assessments payable from all or a portion of the property within the Community Facilities District. In addition, the owners of property within the Community Facilities District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by *ad valorem* taxes, special taxes or assessments. Any such special taxes may have a lien on such property on a parity with the lien of the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT— Direct and Overlapping Debt."

Value-to-Lien Ratios

The estimated value-to-lien ratios set forth herein are based on the assessed values, as of January 1, 2009, of the taxable parcels in the Community Facilities District, and the direct and overlapping debt allocable to property in the Community Facilities District reported as of February 24, 2010 as detailed in Table 7 herein. No assurance can be given that such value-to-lien ratios will be maintained over time. As discussed herein, many factors which are beyond the control of the City could adversely affect the property values within the Community Facilities District. The City also has no control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which, through the levy of a tax or an assessment, is on a parity with the Special Taxes. See "— Cumulative Burden of Parity Taxes and Special Assessments" and "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Debt." A decrease in the assessed values in the Community Facilities District or an increase in the parity liens on property in the Community Facilities District, or both, could result in a lowering of the value-to-lien ratios of the property in the Community Facilities District.

Hazardous Substances

The market value of the property in the Community Facilities District is subject to diminution upon the future release or discovery thereon of a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect therefore, should any of the parcels be affected by a hazardous substance, would be to reduce the marketability and value by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The City has not independently verified, and is not aware, that any owner (or operator) of any of the parcels within the Community Facilities District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the City is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the Community Facilities District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly adversely affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

Natural Disasters

The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the wake of fires or in the event of unseasonable rainfall. The occurrence of seismic activity, fires or flooding in or around the Community Facilities District could result in substantial damage to properties in the Community Facilities District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes when due. Although the Community Facilities District is not located near any identified active earthquake fault and is not within the boundaries of an Alquist-Priolo Special Studies Zone, these factors do not necessarily preclude the possibility of seismic activity in the future.

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The

lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Right to Vote on Taxes Act

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" was approved by the voters of the State on November 5, 1996 ("Proposition 218"). Proposition 218 added Article XIIIC ("Article XIIIC") and Article XIIID to the California Constitution, and contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges.

Among other things, Section 3 of Article XIIIC states that "... the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that the exercise by the voters of the initiative power referred to in Article XIIIC to reduce or terminate a Special Tax is subject to the same restrictions as are applicable to the City Council pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Article XIIIC has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the City to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds.

The interpretation and application of the Initiative 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 or the timeliness of any remedy afforded by the courts. See "RISK FACTORS – Limitations on Remedies."

Loss of Tax Exemption

As discussed under the caption "CONCLUDING INFORMATION – Tax Exemption," interest on the Bonds could become includable in gross income for federal income taxation purposes retroactive to the date the Bonds were issued as a result of a failure of the City to comply with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to redemption and will remain outstanding until maturity.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Bonds, the City, the Special Tax delinquency rate for the Community Facilities District and the status of foreclosure proceedings, if any, relating to Special Tax delinquencies (the "Annual Report"), on or before each April 1, commencing with the Annual Report for the 2009-10 fiscal year, and to provide notice of the occurrence of certain

enumerated events, if material. The Annual Report will be filed by the City through the Electronic Municipal Market Access (EMMA) website of the MSRB, or any other entity designated or authorized by the Municipal Securities Rulemaking Board to receive reports pursuant to S.E.C. Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). The notices of material events will be filed by the Dissemination Agent on behalf of the City with one of the entities approved by the S.E.C. in accordance with Rule 15c2-12. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12. The City has not failed to comply in all material respects with any undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events.

CONCLUDING INFORMATION

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the City ("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 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 included herein as APPENDIX D.

To the extent the issue price of any maturity of the Bonds 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 straightline 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 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, the opinion of Bond Counsel 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 legislative proposals, if enacted into law, 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 legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulation 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.

Legal Opinions

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. See APPENDIX D – "PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney.

Underwriting

The Bonds are being purchased by Piper Jaffray & Co., Southwest Securities and Wedbush Securities (the "Underwriters"). Pursuant to a Bond Purchase Agreement between Piper Jaffray & Co., on behalf of the Underwriters, and the City (the "Purchase Agreement"), the Underwriters have agreed to purchase all of the Bonds for an aggregate purchase price of \$10,798,223.60, which represents the par amount of the Bonds, plus a net original issue premium of \$395,243.60, less an Underwriters' discount of \$137,020.00. The Purchase Agreement provides that the Underwriters will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

Piper Jaffray & Co. ("Piper") has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

Financial Interests

The fees of Bond Counsel, the Special Tax Consultant and the Financial Advisor are contingent upon issuance of the Bonds.

No Litigation

No litigation is pending or, to the best knowledge of the City, threatened, concerning the validity of the Bonds and a certificate of the City to that effect will be furnished to the Underwriters at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened which questions the existence of the City or contests the authority of the City to levy and collect the Special Taxes or to issue the Bonds.

Ratings

Standard & Poor's Credit Market Services, a Division of The McGraw-Hill Companies ("S&P") has assigned the municipal bond rating of "A+" to the Bonds. Such rating reflects only the view of the rating agency assigning such rating, and an explanation of the significance of such rating may be obtained only from the rating agency furnishing the same, at the following address: Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that such ratings will remain in effect for any given period of time or that any such ratings will not be revised, either downward or

upward, or withdrawn entirely, by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Bonds.

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Miscellaneous

The quotations from, and the summaries and explanations of, the Indenture, the Continuing Disclosure Certificate, the Act, and other statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for the full and complete statements of their respective provisions.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. This Official Statement is submitted only in connection with the sale of the Bonds by the City. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers of the Bonds.

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

CITY OF FOLSOM

By:	/s/ James Francis
	Finance Director



APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR CITY OF FOLSOM COMMUNITY FACILITIES DISTRICT NO. 2

The rate and method of apportionment of the maximum annual tax to be levied by the City of Folsom Community Facilities District No. 2 is set forth below.

Maximum Annual Tax Rate

The parcels to be included within the Community Facilities District were separated into three (3) land use categories; commercial/office, multiple family and single family. The maximum annual special tax for each use is shown in Table B-1.

Land Use Change

The special tax has been calculated based on expected land uses for each of the parcels described on the map attached as Figure 1. Should land uses change from any of those shown on said tables from a lower taxed use to a higher, the maximum tax shall be increased accordingly (to the higher rate) on the parcel(s) affected to the extent of the change in use. Should a parcel's land use change to a lower taxed use, no adjustment in the maximum tax shall be made.

As development and subdivision of the parcels within the Community Facilities District and described on Figure 1 take place, the City of Folsom will maintain a file of each parcel, along with the assessor's parcel number(s) associated therewith, its maximum tax (based on Tables B-1) and the total authorized maximum tax on all parcels within the Community Facilities District ("Maximum Annual Tax"). This record shall be available for public inspection and shall show the maximum tax on all predecessor parcels and a brief description of the process of subdividing parcels and reapportioning the maximum tax each time a predecessor parcel was split or subdivided, including any adjustments due to change in use.

Calculation of the Annual Tax

The annual tax rate in any given year must be established by the City Council. City staff will recommend the rates for each zoning category, based on the following steps:

- Annually, but not later than the date required by law, the City Council shall determine all amounts necessary to pay current scheduled debt service on all outstanding bonds (including all scheduled mandatory sinking fund payments), to pay all annual expenses of administering the Community Facilities District (the City shall specify an estimate for the annual expenses in each levy), to cure any delinquencies in the payment of principal or interest on the bonds which have occurred or (based on delinquencies in the payment of special taxes which have already taken place) will occur in the fiscal year in which the tax will be collected, and to replenish the reserve account to the reserve requirement as necessary (including, in the replenishment, charges against the reserve account which will be necessary in the future because of delinquencies in. the payment of special taxes which have already taken place).
- Determine each parcel's special tax factor for years 1991 through and including 1999 (PRE-2000) as shown in Table B-2. For the years 2000 through END (POST-2000), determine each parcel's special tax factor as shown in Table B-3.
- Multiply the special tax factor (Step 2) for each parcel/unit by the total annual special tax required (Step 1) to obtain the proposed annual special tax rates for the year for each parcel/unit;

- 4) The annual special tax per parcel/unit, when added to the Folsom South Assessment District assessment for such parcel/unit in that year, shall not exceed the maximum tax rate for such parcel/unit as shown on Table B-1.
- 5) If any parcel's actual annual special tax rate is below the maximum annual tax rate for that parcel, then the proposed annual special tax rate becomes the actual annual special tax rate and the process is complete.
- If any proposed annual special tax rate is above its maximum annual special tax rate, then the rate will be reduced to the maximum annual special tax rate as shown on Table B-1, and the remaining proposed annual tax rate(s) will be increased proportionately until the special tax rates for those parcels are sufficient to meet the required annual special tax rate, or until the remaining tax rates reach their maximum annual tax rates. These resultant annual special tax rates become the actual annual special tax rates for the year.

Prepayment of Special Tax

Property owners may permanently satisfy the special tax obligation of a parcel by a cash settlement with the City as permitted under Government Code Section 53344. Prepayment is permitted under the following conditions:

- ^o A final subdivision map or parcel map for the property has been recorded by the City.
- The City determines that the prepayment of the special tax obligation does not jeopardize its ability to make timely payments of debt service on outstanding bonds.
- Any property owner prepaying his or her special tax obligation must pay any and all delinquent special taxes and penalties prior to prepayment.

The prepayment amount shall be established by the following calculation:

- Step 1 Determine the maximum annual special tax for the parcel based on Table B-1.
- Step 2 Reduce the maximum annual special tax by the average annual tax delinquency rate for property in the Community Facilities District. If no delinquency history has been established for the special tax, reduce the maximum special tax by the most recent five-year average annual delinquency rate for secured property taxes in the City as a whole. The maximum annual special tax may be reduced still further if all bonds of the Community Facilities District have been issued and the future debt service through the maturity of all outstanding bonds is known with certainty, except that the tax shall not be reduced below the amount determined necessary to pay annual debt service on outstanding bonds and annual expenses of administering the Community Facilities.
- Step 3 Calculate the annual revenue produced by the special tax each year from the date of prepayment to and including- the last maturity date of outstanding bonds based on the tax determined in Step 2.
- Step 4 Calculate the present value of the annual revenue stream determined in Step 3. The present value shall be calculated using that discount rate which, when the prepayment is invested in approved investments (as specified by the resolution' authorizing the issuance of bonds) earning a rate of interest equal to the discount rate, would produce annual revenues equal to the amounts

calculated in Step 3. The discount rate may not exceed the bond yield as determined by the Internal Revenue Code of 1986, as it may be amended.

Step 5 Determine the prepayment amount by adding to the present value calculated in Step 4 any fees or expenses incurred by the City in connection with the prepayment calculation or the application of the proceeds of the prepayment.

The proceeds of the prepayment may be applied by the City in its discretion by one of the following methods:

- (a) As an annuity over the remaining life-of outstanding bonds, for the payment of debt service and annual expenses of the Community Facilities District. The annuity must be handled in such a fashion as not to cause the bonds to become arbitrage bonds under the Internal Revenue Code of 1986, as it may be amended.
- (b) To call bonds as provided for by the resolution authorizing the issuance of bonds by the Community Facilities District. If this is the preferred use of the prepayment, the calculation of the prepayment as described above in Steps 1-5 shall include an allowance for the payment of call premiums and expenses as required.
- (c) To be applied in full to the next special annual tax levy, provided that by doing so the City's ability to make timely payments of debt service in subsequent years is not jeopardized. This method may be used if the amount of the prepayment is such that its application to methods (a) and (b) would be inefficient or burdensome for the City, as determined by the Director of Finance.

Appeals and Interpretation Procedure

Any taxpayer who feels that the amount or formula of the special tax is in error may file a notice with the City Manager appealing the levy of the special tax. The City Manager will then promptly review the appeal, and if necessary, meet with the applicant. If the findings of the City Manager verify that the tax should be modified or changed, a recommendation at that time will be made to the City Council and, as appropriate, the special tax levy shall be corrected and, if applicable in any case, a refund shall be granted.

Interpretations may be made by Resolution of the City Council for purposes of clarifying any vagueness or ambiguity as it relates to the special tax rate, the method of apportionment, the classification or properties or any definition applicable to Community Facilities District.

MAXIMUM ANNUAL TAX RATE

Land Use	Maximum Annual Special Tax Rate		
Single Family	\$750 /Unit		
Multi-Family (Lot B)	\$5,062 /Acre		
Multi-Family (Lot J)	\$6,051 /Acre		
Commercial/Office	\$9,645 /Acre		

Special Tax Factor Years 1991 through and including 1999 "PRE-2000"

Parcel	Land Use Category	Acres/Unit	Special Tax Factor Per Acre/unit	Special Tax Factor Per Parcel/Unit
Lot A	Commercial/Office	21.369	0.00465878	0.09955348
Lot C	Commercial/Office	11.723	0.00465878	0.05461488
Lot D	Commercial/Office	24.639	0.00465878	0.11478769
Lot E	Commercial/Office	8.049	0.00465878	0.03749852
Lot G	Commercial/Office	15.337	0.00465878	0.07145172
Lot H	Commercial/Office	12.049	0.00465878	0.05613365
Lot K	Commercial/Office	5.639	0.00465878	0.02627086
Lot L	Commercial/Office	19.055	0.00465878	0.08877306
Lot W	Commercial/Office	36.562	0.00465878	0.17033433
Lot Y	Commercial/Office	4.584	0.00465878	0.02135585
Lot B	Multi Family	30.623	0.00203595	0.06234691
Lot J	Multi Family	19.469	0.00239618	0.04665116
SF	Single Family	680.	0.00022092	0.00022092

Special Tax Factor Years 2000 through END "POST 2000"

Parcel	Land Use Category	Acres/Unit	Special Tax Factor Per Acre/unit	Special Tax Factor Per Parcel/Unit
Lot A	Commercial/Office	21.369	0.00416373	0.08897476
Lot C	Commercial/Office	11.723	0.00416373	0.04881141
Lot D	Commercial/Office	24.639	0.00416373	0.10259016
Lot E	Commercial/Office	8.049	0.00416373	0.03351387
Lot G	Commercial/Office	15.337	0.00416373	0.06385914
Lot H	Commercial/Office	12.049	0.00416373	0.05016879
Lot K	Commercial/Office	5.639	0.00416373	0.02347928
Lot L	Commercial/Office	19.055	0.00416373	0.07933989
Lot W	Commercial/Office	36.562	0.00416373	0.15223432
Lot Y	Commercial/Office	4.584	0.00416373	0.01908654
Lot B	Multi Family	30.623	0.00218525	0.06691889
Lot J	Multi Family	19.469	0.00261219	0.05085668
SF	Single Family	680.	0.00032377	0.00032377

APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF FOLSOM

This Appendix contains principally economic and demographic information relating to the City of Folsom. Neither the faith and credit nor the taxing power of the City of Folsom, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. The Bonds are special tax obligations of the Agency payable solely from Net Special Tax Revenues and other amounts pledged under the Indenture, as more fully described in the Official Statement to which this Appendix is appended. The information set forth herein that has been obtained from sources, other than the City is believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. Information contained in this Appendix A is presented as general background data. The taxing power of the City of Folsom, the State of California, or any political subdivision thereof is not pledged to the payment of the Bonds.

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 B-1 CITY OF FOLSOM AND SACRAMENTO COUNTY POPULATION

<u>Year</u>	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	1,427,094
2009	71,018	1,439,985

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. City data is as of January 1, county data is as of December 1, 2009.

Major Employers

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

TABLE B-2 CITY OF FOLSOM MAJOR EMPLOYERS as of February 28, 2010

Employer	Product/Service	Employees	
Intel	Electronic Manufacturers	6,100	
California State Prison – Sacramento	Government Entities	1,790	
Folsom State Prison	Government Entities	1,131	
Verizon	Telecommunications	900	
Folsom Cordova Unified School District	Education	735	
Mercy Hospitals	Health Care Facilities	640	
California ISO	Utilities	550	
City of Folsom	Government Entities	485	
Maximus	Consulting	471	
Folsom Lake College	Education	396	

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:

<u>Member</u>	Term Expires
Jeff Starsky (Mayor)	11/2012
Andy Morin (Vice Mayor)	11/2010
Steve Miklos	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.

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. The following table sets forth the foreclosure rates and median sale value for the City from calendar year 2000 through October 31, 2009.

TABLE B-3
CITY OF FOLSOM
MEDIAN SALE VALUE AND FORECLOSURE RATES
2000-2009

Year	Median sale Value	Total Single Family Home sales	Foreclosures
2000	\$246,000	2,094	21
2001	283,500	2,239	6
2002	310,000	2,177	7
2003	350,000	2,208	6
2004	406,000	2,518	5
2005	484,000	1,923	1
2006	473,000	1,418	30
2007	429,000	1,279	126
2008	375,000	1,064	284
2009	354,500	950	409
2010*	337,000	189	63

^{*} Through March 25, 2010

Source: DataQuick.

The foreclosure rate for the City of Folsom in 2009 was 2.16%. Foreclosure rates for Sacramento County and the State of California for the same year were 3.27% and 2.21% respectively.

Construction Activity

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

TABLE B-4
CITY OF FOLSOM
Building Permit Valuation
Fiscal Year 2005 through Fiscal Year 2009

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	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
Single I anniy	000	290	109	134	33

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 portion of the City south of the American River. 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 recently finished a 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, 9 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 C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture (the "Indenture") which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture and the Agreement for a full and complete statement of their provisions.

THE INDENTURE

Definitions

The terms defined under this caption shall for purposes of the summary of the Indenture have the meanings defined below.

- "Act" means the Mello-Roos Community Facilities Act of 1982, constituting Sections 53311 *et seq.* of the California Government Code.
- **"Additional Refunding Bonds"** means Bonds other than Series 2010 Bonds issued under the Indenture in accordance with the provisions thereof.
- "Administrative Expenses" means any reasonably necessary or appropriate expenses incurred in the administration of the Community Facilities District and the Bonds, including, but not limited to (a) the administrative and legal costs of levying and collecting the Special Tax (including costs incurred in connection with any appeals relating thereto and litigation expenses incurred in connection with the collection of such Special Tax), (b) the fees, costs and indemnifications due the Trustee, (c) the costs incurred with ongoing disclosure in connection with the Bonds, (d) the costs incurred in connection with the disclosure of the Special Tax to property owners and potential purchasers of property, (e) the amounts required to calculate and pay arbitrage rebate payments to the federal government, and (f) an allocable share of the salaries of the City staff providing services on behalf of the Community Facilities District directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto.
- "Annual Debt Service" means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking fund redemptions due in such Bond Year).
- "Authorized Denominations" means, with respect to the Bonds, \$5,000 and any integral multiple thereof.
- **"Authorized Representative"** means, with respect to the City, the Mayor and the Finance Director of the City, and any other Person designated as an Authorized Representative of the City in a Written Certificate of the City filed with the Trustee.
- "Average Annual Debt Service" means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.
- **"Beneficial Owners"** means those Persons for which the Participants have caused the Depository to hold Book-Entry Bonds.

- "Bond Counsel" means a firm of nationally recognized bond counsel selected by the City.
- **"Bond Fund"** means the fund by that name established and held by the Trustee pursuant to the Indenture.
- **"Bond Year"** means each twelve-month period beginning on June 2 in each year and extending to the next succeeding June 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on June 1, 2010.
- **"Bonds"** means the City of Folsom Community Facilities District No. 2 Special Tax Refunding Bonds issued under the Indenture, and includes the Series 2010 Bonds and any Additional Refunding Bonds.
- **"Book-Entry Bonds"** means the Bonds of a Series registered in the name of the Depository, or the Nominee thereof, as the registered owner thereof pursuant to the terms and provisions of the Indenture.
- **"Business Day"** means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.
- "Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.
- "City" means the City of Folsom, a municipal corporation duly organized and existing under and by virtue of the Constitution and the laws of the State of California.
- "Closing Date" means the date upon which the Series 2010 Bonds are delivered to the Original Purchasers, being May 4, 2010.
 - "Code" means the Internal Revenue Code of 1986.
- **"Community Facilities District"** means City of Folsom Community Facilities District No. 2, a community facilities district organized and existing under the laws of the State, and any successor thereto.
- **"Continuing Disclosure Certificate"** means the Continuing Disclosure Certificate, dated as of April 1, 2010, executed and delivered by the City, as originally executed and as it may be amended from time to time in accordance with the terms thereof.
- "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee's first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, any premium for a bond insurance policy securing payment of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.
- "Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

- **"County"** means the County of Sacramento, a county and political subdivision of the State organized and existing under the laws of the State, and any successor thereto.
 - "County Assessor" means the assessor of the County.
 - "County Auditor" means the auditor of the County.
- "Defeasance Securities" means (a) non-callable direct obligations of the United States of America ("United States Treasury Obligations"), (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, (c) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (d) securities eligible for "AAA" defeasance under then existing criteria of S&P, or any combination thereof.
- **"Depository"** means DTC, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.
- **"DTC"** means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York.
 - "Event of Default" means any event or circumstance specified as such in the Indenture.
- **"Facilities"** means the facilities authorized to be financed by the City, as more particularly described in the Resolution of Formation.
- **"Fiscal Year"** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City.
- **"Indenture"** means the Indenture, dated as of April 1, 2010, by and between the City and Union Bank, N.A., as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.
- "Independent Consultant" means any consultant or firm of such consultants selected by the City and who, or each of whom (a) is generally recognized to be qualified in the financial consulting field, (b) is in fact independent and not under the control of the City, (c) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property in the Community Facilities District, or any real property in the Community Facilities District, and (d) is not connected with the City as an officer or employee thereof, but who may be regularly retained to make reports to the City.
- **"Insolvency Proceeding"** means any proceeding commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law.
- "Interest Payment Dates" means June 1 and December 1 of each year, commencing June 1, 2010, so long as any Bonds remain Outstanding.
- **"Letter of Representations"** means the Letter of Representations from the City to the Depository, in which the City makes certain representations with respect to issues of its securities for deposit by the Depository.

- **"Maximum Annual Debt Service"** means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.
- "Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.
- **"Net Special Tax Revenues"** means Special Tax Revenues, less amounts required to pay Administrative Expenses.
- "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.
- "Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the City by the Trustee in writing; provided, however, that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, which other office or agency shall be specified to the City by the Trustee in writing.
- "Ordinance" means any ordinance adopted by the City Council of the City levying the Special Taxes.
 - "Original Purchasers" means the original purchasers of the Series 2010 Bonds from the City.
- "Outstanding" means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture, all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Indenture, and (c) Bonds in lieu of which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.
- **"Owner"** means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.
- "Participant" means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.
- "Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.
- **"Permitted Investments"** means any of the following obligations to the extent then authorized by law for the investment of money of the City:
 - (1) Direct obligations (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America;
 - (2) Direct obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;
- (3) Direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - Senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations
 - of other Government Sponsored Agencies;
- (4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P or "P-1" by Moody's and maturing no more than three hundred sixty (360) days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (5) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P or "P-1" by Moody's and which matures not more than two hundred seventy (270) days after the date of purchase;
- (6) Investments in a money market fund rated "AAAm" or "AAAm-G" by S&P, including any such fund managed, advised or sponsored by the Trustee or any of its affiliates;

- (7) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successors thereto; or
 - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in such irrevocable instructions, as appropriate;
- (8) General obligations of states with a rating of at least "A2/A" or higher by Moody's or S&P;
- (9) Shares in the California Asset Management Program (established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State) that invests exclusively in investments permitted by Section 53635 of the Government Code of the State, as now existing and as it may be amended from time to time; and
- (10) The Local Agency Investment Fund (established under Sections 53600-53609 of the California Government Code, as amended or supplemented from time to time).

The value of the above investments shall be determined at fair market value.

- **"Person"** means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.
- **"Prior Bonds"** means the City of Folsom Community Facilities District No. 2 1997 Special Tax Refunding Bonds (Natoma Station), issued under the Prior Indenture.
- "Prior Indenture" means the Indenture, dated as of September 2, 1997, by and between the City and the Prior Trustee.
- **"Prior Trustee"** means Union Bank, N.A. (formerly known as Union Bank of California, N.A.) as trustee under the Prior Indenture.
- "Rate and Method" means the rate and method of apportionment of the Special Taxes approved by the qualified electors of the City.
- "Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

- "Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.
- **"Record Date"** means, with respect to interest payable on any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.
- "Redemption Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.
- "Redemption Price" means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.
- "Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.
- "Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.
- "Reserve Requirement" means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service.
- **"Resolution of Formation"** means that certain resolution adopted by the City Counsel of the City on October 2, 1989.
- "S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.
- "Series" means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series 2010 Bonds, and any Additional Refunding Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.
- **"Series 2010 Bonds"** means the City of Folsom Community Facilities District No. 2 Special Tax Refunding Bonds, Series 2010, issued under the Indenture.
- "Special Tax Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.
- "Special Tax Revenues" means the proceeds of the Special Taxes received by or on behalf of the City, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon.
- **"Special Taxes"** means the special taxes levied within the Community Facilities District pursuant to the Act and the Ordinance.
 - "State" means the State of California.

"Supplemental Indenture" means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Certificate" means the Tax Certificate executed by the City at the time of issuance of the Series 2010 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Trustee" means Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture substituted in its place as provided in the Indenture.

"Verification Report" means, with respect to the deemed payment of Bonds pursuant to the Indenture, a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements thereof.

"Written Certificate" and **"Written Request"** of the City mean, respectively, a written certificate or written request signed in the name of the City by an Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

Additional Refunding Bonds

Conditions for the Issuance of Additional Refunding Bonds. The City may at any time issue one or more Series of Additional Refunding Bonds (in addition to the Series 2010 Bonds) payable from Net Special Tax Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are made conditions precedent to the issuance of such Additional Refunding Bonds:

- (a) upon the issuance of such Additional Refunding Bonds, no Event of Default shall have occurred and be continuing under the Indenture.
- (b) the issuance of such Additional Refunding Bonds shall have been authorized under and pursuant to the Indenture and the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:
 - (i) the purposes for which the proceeds of such Additional Refunding Bonds are to be applied, which purposes may only include one or more of (A) providing funds to refund any Bonds previously issued under the Indenture, (B) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Refunding Bonds, and (C) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (vi) below;
 - (ii) the principal amount and designation of such Series of Additional Refunding Bonds and that the denominations of the Additional Refunding Bonds shall be Authorized Denominations:
 - (iii) the date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Refunding Bonds; provided, that (A) the serial Bonds of such Series of

Additional Refunding Bonds shall be payable as to principal annually on December 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Refunding Bonds shall have annual mandatory sinking fund redemptions on December 1, (B) such Additional Refunding Bonds shall be payable as to interest semiannually on June 1 and December 1 of each year, except that the first installment of interest may be payable on either June 1 or December 1 and shall be for a period of not longer than twelve months and the interest shall be payable thereafter semiannually on June 1 and December 1, (C) all Bonds of such Series of like maturity shall be identical in all respects, except as to number or denomination, and (D) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Refunding Bonds on or before their respective maturity dates;

- (iv) the redemption premiums and terms, if any, for such Additional Refunding Bonds;
 - (v) the form of such Additional Refunding Bonds;
- (vi) the amount, if any, to be deposited from the proceeds of sale of such Additional Refunding Bonds in the Reserve Fund; provided, however, that the amount on deposit in the Reserve Fund at the time that such Additional Refunding Bonds become Outstanding shall be at least equal to the Reserve Requirement; and
- (vii) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture.
- (c) Annual Debt Service in each Bond Year, calculated for all Bonds to be Outstanding after the issuance of such Additional Refunding Bonds, shall be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds Outstanding immediately prior to the issuance of such Additional Refunding Bonds.

Procedure for the Issuance of Additional Refunding Bonds. At any time after the sale of any Additional Refunding Bonds in accordance with the Act, such Additional Refunding Bonds shall be executed by the City for issuance under the Indenture and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

- (a) a certified copy of the Supplemental Indenture authorizing the issuance of such Additional Refunding Bonds;
- (b) a Written Request of the City as to the delivery of such Additional Refunding Bonds;
- (c) a Written Certificate of the City stating that the conditions precedent to the issuance of such Additional Refunding Bonds specified in the Indenture have been satisfied;
- (d) an opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies

against political subdivisions in the State), (ii) such Additional Refunding Bonds constitute valid and binding special obligations of the City and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), and (iii) the issuance of such Additional Refunding Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Refunding Bonds from gross income for federal income tax purposes;

- (e) the proceeds of the sale of such Additional Refunding Bonds; and
- (f) such further documents or money as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Refunding Bonds.

Additional Refunding Bonds. The City shall not incur any obligations payable from Net Special Tax Revenues on a basis senior to the Bonds. The City shall not incur any obligations payable from Net Special Tax Revenues on a parity with the Bonds, except as provided above. The City may from time to time incur obligations payable from Net Special Tax Revenues on a basis subordinate to the Bonds; provided, however, that Net Special Tax Revenues shall not be applied to the payment of any such subordinate obligations, or transferred, set aside or allocated for the payment thereof, in any Bond Year unless (a) no Event of Default shall have occurred and be continuing, and (b) amounts sufficient to pay all remaining debt service on the Bonds payable in such Bond Year have been transferred, set aside or allocated for the payment thereof.

Security for Bonds; Funds and Accounts Established under the Indenture

Pledge. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act, the City pledges to the Owners, and grants a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Bond Fund and the Reserve Fund. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the City, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act. The pledge of, and grant of a lien on and security interest in, such assets pursuant to the Indenture is made pursuant to Section 5450 et. seq. of the California Government Code.

Special Tax Fund. (a) The City shall establish and maintain within its treasury a special fund designated the "Special Tax Fund." All Special Tax Revenues received by the City shall be deposited in the Special Tax Fund. The moneys in the Special Tax Fund shall be used and withdrawn by the City from time to time to pay lawfully authorized expenditures and obligations of the City, including, without limitation, payments of principal of and interest on the Bonds, replenishment of the Reserve Fund and Administrative Expenses; provided, however, that no withdrawal shall be made from the Special Tax Fund to pay Administrative Expenses if, as a result of such withdrawal, the amount remaining in the Special Tax Fund would not be sufficient to make the transfers required to be made pursuant to subsection (b) below on the next succeeding date on which such transfer is required to be made pursuant to said subsection.

- (b) No later than six Business Days before each Interest Payment Date, the City shall withdraw from the Special Tax Fund, and transfer to the Trustee, the amounts described below in the following order of priority:
 - (i) the City shall withdraw from the Special Tax Fund and transfer to the Trustee for deposit in the Bond Fund, Net Special Tax Revenues in an amount which, together with other amounts on deposit therein, is at least sufficient to pay the principal (including principal due and payable by reason of mandatory sinking fund redemption of such Bonds), if any, of and interest on the Bonds due and payable on such Interest Payment Date; and
 - (ii) the City shall withdraw from the Special Tax Fund and transfer to the Trustee for deposit in the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount in the Reserve Fund to be equal to the Reserve Requirement.

Costs of Issuance Fund. The Trustee shall establish and maintain a separate fund designated the "Costs of Issuance Fund." On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Cost of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Refunding Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Refunding Bonds are issued.

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the City stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Closing Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Bond Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

If the Costs of Issuance Fund has been closed in accordance with the provisions of the Indenture, such Fund shall be reopened and reestablished by the Trustee in connection with the issuance of any Additional Refunding Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Refunding Bonds are issued.

Bond Fund. The Trustee shall establish and maintain a separate fund designated the "Bond Fund." The Trustee shall deposit in the Bond Fund from time to time the amounts transferred to the Trustee by the City from the Special Tax Fund pursuant to the Indenture. There shall additionally be deposited in the Bond Fund (i) the portion, if any, of the proceeds of the sale of Additional Refunding Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Refunding Bonds are issued, and (ii) any amount transferred from the Reserve Fund pursuant to the Indenture.

In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal (including principal due and payable by reason of mandatory sinking fund redemption of such Bonds), if any, of and interest on the Bonds due and payable on such Interest Payment Date the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Bond Fund.

On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund for payment to the Owners the principal (including principal due and payable by reason of mandatory sinking fund redemption of such Bonds), if any, of and interest on the Bonds then due and payable.

Reserve Fund. The Trustee shall establish and maintain a special fund designated the "Reserve Fund." On the Closing Date, the Trustee shall deposit in the Reserve Fund an amount equal to the Reserve Requirement. The Trustee shall deposit in the Reserve Fund from time to time the amounts transferred to the Trustee by the City from the Special Tax Fund pursuant to the Indenture. There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Refunding Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Refunding Bonds are issued.

Whenever Bonds are to be redeemed, a proportionate share, determined as provided below, of the moneys on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee, be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of the minimum Authorized Denomination for said Bonds that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the City, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

If, as a result of the scheduled payment of principal of or interest on the Bonds, the Reserve Requirement is reduced, the Trustee shall transfer an amount equal to the amount of such reduction to the Bond Fund.

Redemption Fund. The Trustee shall establish and maintain a special fund designated the "Redemption Fund." The Trustee shall deposit in the Redemption Fund amounts required to be deposited therein pursuant to the Indenture or pursuant to any Supplemental Indenture.

Amounts in the Redemption Fund shall be disbursed therefrom for the payment of the Redemption Price of Additional Refunding Bonds redeemed under the Supplemental Indenture pursuant to which such Additional Refunding Bonds are issued.

Rebate Fund. The Trustee shall establish and maintain a special fund designated the "Rebate Fund." There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the City. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions summarized under this caption and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied

with such provisions if it follows the written directions of the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate. The Trustee may conclusively rely upon the City's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the City's calculations.

Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described under this caption, shall, upon receipt by the Trustee of a Written Request of the City, be withdrawn by the Trustee and remitted to the City.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in a Written Request of the City received by the Trustee no later than two Business Days prior to the making of such investment. Moneys in all such funds and accounts shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds and, provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent a timely Written Request of the City with respect to the investment of moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee, the Trustee shall invest such moneys in Permitted Investments described in clause (6) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Written Request of the City specifying a specific money market fund that satisfies the requirements of said clause in which such investment is to be made and, if no such Written Request is so received, the Trustee shall hold such moneys uninvested.

Subject to the provisions of the Indenture related to the Rebate Fund, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Reserve Fund) shall be retained therein. Subject to the provisions of the provisions of the Indenture related to the Rebate Fund, all interest, profits or other income received from the investment of moneys in the Reserve Fund shall be transferred to the Bond Fund and, provided, further, that, notwithstanding the foregoing, any such transfer shall be made only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

Permitted Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund or account shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15.

The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the City, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to provisions of the Indenture summarized under this caption. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

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

Certain Covenants under the Indenture

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

Prior to August 1 of each year, the City shall ascertain from the County Assessor the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year. The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the County Auditor will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the City shall prepare or cause to be prepared, and shall transmit to the County Auditor, such data as the County Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

The City shall fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the *ad valorem* taxes on real property.

Foreclosure. Pursuant to Section 53356.1 of the Act, the City covenants with and for the benefit of the Owners that it will determine or cause to be determined, no later than September 1 of each year, whether or not any owners of property within the Community Facilities District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the City will order and cause to be commenced no later than sixty days thereafter, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due; provided, however, that the City shall not be required to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the Community Facilities District for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the City determines that any single property owner in the Community Facilities District is delinquent in excess of \$25,000 in the payment of the Special Tax, then the City shall diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

Compliance with Act. The City shall comply with all applicable provisions of the Act.

Punctual Payment. The City shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Special Tax Revenues and other assets pledged for such payment as provided in the Indenture and received by the City or the Trustee.

Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances; Defense of Pledge. The City shall not create, or permit the creation of, any pledge of, lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture, except as permitted by the Indenture. The City shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of such assets, and the lien thereon and security interest therein created by the Indenture, against all claims and demands of all Persons whomsoever.

Tax Covenants. (a) The City shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2010 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the City shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. This covenant shall survive payment in full or defeasance of the Series 2010 Bonds.

- (b) In the event that at any time the City is of the opinion that for purposes of the provisions of the Indenture summarized under this caption it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.
- (c) Notwithstanding any provisions of the Indenture summarized under this caption, if the City shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the provisions of the Indenture summarized under this caption is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2010 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture summarized under this caption and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent

Continuing Disclosure Certificate. The City shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Series 2010 Bonds, and upon receipt of indemnification reasonably satisfactory to the Trustee, shall) or any holder or beneficial owner of the Series 2010 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Reduction in Special Taxes. The City shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the City shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

Accounting Records. The City shall keep or cause to be kept appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Special Taxes, which records shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions.

State Reporting. If at any time the Trustee fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal of or interest on the Bonds, the Trustee shall notify the City in writing of such failure or withdrawal, and the City shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within ten days of the failure to make such payment or the date of such withdrawal.

Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2010 and continuing until the October 30 following the final maturity of the Bonds, the City shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the City accompanied by a fee determined by the City to pay the costs of the City in connection therewith. The City shall in no event be liable to any Owner or any other person or entity in connection with any error in any such information.

Further Assurances. The City shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Indenture.

Events of Default and Remedies under the Indenture

Events of Default. The occurrence, from time to time, of any one or more of the following events shall constitute an Event of Default under the Indenture:

- (a) failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise;
- (b) failure to pay any installment of interest on any Bonds when and as the same shall become due and payable;
- (c) failure by the City to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the City by the Trustee, or to the City and the Trustee by the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the City within such 30 day

period and the City shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(d) the commencement by the City of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Foreclosure. If an Event of Default shall occur under the provisions of the Indenture summarized by paragraph (a) or paragraph (b) under the heading "Events of Default" then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in the Community Facilities District with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

Remedies. If an Event of Default shall have occurred and be continuing, the Trustee shall have the right:

- (a) by mandamus, suit, action or proceeding, to compel the City and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by the Indenture and the Act:
- (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the rights of the Trustee or the Owners; or
- (c) by suit, action or proceeding in any court of competent jurisdiction, to require the City and its officers and employees to account as if it and they were the trustees of an express trust.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Application of Amounts After Default. If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

- (a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- (b) to the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date,

then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

<u>Second</u>: to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference;

(c) any remaining funds shall be transferred by the Trustee to the Special Tax Fund.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided, however, that such direction shall not be otherwise than in accordance the provisions of the Indenture, the Act and other applicable law and, provided, further, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Limitation on Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by such Owner's or Owners' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in the Indenture or the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the Bonds

to the respective Owners at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Special Tax Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Owners, then in every such case the City, the Trustee and the Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Owners shall continue as though no such proceedings had been taken.

No Waiver of Default. No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

Trustee

Duties and Liabilities of Trustee. *Duties of Trustee Generally.* The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Removal of Trustee. The City may, by an instrument in writing, remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Indenture and any successor thereto if at any time (i) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority of the aggregate principal amount of the Bonds at the time Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

Resignation of Trustee. The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City, and to the Owners at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing.

Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in the Indenture. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint

such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the written request of the City or the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to the Owners at the addresses shown on the Registration Books.

Qualifications of Trustee. The Trustee shall be a bank, national banking association or trust company incorporated or organized under the laws of the United States of America or any state thereof, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state agency. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection, the Trustee shall resign immediately in the manner and with the effect specified in this subsection.

Merger or Consolidation. Any bank, national banking association or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, national banking association or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, national banking association or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or trust company shall be eligible under the Indenture shall be the successor to such Trustee, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the City, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or of the Bonds or shall incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to (i) the issuance of the Bonds for value, (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or (iii) the application of any moneys paid to the City or others in accordance with the Indenture, except as to the application of any moneys paid to it in its capacity as Trustee. The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty, and the Trustee shall not be liable in connection with the performance of its duties under the Indenture, except

for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

- (b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.
- (c) The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.
- (d) No provision of the Indenture or any other document related to the Indenture shall require the Trustee to risk or advance its own funds.
- (e) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.
- (f) The Trustee may execute any of its powers or duties under the Indenture through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.
- (g) Before taking action under the Indenture relating to an Event of Default or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.
- (h) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.
- (i) The Trustee shall not be liable for the failure to take any action required to be taken by it under the Indenture if and to the extent that the Trustee's taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.
- (j) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

Whenever in the administration of the duties imposed upon it by the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Written Certificate of the City, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the City, the Owners and their agents and representatives duly authorized in writing.

Supplemental Indentures

Supplemental Indentures. (a) the Indenture and the rights and obligations of the City, the Trustee and the Owners under the Indenture may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into when there are filed with the Trustee the written consent of the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture. No such modification or amendment shall (i) extend the fixed maturity of any Bond, reduce the amount of principal thereof or the rate of interest thereon, extend the time of payment thereof or alter the redemption provisions thereof, without the consent of the Owner of each Bond so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Indenture or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Indenture, except as expressly provided in the Indenture, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) amend the provisions of the Indenture summarized under this caption without the prior written consent of the Owners of all Bonds then Outstanding.

- (b) The Indenture and the rights and obligations of the City, the Trustee and the Owners under the Indenture may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:
 - (i) to add to the covenants and agreements of the City contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the City in the Indenture;
 - (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture;
 - (iii) to provide for the issuance of one or more Series of Additional Refunding Bonds, and to provide the terms and conditions under which such Series of Additional Refunding Bonds may be issued, subject to and in accordance with the provisions of the Indenture;
 - (iv) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

- (v) to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and
- (vi) in any other respect whatsoever as the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Indenture.
- (c) The Trustee may in its discretion, but shall not be obligated to, enter into a Supplemental Indenture that materially adversely affects the Trustee's rights, duties or immunities under the Indenture.
- (d) Promptly after the execution by the City and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the City), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the City, the Trustee and the Owners shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the effective date of any Supplemental Indenture pursuant to the Indenture may and, if the City so determines, shall bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date and presentation of such Bond for such purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date, and presentation of such Bond for such purpose at the Office of the Trustee, such a new Bond in equal principal amount of the same Series, interest rate and maturity shall be exchanged for such Owner's Bond so surrendered.

Amendment of Particular Bonds. These amendment provisions of the Indenture shall not prevent any Owner from accepting any amendment or modification as to any particular Bond owned by it, provided that due notation thereof is made on such Bond.

Defeasance

Discharge of Indenture. (a) If the City shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated therein, then the Owners shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the City under the Indenture shall thereupon cease, terminate and become void and the Indenture shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the

Trustee shall pay over or deliver to the City all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on the Bonds.

- (b) Subject to the provisions of paragraph (a) above, when any Bond shall have been paid and if, at the time of such payment, the City shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bond and such Bond shall cease to be entitled to the pledge of the assets as provided in the Indenture, and all agreements, covenants and other obligations of the City under the Indenture shall cease, terminate become void and be completely discharged and satisfied as to such Bond.
- (c) Notwithstanding the discharge and satisfaction of the Indenture or the discharge and satisfaction of the Indenture in respect of any Bond, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Bond, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on such Bond, and to pay to the Owner of such Bond the funds so held by the Trustee as and when such payment becomes due.

Bonds Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bond and the payment of the interest thereon to the maturity or redemption date thereof, such Bond shall be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bond shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the City shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bond on said redemption date, said notice to be given in accordance with the Indenture, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bond, and (iii) in the event such Bond is not by its terms subject to redemption within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bond that the deposit required by clause (ii) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the provisions of the Indenture summarized under this caption and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bond.

(b) No Bond shall be deemed to have been paid pursuant to clause (ii)(B) of paragraph (a) above unless the City shall have caused to be delivered to the Trustee (i) an executed copy of a Verification Report with respect to such deemed payment, addressed to the City and the Trustee, in form and in substance acceptable to the City and the Trustee, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) above resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (C) a copy of an opinion of Bond Counsel, dated the date of such deemed payment and addressed to the City and the Trustee, in form and in substance acceptable to the City and the

Trustee, to the effect that such Bond has been paid within the meaning and with the effect expressed in the Indenture, the Indenture has been discharged in respect of such Bond and all agreements, covenants and other obligations of the City under the Indenture as to such Bond have ceased, terminated, become void and been completely discharged and satisfied.

(c) The Trustee may seek and is entitled to rely upon (i) an opinion of counsel reasonably satisfactory to the Trustee to the effect that the conditions precedent to a deemed payment pursuant to paragraph (a) above have been satisfied, and (ii) such other opinions, certifications and computations, as the Trustee may reasonably request, of accountants or other financial consultants concerning the matters described in paragraph (b) above.

Unclaimed Moneys. Any moneys held by the Trustee in trust for the payment and discharge of the principal of, or premium or interest on, any Bonds which remain unclaimed for two years after the date when such principal, premium or interest has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, premium or interest become payable, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Bond shall look only to the City for the payment of such principal, premium or interest.

Miscellaneous

Limitation of Rights. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the City and the Owners, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the City and the Owners.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds.

Evidence of Rights of Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the City if made in the manner provided in this paragraph.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this paragraph if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the City shall specify in a Written Certificate of the City delivered to the Trustee which Bonds, if any, are, as of the date of such Written Certificate, owned or held by or for the account of the City.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners entitled thereto, subject, however, to the provisions of the unclaimed moneys provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations under the Indenture.

Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture and, unless otherwise specifically provided in the Indenture, no interest shall accrue for the period from and after such nominal date.

Waiver of Personal Liability. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by any applicable provisions of law or by the Indenture.

Conflict with Act. In the event of any conflict between any provision of the Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of the Indenture.

Conclusive Evidence of Regularity. Bonds issued pursuant to the Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Governing Laws. The Indenture shall be governed by and construed in accordance with the laws of the State.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Date of Delivery]

City of Folsom Folsom, California

City of Folsom Community Facilities District No. 2

<u>Special Tax Refunding Bonds, Series 2010</u>

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Folsom (the "City") in connection with the issuance by the City of its City of Folsom Community Facilities District No. 2 Special Tax Refunding Bonds, Series 2010 (the "Bonds"), in the aggregate principal amount of \$10,540,000, pursuant to the Indenture, dated as of April 1, 2010 (the "Indenture"), by and between the City and Union Bank, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture

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

The 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 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 referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture 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 governmental entities such as the City 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 foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, financial report or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Tax levied upon any individual parcel.

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 special obligations of the City, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture.
- 2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of the City. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture creates a valid pledge of, lien on and security interest in all of the amounts held in the Bond Fund and the Reserve Fund to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act.
- 3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest 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 in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

- THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificated"), dated as of ______, 2010, is executed and delivered by the City of Folsom (the "City") in connection with the issuance by the City of its City of Folsom Community Facilities District No. 2 Special Tax Refunding Bonds, Series 2010 (the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of April 1, 2010 (the "Indenture"), between the City and Union Bank, N.A. as trustee (the "Trustee"). The City covenants and agrees as follows.
- **Section 1.** Purpose of the Disclosure Certificate. The Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).
- **Section 2.** <u>Definitions</u>. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:
- "Annual Report" means any Annual Report provided by the City pursuant to, and as described in Sections 3 and 4 hereof.
- "Annual Report Date" means the date in each year that is nine months after the end of the City's fiscal year, which date, as of the date of this Disclosure Certificate, is April 1.
- **"Dissemination Agent"** shall mean N|B|S, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.
- **"EMMA System"** means the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.
 - "Listed Events" means any of the events listed in subsection (a) of Section 4 hereof.
 - "MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto.
 - "Official Statement" means the Official Statement, dated April 21, 2010, relating to the Bonds.
- **"Participating Underwriter"** means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.
- "Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.
- Section 3. Provision of Annual Reports. (a) The City shall, or shall cause the Dissemination Agent to, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 hereof, not later than the Annual Report Date, commencing with the report for the 2009-10 Fiscal Year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual

Report if not available by that date. If the City's fiscal year changes, it shall, or shall instruct the Dissemination Agent to, give notice of such change in the same manner as for a Listed Event under subsection (e) of Section 5 hereof.

- (b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent).
- (c) If the Dissemination Agent is other than the City, then not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent. If the City is unable to provide the Annual Report to the MSRB by the Annual Report Date, the City shall send a notice to the MSRB in substantially the form attached as Exhibit A to the Disclosure Certificate.
 - (d) The Dissemination Agent shall:
 - (i) provide any Annual Report received by it to the MSRB, as provided herein; and
 - (ii) file a report with the City and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was so provided.
- **Section 4.** Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:
 - (a) The City's audited financial statements, if any, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements, if any, are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.
 - (b) The following information:
 - (i) The principal amount of Bonds Outstanding as of the December 31 next preceding the Annual Report Date;
 - (ii) The principal amount of Bonds Outstanding as of the December 31 next preceding the Annual Report Date;
 - (iii) The balance in the Reserve Fund, and a statement of the Reserve Requirement, as of the December 31 next preceding the Annual Report Date;
 - (iv) The total assessed value of all parcels within the City on which the Special Taxes are levied, as shown on the assessment roll of the Sacramento County Assessor last equalized prior to the December 31 next preceding the Annual Report Date, and a statement of assessed value-to-lien ratios therefor, either by individual parcel or by categories (e.g., "below 3:1," "3:1 to 4:1" etc.);

- (v) The Special Tax delinquency rate for the City as of the December 31 next preceding the Annual Report Date; the number of parcels within the City delinquent in payment of special taxes as of the December 31 next preceding the Annual Report Date; the amount of each delinquency; the length of time delinquent and the date on which foreclosure was commenced, or similar information pertaining to delinquencies deemed appropriate by the City; provided, however, that parcels with aggregate delinquencies of \$1,000 or less (excluding penalties and interest) may be grouped together and such information may be provided by category;
- (vi) The status of foreclosure proceedings and a summary of the results of any foreclosure sales as of the December 31 next preceding the Annual Report Date;
- (vii) The identity of any property owner, representing more than 5% of the Special Tax levy, delinquent in payment of special taxes as of the December 31 next preceding the Annual Report Date; and
- (viii) A land ownership summary listing the top ten Special Tax payers, as shown on the assessment roll of the Sacramento County Assessor last equalized prior to the December 31 next preceding the Annual Report Date.

In addition to any of the information expressly required to be provided under this Section, as set forth above, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB through the EMMA System. 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, the City shall promptly give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
 - (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
 - (vii) Modifications to rights of security holders.

- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
 - (xi) Rating changes.
- (b) [Reserved]
- (c) As soon as practicable based on the time needed to discover the occurrence of a Listed Event and to assess the materiality thereof, the City shall, if the City has determined that the occurrence of such Listed Event would be material under applicable Federal securities law, notify the Dissemination Agent thereof in writing and instruct the Dissemination Agent to report the occurrence pursuant to subsection (e) of this Section.
- (d) If in response to a request under subsection (b) of this Section, the City determines that the Listed Event would not be material under applicable Federal securities law, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e) of this Section.
- (e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through the EMMA System. Notwithstanding the foregoing, notice of Listed Events described in paragraphs (viii) and (ix) of subsection (a) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.
- **Section 6.** <u>Termination of Reporting Obligation</u>. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance 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 subsection (e) of Section 5 hereof.
- **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 Dissemination 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 the Disclosure Certificate.
- **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 subsection (a) of Section 3 hereof, Section 4 hereof or subsection (a) of Section 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or type of business conducted;
 - (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the

Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by Owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Owners 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 annual financial information 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 statements or 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 given in the same manner as for a Listed Event under subsection (e) of Section 5 hereof.

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 or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of outstanding 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 the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance.

Section 11. <u>Duties, Immunities and Liabilities of Trustee and Dissemination Agent.</u> Article VIII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee under the Indenture. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Certificate. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as 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. <u>Beneficiaries.</u> This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Bv			

CITY OF FOLSOM

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Folsom	
Name of Issue:	City of Folsom Comm Bonds, Series 2010	nunity Facilities District No. 2 Special Tax Refunding
Date of Issuance:	, 2010	
Report with respect t April 1, 2010, by and	o the above-named Bonds	City of Folsom (the "City") has not provided an Annual as required by Section 6.05 of the Indenture, dated as of ion Bank, N.A., as Trustee. [The City anticipates that the
Dated:		City of Folsom
		Finance Director



APPENDIX F

DTC BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payment of principal of, premium, if any, and interest on the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Bonds, and other related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the City believes to be reliable, but the City does not take responsibility for the completeness or accuracy 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 principal, premium, if any, and interest with respect to the Bonds or (b) certificates representing ownership interests in or other confirmation of ownership interests 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.

The Depository 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 maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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 (the "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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. (or such other DTC nominee) do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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 MMI 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 with respect to 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 records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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 Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City deems reliable, but the City takes no responsibility for the accuracy thereof.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND NOTICES ONLY TO CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE. ANY FAILURE OF CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO ANY ACTION PREMISED ON SUCH NOTICE.



