



**CITY OF ELK GROVE
JOINT CITY COUNCIL / FINANCE AUTHORITY
STAFF REPORT**

AGENDA TITLE: Consider Approval of Lease Revenue Bonds for Acquisition and Construction of a Permanent Household Hazardous Waste Collection Facility and the Related Financing Agreements

MEETING DATE: December 8, 2010

PREPARED BY: Andrew Keys, Finance Analyst

DEPARTMENT HEAD: Becky Carr, Director of Finance and Administrative Services

RECOMMENDED ACTION:

Staff recommends that the City Council of the City of Elk Grove conduct a public hearing to consider the following approval of Lease Revenue Bonds (the Bonds) for acquisition and construction of a Permanent Household Hazardous Waste Collection Facility (HHWCF). At the conclusion of the public hearing, Staff recommends that the Council and the Public Finance Authority each take the following actions:

- 1.) Adopt a Resolution of the City Council Approving the Issuance and Sale of Lease Revenue Bonds and Related Financing Agreements (Attachment 1).
- 2.) Close the Public Meeting as the City Council and Reconvene as the Elk Grove Financing Authority to consider the financing.
- 3.) Adopt a Resolution of the Elk Grove Financing Authority Approving the Issuance and Sale of Lease Revenue Bonds and Related Financing Agreements (Attachment 2).

BACKGROUND INFORMATION:

The Council's action tonight will approve the documents necessary to accomplish the financing of the HHWCF property acquisition and construction. For more background on the history of the HHWCF, please refer to agenda Item 9.1 at which Council acted upon the residential waste services rate necessary to repay the Bonds to be issued to finance the project. Should Council not approve the rate increase recommended, this item should not move forward as the City's ability to make lease payments and the Elk Grove Financing Authority's ability to make debt payments would be severely compromised.

The City's financial advisor and bond counsel have advised that the most desirable structure for the financing of the HHWCF is "Lease Revenue Bonds" ("LRB"). LRBs use a lease/leaseback transaction to generate lease payments which are the source of debt payments. To work, the government entity leases property to a finance authority and the finance authority leases the property back to the government entity; the government entity, as lessee, then pays lease payments, which are used to pay the debt. During this lease, the government entity continues to have possession of the property and continues to use it in the same manner as prior to the lease.

For this debt issuance, the properties proposed to be leased to secure the payment are the police facilities, council chambers and library (8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) which collectively have a value sufficient to support the lease payments. Those properties are not security for the bonds; the bonds are payable from the City's general fund. Under the documents, the City has the ability to elect to substitute the HHWCF property as the Leased Property upon completion of the project.

The documents provide that the Bonds are to be issued as Recovery Zone Economic Development Bonds, eligible for a 45% interest rebate from the federal government, as discussed previously.

By resolution, the Council and the EGFA will approve the following documents (that are on file with the City Clerk) to complete the financing. The details of these documents will be finalized prior to the sale date and

provisions may be added or modified to reflect final details and requirements, however the structure of the transaction will not differ.

1. **Site Lease.** The Site Lease is between the City and the EGFA. This is the agreement that leases the Leased Property to the EGFA. This agreement specifies the terms and agreements of the lease of the Leased Property. Note that the City's interest in the Library property (8900 Elk Grove Boulevard) is subject to a lease to the County. On October 28, 2010, the Board of the Sacramento Public Library Authority approved subordination of its leasehold interest to this financing. Subordination is necessary to make the financing attractive to investors.
2. **Lease Agreement.** This agreement is between the EGFA, as Sublessor and the City, as Sublessee. This agreement specifies the terms and agreements of the sublease of the Leased Property, term of payments, amount of payments, responsibility for the maintenance of the Leased Property, etc. during the term of the agreement.
3. **Assignment Agreement.** This agreement is between the EGFA and U.S. Bank National Association, (the "Trustee"). In this agreement the EGFA assigns all its rights under the Lease Agreement to the Trustee. For example, rather than the City making semi-annual payments to the EGFA and the EGFA paying the Bond holders, the City will make its payments directly to the Trustee and the Trustee will pay the Bond holders.
4. **Indenture of Trust.** The Trust Agreement (the "Agreement") is between the EGFA and the Trustee. Pursuant to the Agreement, the Trustee is given the authority to receive, hold, invest and disburse the monies paid to it for credit to the various funds and accounts established under the Agreement; to execute and deliver the Bonds; and to apply and disburse the payments to Bond owners. It sets forth the guidelines for the administration, investment and treatment of investment earnings generated by each fund and account. The Agreement obligates the City to pay compensation to the Trustee for services rendered under the Agreement.

5. **Bond Purchase Agreement.** The City contemplates a negotiated sale of the Bonds to an underwriter selected through a request for proposals sent to four underwriting firms. The Bond Purchase Agreement is between the city and the underwriter to be selected, and is the document under which the Underwriter agrees to purchase the Bonds. This agreement specifies the price and interest rates at which the Underwriter will purchase the Bonds, the representations and warranties of the City and the Underwriter, and the documents to be executed at closing.

6. **Preliminary Official Statement.** This document is the public offering statement for the issuance of the Bonds. This document thoroughly describes the financing program, the public improvements to be financed, the economic, financial and social characteristics of the City. The document was previously approved for release at the October 13, 2010 Council/Board meeting so that it could be ready for publication in connection with the then-possibility of a competitive sale and is presented again here. Staff has determined, upon consultation with the City's financial advisor, that a competitive sale is not feasible given the fact that the Bond closing needs to occur by the end of the year to utilize the Recovery Zone 45% interest rebate program.

Document approval also includes two "Termination Agreement" forms, which are not typical in this type of financing but are needed to clear an existing lease off title to 8400 Laguna Palms Way and 8380 Laguna Palms Way. In 2001 and 2002 the City entered into financing leases similar to that proposed for the HHWCF. The City's lease payment obligations under the leases were prepaid by the City in 2007 from the proceeds of Lease Revenue Bonds issued in 2007, however the leases inadvertently were never terminated at the time of prepayment. The lessors under the leases and their assignees are no longer in business and cannot be found. Bond Counsel has had discussions with the City's title insurer and been advised that recorded evidence of the City's satisfaction of its obligations be established through the execution of the Termination Agreements, so that title will be cleared for the new financing. The Termination Agreements will be permanently recorded in the Official Records of Sacramento County.

FINANCIAL IMPACT:

The Lease payments are payable from any legally available funds of the City, but are in consideration for use of the Leased Property in that particular year. As with any other lease, if the City does not have use of the project for a period of time (e.g. due to flooding or earthquake damage), its payments are abated until use is restored. The California courts have held that this type of mechanism is not debt, and therefore it is not subject to Constitutional debt limits. In this structure no deed of trust is given as security for the obligation, and in the event of default the Trustee can either sue each year for the lease payment which is due or take action to cancel the lease with the City and relet the property.

Because the Lease payments are payable from any legally available funds of the City and the General Fund is backing the lease payments, the Financial Advisor and Staff have conservatively structured the financing model to ensure adequate coverage of all debt through fees collected for waste services City wide. It is not anticipated that there be any impact to the City's General Fund directly resulting from the issuance of these bonds. For a breakdown of the costs associated with land acquisition and the project as a whole, please refer to Agenda Item 9.1 relating to the increase of the residential solid waste rates.

ATTACHMENTS:

1. Resolution of the City Council Approving the Issuance and Sale of Lease Revenue Bonds and Related Financing Agreements
 - a. Site Lease
 - b. Lease Agreement
 - c. Assignment Agreement
 - d. Indenture of Trust
 - e. Bond Purchase Agreement
 - f. Preliminary Official Statement
 - g. Termination Agreement 8380 Laguna Palms Way
 - h. Termination Agreement 8400 Laguna Palms Way

2. Resolution of the Elk Grove Finance Authority Approving the Issuance and Sale of Lease Revenue Bonds and Related Financing Agreements
 - a. Site Lease
 - b. Lease Agreement
 - c. Assignment Agreement
 - d. Indenture of Trust
 - e. Bond Purchase Agreement
 - f. Preliminary Official Statement

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE
APPROVING THE ISSUANCE AND SALE OF LEASE REVENUE BONDS BY THE
ELK GROVE FINANCE AUTHORITY IN THE PRINCIPAL AMOUNT NOT TO
EXCEED \$12,700,000 TO FINANCE A CAPITAL FACILITY PROJECT, AND
APPROVING RELATED DOCUMENTS AND OFFICIAL ACTIONS**

WHEREAS, the City of Elk Grove (the “City”) is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto (the “Project”), a capital project of benefit to the City; and

WHEREAS, in order to provide financing for a portion of the cost of the Project, the City has proposed to lease real property constituting its existing interest in property commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard (the “Leased Property”) to the Elk Grove Finance Authority (the “Authority”) under a Site Lease dated as of November 1, 2010, in consideration of the payment by the Authority of an initial rental payment (the “Site Lease Payment”) which is sufficient to provide funds for such purposes; and

WHEREAS, in order to secure the payments of principal of and interest on the Bonds, the Authority proposes to lease the Leased Property back to the City under a Lease Agreement dated as of November 1, 2010 (the “Lease Agreement”), under which the City is obligated to pay semiannual lease payments as rental for the Leased Property; and

WHEREAS, the amounts required to finance a portion of the Project will be provided from the proceeds of Lease Revenue Bonds which the Authority proposes to issue and sell as its 2010 Lease Revenue Bonds (Capital Facility), in the principal amount of not to exceed \$12,700,000 (the “Bonds”) under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the “Bond Law”) secured by the lease payments; and

WHEREAS, Staff has determined, upon consultation with the City’s financial advisor, that a competitive sale is not feasible given the fact that the Bond closing needs to occur by the end of the year to utilize the Recovery Zone 45% interest rebate program; and

WHEREAS, the City Council has duly held a public hearing regarding the Project in accordance with the requirements of Section 6586.5 of the Bond Law, the notice of which has been given in accordance with the requirements of said Section; and

WHEREAS, the City Council wishes at this time to approve all proceedings and documents to which it is a party relating to the issuance and sale of the Bonds and the financing of the Project.

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

Section 1. Approval of Bonds. The City Council hereby approves the financing plan described in the recitals of this Resolution. To that end, the City Council hereby approves of the issuance of the Bonds by the Authority under the Bond Law, in the aggregate principal amount of not to exceed \$12,700,000, for the purpose of providing financing for a portion of the cost of the Project.

Section 2. Approval of Related Financing Agreements. The City Council hereby approves each of the following agreements required to implement the financing plan to be accomplished by the Bonds, in substantially the respective forms on file with the City Clerk together with any changes therein or additions thereto deemed advisable by the City Manager, Assistant City Manager or the Finance Director (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such changes or additions.

- Site Lease between the City as lessor and the Authority as lessee, under which the City leases the Leased Property to the Authority in consideration of the payment of the Site Lease Payment which will be applied by the City to finance the Project.
- Lease Agreement between the Authority as lessor and the City as lessee, under which the Authority leases the Leased Property back to the City and the City agrees to pay semiannual lease payments which are sufficient to provide for payment of principal of and interest on the Bonds when due; and
- Bond Purchase Agreement among the Authority, the City and the Underwriter, under which the Underwriter agrees to purchase the Bonds from the; and
- Continuing Disclosure Agreement (attached as an appendix to the Preliminary Official Statement) executed by the City relating to the undertaking to make continuing disclosure filings with respect to the Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission.

An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the City to execute, and the City Clerk is hereby authorized and directed to attest the final form of each of the foregoing agreements.

Section 3. Sale of Bonds. The City Council hereby approves the sale of the Bonds by the Authority by a competitive sale, the City shall advise the Authority of its desire that the sale shall occur pursuant to the terms of the Official Notice of Sale in substantially the form on file with the Clerk, together with such additions thereto or

changes therein as are acceptable to an Authorized Officer. The City shall advise the Authority of its desire that the sale shall occur pursuant to the terms and conditions of the Purchase Agreement in substantially the form on file with the Clerk, together with such additions thereto or changes therein. The Purchase Contract shall be executed in the name and on behalf of the City by an Authorized Officer, each of whom acting alone is hereby authorized and directed to execute and deliver said form of Purchase Agreement on behalf of the City.

The true interest cost (calculated net of the federal subsidy described in Section 5) on the Bonds shall not exceed 5%. Additionally, if the Bonds are sold pursuant to a negotiated sale, the underwriter's discount or fee (excluding original issue discount, if any) for the Bonds shall not exceed 4.5% of the principal amount of the Bonds.

Section 4. Termination of Existing Lease on 8380 and 8400 Laguna Palms Way. In order to finance the acquisition, construction, furnishing and equipping of the city hall located generally at 8400 Laguna Palms Way and the office building used by the Elk Grove Police Department located generally at 8380 Laguna Palms Way, the City entered into two leases, as described in the Termination Agreements on file with the Clerk. The City's lease payment obligations under the leases were prepaid by the City on June 20, 2007 from the proceeds of \$18,585,000 principal amount of Elk Grove Finance Authority Lease Revenue Bonds (2007 Capital Projects), however the leases inadvertently were never terminated at the time of prepayment. The lessors under the leases and their assignees are no longer in business and cannot be found. This Council hereby finds that the City no longer has any obligations under the leases and desires that evidence of the City's satisfaction of its obligations be established through the execution of the Termination Agreements and recordation thereof in the Official Records of Sacramento County. In connection therewith, an Authorized Officer is hereby authorized and directed for and in the name and on behalf of the City to execute, and the City Clerk is hereby authorized and directed to attest the final form of each of the Termination Agreements and to cause the same to be so recorded.

Section 5. Findings and Determinations. In accordance with Sections 6586 and 8686.5 of the Bond Law, the City Council hereby finds and determines that there will be "significant public benefits" to the citizens of the City by financing a portion of the costs of the Project through the issuance of the Bonds. Such benefits include the following: (a) demonstrable savings in effective interest rates, bond preparation, bond underwriting or bond issuance costs, (b) significant reductions in effective user charges levied by the City, and (c) employment benefits from undertaking the Project in a timely fashion. The City hereby directs an Authorized Officer to determine, based on advice from the City's financial advisor, whether it is feasible and in the best interests of the Authority to issue the Bonds in the form of "Recovery Zone Economic Development Bonds" under and within the meaning of the provisions of Section 1400U-2 of the Tax Code and to treat the Bonds as "Qualified Bonds" within the meaning of Section 54AA(g)(2) and Section 6431 of the Tax Code such that the Bonds will be eligible for a direct payment subsidy by the federal government equal to forty-five percent (45%) of interest payable on the Bonds. If an Authorized Officer determines that it is in the best

interests of the City and the Authority to issue the Bonds in such form, an Authorized Officer is authorized to make the necessary election in the name and on behalf of the City as required by the Tax Code, and to approve such amendments to the documents approved under this Resolution as may be required to effectuate such issuance.

Section 6. Official Statement. The Council hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the Clerk, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the Final Official Statement for and in the name and on behalf of the City. The Council hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

Section 7. Official Actions. The Mayor, the City Manager, the Assistant City Manager, the Finance Director, the City Clerk and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions as described herein. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

Section 8. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

PASSED AND ADOPTED by the City Council of the City of Elk Grove this 8th day of December 2010.

SOPHIA SCHERMAN, MAYOR of the
CITY OF ELK GROVE

ATTEST:

APPROVED AS TO FORM:

JASON LINDGREN, CITY CLERK

SUSAN COCHRAN, CITY ATTORNEY

TO BE RECORDED AND WHEN RECORDED
RETURN TO:

Jones Hall
A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: David T. Fama

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX UNDER SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

SITE LEASE

This SITE LEASE (this "Site Lease"), dated for convenience as of November 1, 2010, is between the CITY OF ELK GROVE, a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "City"), and the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California, as lessee (the "Authority").

B A C K G R O U N D :

1. The City is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City (the "Project").

2. In order to provide funds to finance the portion of the costs of the Project, the City has proposed to lease the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting generally of the existing _____ police facilities and City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property"), to the Authority under this Site Lease, in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$ _____ (the "Bonds") under an Indenture of Trust dated as of November 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with this Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of November 1, 2010 (the "Lease"), which has been recorded concurrently herewith, under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

A G R E E M E N T :

In consideration of the above premises and of the mutual promises and covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:

SECTION 1. *Lease of Property to Board.* The City hereby leases the Leased Property to the Authority and the Authority hereby leases the Leased Property from the City, on the terms and conditions hereinafter set forth.

SECTION 2. *Term; Possession.* The term of this Site Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 13.01 thereof, but under any circumstances not later than September 1, _____. The provisions of this Section 2 are subject in all respects to any other provisions of this Site Lease relating to the termination hereof.

SECTION 3. *Rental.* The Authority shall pay to the City as and for rental of the Leased Property hereunder, the sum of \$_____ (the "Site Lease Payment"). The Site Lease Payment is due and payable upon the issuance of the Bonds and the execution and delivery hereof, and will be paid from the proceeds of the Bonds. The Authority and the City hereby find and determine that the total amount of the Site Lease Payment does not exceed the fair market value of the leasehold interest in the Leased Property which is conveyed hereunder by the City to the Authority. No other amount of rental is due and payable by the Authority for the use and occupancy of the Leased Property under this Site Lease.

As provided in the Indenture, a portion of the proceeds of the Bonds will be applied to make the Site Lease Payment by depositing the full amount thereof into the Project Fund which is held and administered by the City under the Indenture. Amounts on deposit in the Project Fund shall be disbursed by the City from time to time for the purpose of paying Project Costs in accordance with the Indenture.

SECTION 4. *Leaseback to City.* The Authority shall lease the Leased Property back to the City under the Lease.

SECTION 5. *Assignments and Subleases.* Unless the City is in default under the Lease, the Authority may not assign its rights under this Site Lease or sublet all or any portion of the Leased Property, except as provided in the Assignment Agreement and in the Lease, without the prior written consent of the City.

SECTION 6. *Substitution or Release of Property.* If the City exercises its option under Section 3.3 of the Lease to substitute property for the Leased Property in whole or in part, such substitution shall also operate to substitute property for the Leased Property which is leased hereunder. If the City exercises its option under Section 3.4 of the Lease to release a portion of the Leased Property from the Lease, such substitution shall also operate to release such portion of the Leased Property hereunder. The description of the Leased Property which is leased under the Lease shall conform at all times to the description of the Leased Property which is leased hereunder.

SECTION 7. *Right of Entry.* The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property, or any portion thereof, at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

SECTION 8. *Termination.* The Authority agrees, upon the termination of this Site Lease, to quit and surrender the Leased Property in the same good order and condition as the Leased Property was in at the time of commencement of the term hereof, reasonable wear and tear excepted, and agrees that all buildings, improvements and structures then existing upon the Leased Property shall remain thereon and title thereto shall vest thereupon in the City for no additional consideration.

SECTION 9. *Default.* If the Authority defaults in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for 30 days following notice and demand for correction thereof to the Authority, the City may exercise any and all remedies granted by law, except that no merger of this Site Lease and of the Lease shall be deemed to occur as a result thereof and no such remedy may include termination hereof; *provided, however,* that so long as the Lease remains in effect, the Lease Payments payable by the City under the Lease shall continue to be paid to the Trustee.

SECTION 10. *Quiet Enjoyment.* The Authority at all times during the term of this Site Lease shall peaceably and quietly have, hold and enjoy all of the Leased Property, subject to the provisions of the Lease and subject only to Permitted Encumbrances (as that term is defined in the Lease).

SECTION 11. *Waiver of Personal Liability.* All liabilities under this Site Lease on the part of the Authority are solely corporate liabilities of the Authority as a public entity, and the City hereby releases each and every member and officer of the Authority of and from any personal or individual liability under this Site Lease. No member or officer of the Authority or its governing board shall at any time or under any circumstances be individually or personally liable under this Site Lease for anything done or omitted to be done by the Authority hereunder.

SECTION 12. *Taxes.* The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Leased Property and any improvements thereon.

SECTION 13. *Eminent Domain.* If the whole or any part of the Leased Property or any improvements thereon is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is hereby determined to be the amount of the then unpaid Lease Payments payable under the Lease and the balance of the award, if any, shall be paid to the City.

SECTION 14. *Partial Invalidity.* If any one or more of the terms, provisions, covenants or conditions of this Site Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Site Lease shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. *Notices.* Any notice, request, complaint, demand or other communication under this Site Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The City, the Authority and the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority or the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance
Fax: 916-691-2001

If to the Trustee: U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attention: Corporate Trust Administration
Fax: (206) 344-4630

SECTION 16. *Amendment of this Site Lease.* The Authority and the City may at any time amend or modify any of the provisions of this Site Lease, but only (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to make cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds;
- (ii) to amend any provision hereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Tax Code, in the opinion of Bond Counsel;
- (iii) to conform to any amendment of the Indenture which is made thereto in accordance with Section 9.01 of the Indenture; or

(iv) for the purpose of effectuating any substitution or release of property under Section 6.

SECTION 17. *Governing Law.* This Site Lease shall be construed in accordance with and governed by the laws of the State of California.

SECTION 18. *Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary under this Site Lease with all rights of a third party beneficiary.

SECTION 19. *Binding Effect.* This Site Lease inures to the benefit of and is binding upon the Authority, the City and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 20. *Section Headings.* All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Site Lease.

SECTION 21. *Execution in Counterparts.* This Site Lease may be executed in any number of counterparts, each of which shall be deemed to be an original but all together shall constitute but one and the same lease. It is also agreed that separate counterparts of this Site Lease may be separately executed by the Authority and the City, all with the same force and effect as though the same counterpart had been executed by both the Authority and the City.

SECTION 22. *Defined Terms.* All capitalized terms used herein and not otherwise defined have the respective meanings given those terms in the Indenture.

IN WITNESS WHEREOF, the City and the Authority have caused this Site Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY OF ELK GROVE, as lessor

By _____
Authorized Official

(S E A L)

Attest:

City Clerk

ELK GROVE FINANCE AUTHORITY, as lessee

By _____
Authorized Official

Attest:

Secretary

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, State of California, (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) which is more particularly described as follows:

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: David T. Fama, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX UNDER SECTION 11922 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

LEASE AGREEMENT

Dated as of November 1, 2010

between the

ELK GROVE FINANCE AUTHORITY,
as lessor

and the

CITY OF ELK GROVE,
as lessee

Relating to

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)

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APPENDIX A	DESCRIPTION OF THE LEASED PROPERTY
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LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease"), dated for convenience as of November 1, 2010, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California, as lessor (the "Authority"), and the CITY OF ELK GROVE, a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "City").

B A C K G R O U N D :

1. The City is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City (the "Project").

2. In order to provide funds to finance a portion of the cost of the Project, the City has leased the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting generally of the existing police facilities and City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property"), to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), in consideration of the payment by the Authority of an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of November 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under this Lease, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property hereunder.

5. The lease payments made by the City under this Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

6. The City and the Authority have found and determined that all acts and proceedings required by law necessary to make this Lease, when executed by the City and the Authority, the valid, binding and legal obligations of the City and the Authority, and to constitute this Lease a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Lease have been in all respects duly authorized.

AGREEMENT:

In consideration of the material covenants contained in this Lease, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS; RULES OF INTERPRETATION

SECTION 1.1. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Lease have the respective meanings given them in the Indenture.

SECTION 1.2. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular includes the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and includes the neuter, masculine or feminine gender, as appropriate.

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

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

ARTICLE II

COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 2.1. *Covenants, Representations and Warranties of the City.* The City makes the following covenants, representations and warranties to the Authority and the Trustee as of the date of the execution and delivery of this Lease:

- (a) Due Organization and Existence. The City is a municipal corporation duly organized and validly existing under the laws of the State of California, has full legal right, power and authority under the laws of the State of California to enter into the Site Lease and this Lease and to carry out and consummate all transactions contemplated hereby, and by proper action the City has duly authorized the execution and delivery of the Site Lease and this Lease.
- (b) Due Execution. The representatives of the City executing the Site Lease and this Lease have been fully authorized to execute the same under a resolution duly adopted by the City Council of the City.

- (c) Valid, Binding and Enforceable Obligations. The Site Lease and this Lease have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of the Site Lease and this Lease, the consummation of the transactions therein and herein contemplated and the fulfillment of or compliance with the terms and conditions thereof and hereof, do not and will not conflict with or constitute a violation or Elk Grovech of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, Elk Grovech, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease or the financial condition, assets, properties or operations of the City.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Site Lease and this Lease, or the consummation of any transaction therein and herein contemplated, except as have been obtained or made and as are in full force and effect.
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Site Lease and this Lease, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease or the financial conditions, assets, properties or operations of the City.

SECTION 2.2. *Covenants, Representations and Warranties of the Authority.* The Authority makes the following covenants, representations and warranties to the City and the Trustee as of the date of the execution and delivery of this Lease:

- (a) Due Organization and Existence. The Authority is a public body corporate and politic duly organized and existing under the Bond Law and under the

laws of the State of California; has power to enter into this Lease, the Site Lease, the Assignment Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms.

- (b) Due Execution. The representatives of the Authority executing this Lease, the Site Lease, the Assignment Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.
- (c) Valid, Binding and Enforceable Obligations. This Lease, the Site Lease, the Assignment Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of this Lease, the Site Lease, the Assignment Agreement and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, Elk Grovech, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease, the Site Lease, the Assignment Agreement or the Indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon

the consummation of the transactions contemplated by or the validity of this Lease, the Site Lease, the Assignment Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority.

ARTICLE III

DEPOSIT AND APPLICATION OF FUNDS; SUBSTITUTION AND RELEASE OF PROPERTY

SECTION 3.1. *Deposit of Moneys.* On the Closing Date, the Authority will cause the proceeds of sale of the Bonds to be deposited with the Trustee. The Trustee shall deposit those proceeds in accordance with Section 3.01 of the Indenture.

SECTION 3.2. *Acquisition and Construction of Project.* As provided in Section 3.02 of the Indenture, a portion of the proceeds of sale of the Bonds will be applied to pay the Site Lease Payment to the City in accordance with Section 3 of the Site Lease. The Site Lease Payment shall be deposited into the Project Fund which is established under the Indenture, to be disbursed for the purpose of paying Project Costs. Upon the completion of the Project, the City shall file a Written Certificate of the City with the Trustee, which Written Certificate shall identify the amount (if any) to be retained in the Project Fund to pay remaining Project Costs.

SECTION 3.3. *Substitution of Property.* The City has the option at any time and from time to time, to substitute other real property (the "Substitute Property") for the Leased Property or any portion thereof (the "Former Property"), upon satisfaction of all of the following requirements which are hereby declared to be conditions precedent to such substitution:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment hereof which adds the legal description of the Substitute Property to Appendix A and deletes therefrom the legal description of the Former Property.
- (c) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate hereunder in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- (d) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of

the State of California, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.

- (e) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made herein.
- (f) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the estimated value of the Substitute Property is at least equal to the estimated value of the Former Property, and that the useful life of the Substitute Property at least extends to September 1, 2040.
- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of this Lease will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this Section. The Authority and the City will execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease and the Assignment Agreement of record against the Former Property and to cause the Substitute Property to become subject to all of the terms and conditions of the Site Lease, this Lease and the Assignment Agreement.

SECTION 3.4. *Release of Property.* The City has the option at any time and from time to time to release any portion of the Leased Property from this Lease (the "Released Property") provided that the City has satisfied all of the following requirements which are hereby declared to be conditions precedent to such release:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment hereof which removes the Released Property from the Site Lease and this Lease.
- (c) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to this Lease following such release is at least equal to the aggregate original principal amount of the Bonds, and the fair rental value of the property which remains subject to this Lease following such release is at least equal to the Lease Payments thereafter coming due and payable hereunder.
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of this Lease will thereupon end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a

result of such release. The Authority and the City shall execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease and the Assignment Agreement of record against the Released Property.

ARTICLE IV

LEASE OF LEASED PROPERTY; TERM OF THIS LEASE; LEASE PAYMENTS

SECTION 4.1. *Lease of Leased Property.* The Authority hereby leases the Leased Property to the City and the City hereby leases the Leased Property from the Authority, upon the terms and conditions set forth in this Lease.

SECTION 4.2. *Term.* The Term of this Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 10.01 thereof, but under any circumstances not later than September 1, 20___. The provisions of this Section are subject to the provisions of Section 6.2 relating to abatement and the taking in eminent domain of the Leased Property in whole or in part.

SECTION 4.3. *Lease Payments.*

(a) Obligation to Pay. Subject to the provisions of Sections 6.2 and 6.3 and the provisions of Article IX, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in Appendix B attached to this Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in Appendix B, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in Appendix B. The Authority shall take all actions required to designate the Bonds as Recovery Zone Economic Development Bonds and to elect to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code. The Authority shall irrevocably assign the Refundable Credits to the Trustee for deposit in the Bond Fund and credit towards the payment of the Lease Payments as they become due hereunder and all Refundable Credits which are held by the Trustee on deposit in the Bond Fund as of any Lease Payment Date will be credited towards the Lease Payment then due.

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts on deposit in the Reserve Account, amounts resulting from the prepayment of the Lease Payments in part but not in whole under Article IX, and amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid hereunder. The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee. The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

(b) Effect of Prepayment. If the City prepays all Lease Payments in full under Section 9.2, the City's obligations under this Section will thereupon cease and terminate. If the City prepays the Lease Payments in part but not in whole under Section 9.2, the

principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis which corresponds to the principal maturities of the Bonds which are redeemed thereby; and the interest component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed under Section 4.01 of the Indenture.

(c) Rate on Overdue Payments. If the City fails to make any of the payments required in this Section, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding Bond.

(d) Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under this Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

(e) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, under the Assignment Agreement, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees to pay to the Trustee at its Office, all payments payable by the City under this Section and all amounts payable by the City under Article IX.

SECTION 4.4. *Source of Payments; Covenant to Budget and Appropriate.* The Lease Payments are payable from any source of available funds of the City, subject to the provisions of Section 6.3. The City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of this Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. The foregoing covenant of the City contained constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease agreed to be carried out and performed by the City.

SECTION 4.5. *Additional Rental Payments.* In addition to the Lease Payments, the City shall pay when due the following amounts of Additional Rental Payments in consideration of the lease of the Leased Property by the City from the Authority hereunder:

- (a) All fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due;

- (b) All reasonable compensation to the Trustee for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;
- (c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Lease or the Indenture;
- (d) Amounts coming due and payable as Excess Investment Earnings in accordance with Section 7.6(e); and
- (e) The reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of this Lease or the Indenture, or in connection with the issuance of the Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving this Lease, the Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of this Lease.

SECTION 4.6. *Quiet Enjoyment.* Throughout the Term of this Lease, the Authority shall provide the City with quiet use and enjoyment of the Leased Property and the City will peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Authority, except as expressly set forth in this Lease. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority has the right to inspect the Leased Property as provided in Section 7.2.

SECTION 4.7. *Title.* Upon the termination of this Lease (other than under Section 8.2(b) hereof), all right, title and interest of the Authority in and to the Leased Property transfers to and vests in the City. The Authority shall take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer of title.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

SECTION 5.1. *Maintenance, Utilities, Taxes and Assessments.* Throughout the Term of this Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Property. The City waives the benefits of subsections 1 and 2 of Section 1932, Section 1933(4) and Sections 1941 and 1942 of the California Civil Code, but such waiver does not limit any of the rights of the City under the terms of this Lease.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall pay only such installments as are required to be paid during the Term of this Lease as and when the same become due.

The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

SECTION 5.2. *Modification of Leased Property.* The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of this Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this Section, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under this Section; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against

the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

SECTION 5.3. *Liability and Property Damage Insurance.* The City shall maintain or cause to be maintained throughout the Term of this Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of Section 5.7, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

SECTION 5.4. *Casualty Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds. Such insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and must include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance must be applied as provided in Section 6.1.

SECTION 5.5. *Rental Interruption Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the insurance required by Section 5.4, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such

insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

SECTION 5.6. *Recordation Hereof; Title Insurance.* On or before the Closing Date the City shall, at its expense, (a) cause the Site Lease, the Assignment Agreement and this Lease, or a memorandum hereof or thereof in form and substance approved by Bond Counsel, to be recorded in the office of the Sacramento County Recorder, and (b) obtain a CLTA title insurance policy insuring the City's leasehold estate hereunder in the Leased Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under any such title insurance policy must be deposited with the Trustee in the Bond Fund to be credited towards the prepayment of the remaining Lease Payments under Section 9.4.

SECTION 5.7. *Insurance Net Proceeds; Form of Policies.* Each policy of insurance maintained under Sections 5.4, 5.5 and 5.6 must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a certificate of the City stating that all policies of insurance required hereunder are then in full force and effect. The Trustee has no responsibility for the sufficiency, adequacy or amount of any insurance or self-insurance herein required and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

If any insurance maintained under Section 5.3 is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

SECTION 5.8. *Installation of City's Personal Property.* The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee has any interest, and may be modified or removed by the City at any time, provided that the City must repair all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease prevents the City from purchasing or leasing items to be installed under this Section under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, so long as no such lien or security interest attaches to any part of the Leased Property.

SECTION 5.9. *Liens.* The City may not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than as herein contemplated and except for such encumbrances as the City certifies in writing to the Trustee do not materially and

adversely affect the leasehold estate of the City in the Leased Property hereunder. If any such mortgage, pledge, lien, charge, encumbrance or claim does materially and adversely affect the leasehold estate of the City in the Leased Property hereunder, the City will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible; provided that the City is not required to do so prior to the time when such mortgage, pledge, lien, charge, encumbrance or claim actually causes such material adverse effect. The City will reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

SECTION 5.10. *Advances.* If the City fails to perform any of its obligations under this Article V, the Authority may (but is not required to) take such action as it deems necessary to cure such failure, including the advancement of money, and the City shall repay all such advances as Additional Rental Payments hereunder, with interest at the rate set forth in Section 4.3(c).

ARTICLE VI

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

SECTION 6.1. *Application of Net Proceeds.* The Trustee, as assignee of the Authority under the Assignment Agreement, has the right to receive all Net Proceeds. As provided in the Indenture, the Trustee will deposit all Net Proceeds in the Insurance and Condemnation Fund to be applied as set forth in Section 5.07 of the Indenture.

SECTION 6.2. *Termination or Abatement Due to Eminent Domain.* If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of this Lease thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

- (a) this Lease continues in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary, and
- (b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under this Section, it being hereby declared that such amounts constitute special funds for the payment of the Lease Payments.

SECTION 6.3. *Abatement Due to Damage or Destruction.* The Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the City of the Leased Property or any

portion thereof. The Lease Payments are subject to abatement in an amount determined by the City, such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease continues in full force and effect and the City waives any right to terminate this Lease by virtue of any such damage and destruction. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account or the proceeds of rental interruption insurance are available to pay Lease Payments which would otherwise be abated under this Section, it being hereby declared that such amounts constitute special funds for the payment of the Lease Payments.

Notwithstanding the foregoing, the Lease Payments will not be subject to abatement to the extent the Refundable Credits, the amounts in the Reserve Account or proceeds from rental interruption insurance are available to pay the portion of the Lease Payments which would otherwise be abated.

ARTICLE VII

OTHER COVENANTS OF THE CITY

SECTION 7.1. *Disclaimer of Warranties.* THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE LEASED PROPERTY OR ANY PORTION THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY OR ANY PORTION THEREOF. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. The Authority has no liability for incidental, indirect, special or consequential damages, in connection with or arising out of this Lease for the existence, furnishing, functioning or use of the Leased Property by the City.

SECTION 7.2. *Access to the Leased Property.* The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, have the right at all reasonable times to enter upon and to examine and inspect the Leased Property or any part thereof. The City further agrees that the Authority, any Board Representative and the Authority's successors or assigns may have such rights of access to the Leased Property or any component thereof as reasonably necessary to cause the proper maintenance of the Leased Property if the City fails to perform its obligations hereunder; *provided, however,* that neither the Authority nor any of its assigns has any obligation to cause such proper maintenance.

SECTION 7.3. *Release and Indemnification Covenants.* The City agrees to indemnify the Authority, the Trustee and their respective officers, agents, successors

and assigns, against all claims, losses and damages, including legal fees and expenses, arising out of any of the following:

- (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the City,
- (b) any Elk Grovech or default on the part of the City in the performance of any of its obligations under this Lease,
- (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property,
- (d) any intentional misconduct or negligence of any sublessee of the City with respect to the Leased Property,
- (e) the acquisition, construction, improvement and equipping of the Leased Property, or the authorization of payment of the costs thereof, or
- (f) the acceptance and performance of the duties of the Trustee under the Indenture and under this Lease.

No indemnification is made under this Section or elsewhere in this Lease for willful misconduct or negligence under this Lease by the Authority, the Trustee or their respective officers, agents, employees, successors or assigns.

SECTION 7.4. *Assignment and Subleasing by the City.* This Lease may not be assigned by the City, other than to an entity which succeeds to the interests of the City as a municipal corporation. The City may sublease the Leased Property, or any portion thereof, subject to all of the following conditions:

- (a) This Lease and the obligation of the City to make Lease Payments hereunder must remain obligations of the City.
- (b) The City must, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease.
- (c) No such sublease by the City may cause the Leased Property to be used for a purpose which is not authorized under the provisions of the laws of the State of California.
- (d) The City must furnish to the Authority and the Trustee a written opinion of Bond Counsel stating that such sublease does not cause the interest components of the Lease Payments to become included in gross income for purposes of federal income taxation or to become subject to personal income taxation by the State of California.

SECTION 7.5. *Amendment Hereof.* The Authority and the City may at any time amend or modify any of the provisions of this Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding

Bonds; or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in this Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement this Lease in such manner as to assure that the Bond remain Recovery Zone Economic Development Bonds and that the Authority remains entitled to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property under Sections 3.3 or 3.4;
- (v) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has obtained and filed with the Trustee an M.A.I. appraisal showing that the appraised value of the Leased Property is at least equal to the aggregate principal amount of the Outstanding Bonds and all such other bonds, notes, leases or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause (v) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds;
- (vi) to incorporate provisions securing the obligations of the City under any Qualified Reserve Account Credit Instrument, or to incorporate provisions for the security of the Bonds relating to a Qualified Reserve Account Credit Instrument;
- (vii) in any respect whatsoever as the Authority and the City deem necessary or desirable to facilitate the issuance of Additional Bonds as permitted under the Indenture; or
- (viii) in any other respect whatsoever as the Authority and the City deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

No such modification or amendment may (a) extend or have the effect of extending any Lease Payment Date or reducing any Lease Payment or any premium payable upon the prepayment thereof, without the express consent of the Owners of the

affected Bonds, or (b) modify any of the rights or obligations of the Trustee without its written assent thereto.

SECTION 7.6. *Tax Covenants.*

(a) Private Activity Limitation. The City shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The City may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The City shall calculate or cause to be calculated the Excess Investment Earnings in all respects at the times and in the manner required under the Tax Code. The City shall pay the full amount of Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code. Such payments shall be made by the City from any source of legally available funds of the City, and shall constitute Additional Rental Payments hereunder.

The City must keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e). In order to provide for the administration of this subsection (e), the City may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the City may deem appropriate. The Trustee has no duty or obligation to monitor or enforce compliance by the City of any of the requirements under this subsection (e).

(f) Small Issuer Exemption from Bank Nondeductibility Restriction. The City hereby designates the Bonds for purposes of paragraph (3) of Section 265(b) of the Tax Code and represents that not more than \$30,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Tax Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Tax Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Tax Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including Bonds, has been or will be issued by the Authority,

including the City and all other subordinate entities of the Authority, during the calendar year 2010.

(g) Financing Capital Expenditures, No Working Capital. All amounts in excess of Available Project Proceeds of the Bonds less Available Project Proceeds of the Bonds deposited in the Reserve Account will be spent on capital expenditures with a reasonably expected economic life of one year or more.

(i) Qualified Economic Development Purpose. All Available Project Proceeds, other than amounts deposited into the Reserve Account, will be spent on a Qualified Economic Development Purpose.

(h) Limitation on Issuance Costs. No proceeds of the Bonds and investment earnings thereon, in an amount in excess of 2% of the proceeds of the sale of the Bonds, will be used to pay Costs of Issuance of the Bonds. If the fees of the Original Purchaser are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

(i) Expenditure of Proceeds to Assure Bonds Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Bonds are expended and all federal tax requirements are met so as to cause the Bonds to be treated as recovery zone economic development bonds and qualified bonds and therefore be eligible for the Refundable Credits within the meaning of Section 6431 of the Code.

(j) Limitation on Original Issue Premium. The City will assure that all Bonds of each maturity of the issue will be offered to the ultimate purchasers thereof (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the price of par and, at least 10% of the first Bonds sold in each maturity of the issue will be actually sold at a price not excess of the par amount thereof x .0025 x the number of complete years to maturity from the date of issue of the Bonds to the date of said maturity.

SECTION 7.7. *Continuing Disclosure.* The City shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by the City as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with its terms. Notwithstanding any other provision of this Lease, failure of the City to comply with such Continuing Disclosure Certificate will not constitute an Event of Default, although any Participating Underwriter (as that term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under this Section, including seeking mandate or specific performance by court order.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.1. *Events of Default Defined.* Any one or more of the following events constitute an Event of Default hereunder:

- (a) Failure by the City to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein.
- (b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee. If in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30 day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

SECTION 8.2. *Remedies on Default.* Whenever any Event of Default has happened and is continuing, the Authority may exercise any and all remedies available under law or granted under this Lease. Notwithstanding anything herein or in the Indenture to the contrary, neither the Authority nor the Trustee may accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each covenant hereof to be kept and performed by the City is expressly made a condition and upon the Elk Grovech thereof the Authority may exercise any and all rights granted hereunder; except that no termination of this Lease may be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Authority may exercise each and every one of the following remedies, subject in all respects to the limitations set forth in Section 8.3.

- (a) Enforcement of Payments Without Termination. If the Authority does not elect to terminate this Lease in the manner hereinafter provided for in subparagraph (b) hereof, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same

manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority. The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place the Leased Property in storage or other suitable place in the County of Sacramento for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of the Leased Property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of this Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Lease shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph, and the City further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Property.

- (b) Termination of Lease. If an Event of Default occurs and is continuing hereunder, the Authority at its option may terminate this Lease and re-lease all or any portion of the Leased Property. If the Authority terminates this Lease at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments and Additional Rental Payments. Any surplus received by the Authority from such re-leasing shall be deposited in the Bond Fund. Neither notice to pay rent or to deliver up possession of the premises given under law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate this Lease, and no termination of this Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease. The City covenants and agrees that no surrender of the Leased Property, or of the remainder of the Term hereof or any

termination of this Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

- (c) Proceedings at Law or In Equity. If an Event of Default occurs and continues hereunder, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

SECTION 8.3. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy is cumulative and in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default impairs any such right or power or operates as a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article VIII it is not necessary to give any notice, other than as expressly required in this Article VIII or by law.

SECTION 8.4. *Agreement to Pay Attorneys' Fees and Expenses.* If the Authority or the City defaults under any of the provisions of this Lease and the nondefaulting party employs attorneys or incurs other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

SECTION 8.5. *No Additional Waiver Implied by One Waiver.* If the Authority or the City Elks Groves any agreement in this Lease and thereafter the other party waives the Elk Groves, such waiver is limited to the particular Elk Groves so waived and does not operate to waive any other Elk Groves hereunder.

SECTION 8.6. *Application of Proceeds.* All net proceeds received from the release of the Leased Property under this Article VIII, and all other amounts derived by the Authority or the Trustee as a result of the occurrence of an Event of Default, must be paid to and applied by the Trustee in accordance with Section 7.03 of the Indenture.

SECTION 8.7. *Trustee and Bond Owners to Exercise Rights.* Such rights and remedies as are given to the Authority under this Article VIII have been assigned by the Authority to the Trustee under the Assignment Agreement for the benefit of the Bond Owners, to which assignment the City hereby consents. The Trustee and the Bond Owners shall exercise such rights and remedies in accordance with the Indenture.

ARTICLE IX

PREPAYMENT OF LEASE PAYMENTS

SECTION 9.1. *Security Deposit.* Notwithstanding any other provision of this Lease, the City may on any date secure the payment of the Lease Payments allocable to the Leased Property in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts on deposit in the funds and accounts established under the Indenture, is either:

- (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Appendix B, or
- (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under Section 4.3(a), as the City instructs at the time of said deposit.

If the City makes a security deposit under this Section with respect to all unpaid Lease Payments, and notwithstanding the provisions of Section 4.2, (a) the Term of this Lease will continue, (b) all obligations of the City under this Lease, and all security provided by this Lease for said Lease Payments, will thereupon cease and terminate, excepting only the obligation of the City to make, or cause to be made all of said Lease Payments from such security deposit, and (c) under Section 4.7, title to the Leased Property will vest in the City on the date of said deposit automatically and without further action by the City or the Authority. Said security deposit constitutes a special fund for the payment of Lease Payments in accordance with the provisions of this Lease.

SECTION 9.2. *Optional Prepayment.* The City has the option to prepay the principal components of the Lease Payments in whole, or in part in any integral multiple of \$5,000, from any source of legally available funds, on any date on or after September 1, 20__, at a prepayment price equal to the aggregate principal components of the Lease Payments to be prepaid, together with the interest component of the Lease Payment required to be paid on such Interest Payment Date, and together with a prepayment premium equal to the premium (if any) required to be paid on the resulting redemption of Bonds under Section 4.01(a) of the Indenture. Such prepayment price shall be deposited by the Trustee in the Redemption Fund to be applied to the redemption of Bonds under Section 4.01(a) of the Indenture. The City shall give written notice to the Trustee of its intention to prepay the Lease Payments under this Section at least 45 days prior to the prepayment date, or such shorter period of time as may be acceptable to the Trustee in its sole discretion, such notice being solely for the convenience of the Trustee.

SECTION 9.3. *Credit for Amounts on Deposit.* If the principal components of the Lease Payments are prepaid in full under this Article IX, such that the Indenture is discharged by its terms as a result of such prepayment, at the written election of the City filed with the Trustee any or all amounts then on deposit in the Bond Fund (and the accounts therein) will be credited towards the amounts then required to be so prepaid.

ARTICLE X

MISCELLANEOUS

SECTION 10.1. *Notices.* Any notice, request, complaint, demand or other communication under this Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by facsimile transmission or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, (b) 48 hours after deposit in the United States of America first class mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority or the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance
Fax: 916-691-2001

If to the Trustee: U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attention: Corporate Trust Administration
Fax: (206) 344-4630

SECTION 10.2. *Binding Effect.* This Lease inures to the benefit of and binds the Authority, the City and their respective successors and assigns.

SECTION 10.3. *Severability.* If any provision of this Lease is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

SECTION 10.4. *Net-net-net Lease.* This Lease is deemed and construed to be a "net-net-net lease" and the City hereby agrees that the Lease Payments are an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 10.5. *Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary.

SECTION 10.6. *Further Assurances and Corrective Instruments.* The Authority and the City shall, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Lease.

SECTION 10.7. *Execution in Counterparts.* This Lease may be executed in several counterparts, each of which is an original and all of which constitute but one and the same instrument.

SECTION 10.8. *Applicable Law.* This Lease is governed by and construed in accordance with the laws of the State of California.

SECTION 10.9. *Board and City Representatives.* Whenever under the provisions of this Lease the approval of the Authority or the City is required, or the Authority or the City is required to take some action at the request of the other, such approval or such request shall be given for the Authority and for the City by an Authorized Representative thereof, and any party hereto may conclusively rely upon any such approval or request.

SECTION 10.10. *Captions.* The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Lease.

IN WITNESS WHEREOF, the Authority and the City have caused this Lease to be executed in their respective names by their duly authorized officers, all as of the date first above written.

ELK GROVE FINANCE AUTHORITY,
as lessor

By _____
Authorized Official

Attest:

Secretary

CITY OF ELK GROVE, as lessee

By _____
Authorized Official

Attest:

City Clerk

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, which is more particularly described as follows:

[to come]

APPENDIX B

SCHEDULE OF LEASE PAYMENTS

<u>Lease Payment Date*</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Aggregate Lease Payment**</u>
--------------------------------	--------------------------------	-------------------------------	--------------------------------------

<u>Lease Payment Date*</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Aggregate Lease Payment</u>
--------------------------------	--------------------------------	-------------------------------	------------------------------------

* Lease Payment Dates are the 5th Business Day immediately preceding each date listed in the schedule

** All Refundable Credits which are held on deposit in the Bond Fund as of any Lease Payment Date will be credited towards the Lease Payment then due.

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: David T. Fama, Esq.

THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

ASSIGNMENT AGREEMENT

This ASSIGNMENT AGREEMENT (this "Agreement"), dated for convenience as of November 1, 2010, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

BACKGROUND:

1. 1. The City is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City (the "Project").

2. In order to provide funds to finance the portion of the costs of the Project, the City has proposed to lease the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting generally of the existing police facilities and the City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property"), to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of November 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under the Lease Agreement dated as of November 1, 2010 (the "Lease Agreement"), which has been recorded concurrently herewith, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The Authority has requested the Trustee to enter into this Agreement for the purpose of assigning certain of its rights under the Lease to the Trustee for the benefit of the Bond owners.

A G R E E M E N T :

In consideration of the material covenants contained in this Agreement, the parties hereto hereby formally covenant, agree and bind themselves as follows:

SECTION 1. *Defined Terms.* All capitalized terms not otherwise defined herein have the respective meanings given those terms in the Indenture.

SECTION 2. *Assignment.* The Authority hereby assigns to the Trustee, for the benefit of the Owners of all Bonds which are issued and Outstanding under the Indenture, all of the Authority's rights under the Lease (excepting only the Authority's rights under Sections 4.5, 5.10, 7.3 and 8.4 of the Lease), including but not limited to:

- (a) the right to receive and collect all of the Lease Payments from the City under the Lease,
- (b) the right to receive and collect any proceeds of any insurance maintained thereunder with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property, and
- (c) the right to exercise such rights and remedies conferred on the Authority under the Lease as may be necessary or convenient (i) to enforce payment of the Lease Payments and any amounts required to be deposited in the Insurance and Condemnation Fund established under Section 5.07 of the Indenture, or (ii) otherwise to protect the interests of the Bond Owners in the event of a default by the City under the Lease.

The Trustee shall administer all of the rights assigned to it by the Authority under this Agreement in accordance with the provisions of the Indenture, for the benefit of the Owners of Bonds. The assignment made under this Section 2 is absolute and irrevocable, and without recourse to the Authority.

SECTION 3. *Acceptance.* The Trustee hereby accepts the assignments made herein for the purpose of securing the payments due under the Lease and Indenture to, and the rights under the Lease and Indenture of, the Owners of the Bonds, all subject to the provisions of the Indenture. The recitals contained herein are those of the Authority and not of the Trustee, and the Trustee assumes no responsibility for the correctness thereof.

SECTION 4. *Conditions.* This Agreement confers no rights and imposes no duties upon the Trustee beyond those expressly provided in the Indenture. The assignment hereunder to the Trustee is solely in its capacity as Trustee under the Indenture.

SECTION 5. *Execution in Counterparts.* This Agreement may be executed in any number of counterparts, each of which is an original and all together constitute one and the same agreement. Separate counterparts of this Agreement may be separately executed by the Trustee and the Authority, both with the same force and effect as though the same counterpart had been executed by the Trustee and the Authority.

SECTION 6. *Binding Effect.* This Agreement inures to the benefit of and binds the Authority and the Trustee, and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 7. *Governing Law.* This Agreement is governed by the laws of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officers as of the day and year first written above.

ELK GROVE FINANCE AUTHORITY

By _____
Authorized Official

Attest:

Secretary

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

By _____
Authorized Official

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, which is more particularly described as follows:

INDENTURE OF TRUST

Dated as of November 1, 2010

between

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

and the

ELK GROVE FINANCE AUTHORITY

Authorizing the Issuance of

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)

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INDENTURE OF TRUST

This INDENTURE OF TRUST (this "Indenture"), dated for convenience as of November 1, 2010, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in San Francisco, California, being qualified to accept and administer the trusts hereby created (the "Trustee").

B A C K G R O U N D :

1. The City is proceeding to finance the costs of construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City, (the "Project").

2. In order to provide funds to finance the portion of the costs of the Project, the City has agreed to lease the real property constituting the existing police facilities and City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property") to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), under which the Authority agrees to make an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$_____ (the "Bonds") under this Indenture and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of November 1, 2010 (the "Lease"), under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee.

6. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

7. The Authority has found and determines, and hereby affirms, that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding

and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized.

A G R E E M E N T :

In order to secure the payment of the principal of and the interest and redemption premium (if any) on all the Outstanding Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority and the Trustee do hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in that Appendix when used in this Indenture.

SECTION 1.02. *Authorization.* Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. *Interpretation.*

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

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

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

ARTICLE II

THE BONDS

SECTION 2.01. *Authorization of Bonds.* The Authority has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The Authority hereby authorizes the issuance of Bonds in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to pay the Site Lease Payment to the City and thereby provide funds to finance the Project. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated the "Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility)."

SECTION 2.02. *Terms of the Bonds.*

(a) Payment Provisions. The Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Bonds shall mature on March 1 in each of the years and in the amounts, and bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
--	-----------------------------------	--------------------------------	--	-----------------------------------	--------------------------------

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

SECTION 2.03. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section 2.03. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

(c) Limitations. The Trustee may refuse to transfer or exchange, under the provisions of this Section 2.03, any Bonds selected by the Trustee for redemption under Article IV, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

SECTION 2.04. *Book-Entry System*.

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the Authority and the Trustee has no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the Authority and the Trustee has no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the Authority elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the Authority to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the Authority of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the Authority shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Authority shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Authority or the Trustee any obligation

whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the Authority may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the Authority determines to terminate the Depository as such, then the Authority shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the Authority and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the Authority fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the Authority determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Authority may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the Authority shall cooperate with the Depository in taking appropriate action (y) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (z) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the Authority's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.05. *Registration Books.* The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

SECTION 2.06. *Form and Execution of Bonds.* The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth

in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The President of the Authority or other Authorized Representative with authority to do so shall execute, and the Secretary of the Authority shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of the execution of such Bond are the proper officers of the Authority, duly authorized to execute debt instruments on behalf of the Authority, although on the date of such Bond any such person was not an officer of the Authority.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.07. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond is mutilated, the Authority, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

Notwithstanding any other provision of this Section 2.07, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

SECTION 2.08. *Additional Bonds.* In addition to the 2010 Bonds authorized to be issued pursuant to Section 2.01 of this Indenture, the Authority may, by Supplemental Indenture, establish one or more other issues of Additional Bonds secured and payable on a parity with such Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of Sections 2.08 and 2.09, and subject to the following

specific conditions which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) Such Additional Bonds shall have been authorized to finance additional capital improvements for the City, or to refund bonds previously issued to finance such capital improvements, and the issuance thereof shall have been determined and declared by the Authority, in a Supplemental Indenture, to be necessary for that purpose.

(b) The Authority and the City shall be in compliance with all covenants and undertakings set forth in this Indenture and in the Lease and the Site Lease.

(c) The aggregate principal amount of Bonds issued and at any time Outstanding hereunder shall not exceed any limit imposed by law, by this Indenture or by any Supplemental Indenture.

(d) The Supplemental Indenture authorizing issuance of such Additional Bonds shall require that the balance on deposit in the Reserve Fund upon delivery of said Additional Bonds is a sum at least equal to the Reserve Requirement with respect to all Outstanding Bonds, including said Additional Bonds, and shall also establish such accounts and subaccounts within the various funds and accounts established hereby or the Authority shall deem necessary or advisable.

(e) Such Additional Bonds shall be equally and ratably secured by the Revenues with all other Bonds herein authorized, except that separate accounts may be established in the Reserve Account for one or more series of Bonds, and amounts in each such reserve account shall be available to pay debt service on the series of Bonds for which it was established.

(f) The Authority shall have entered into an amendment to the Lease, in and by which the City obligates itself in the manner provided in the Lease to make Lease Payments for the lease of the Leased Property at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease, and the City shall certify in writing, that such Lease Payments, as amended, in any year shall not exceed the then fair rental value of the Leased Property.

(g) If necessary to ensure that the Lease Payments payable after the issuance of Additional Bonds does not exceed the fair rental value of the Leased Property in any year, the Authority and the City shall have amended the Lease pursuant to Section 7.5 thereof to add additional property to the Leased Property.

(h) In the event that the Additional Bonds are being issued to finance the construction of a to-be-built project, and such project is to be part of the Leased Property prior to its completion, the Supplemental Indenture authorizing the issuance of such Additional Bonds shall require the deposit into a capitalized interest account in the Project Fund, or a subaccount therein, an amount sufficient to pay interest on such Additional Bonds through a date which is not less than six months after the anticipated completion date of the project, but only

if such Additional Bonds are issued prior to the substantial completion of such project.

SECTION 2.09. Proceedings for the Issuance of Additional Bonds. Whenever the Authority shall have determined to issue Additional Bonds pursuant to Section 2.08, the Authority shall enter into a Supplemental Indenture determining that the issuance of such Additional Bonds is necessary for the purposes specified in Section 2.08, specifying the principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds and the funds to be established for the security and payment thereof. Before such Additional Bonds shall be issued and delivered, the Authority shall file the following documents with the Trustee:

(a) An executed copy of the Supplemental Indenture authorizing such Additional Bonds, together with a certified copy of the resolution of the Authority authorizing the issuance of such Additional Bonds and the execution of such Supplemental Indenture.

(b) An Opinion of Bond Counsel stating: (i) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Authority; (ii) that the issuance of the Additional Bonds is authorized by the Bond Law and this Indenture; (iii) that the Additional Bonds when duly executed and delivered, will be valid and binding obligations of the Authority, payable from Revenues in accordance with the terms of this Indenture and the Supplemental Indenture authorizing the issuance of such Additional Bonds; (iv) that upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Authority, if any; (v) if the Additional Bonds are to be tax-exempt, that the interest on the Additional Bonds will be excluded from the gross income of the Owners thereof for federal income tax purposes; and (vi) that the issuance of such Additional Bonds will not, of itself, cause interest on the outstanding Bonds that are tax exempt to become includable in gross income for federal income tax purposes or cause the outstanding Bonds that are Build America bonds to lost their designation as Recovery Zone Economic Development Bonds.

(c) A Certificate of the Authority certifying that the requirements set forth in Section 2.08 have been either met or provided for, together with a copy of the amendment to the Lease required by Section 2.08, together with a certified copy of the resolutions of the Authority and the City authorizing the execution of such amendment to the Lease.

SECTION 2.09. Applicability to Additional Bonds. Unless otherwise specified in the Supplemental Indenture pursuant to which an issue of Additional Bonds are issued, the provisions of Sections 2.04 through 2.07 shall apply to such issue of Additional Bonds.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. *Issuance of the Bonds.* At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon the Written Request of the Authority, deliver the Bonds to the Original Purchaser.

SECTION 3.02. *Application of Proceeds of Sale of Bonds.* Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall deposit the proceeds thereof into a temporary account, which shall be disbursed in full on the Closing Date (whereupon said temporary account shall be closed) as follows:

- (a) The Trustee shall deposit the amount of \$_____ into the Costs of Issuance Fund.
- (b) The Trustee shall deposit the amount of \$_____ into the Lease Payment Fund, constituting capitalized interest on the Bonds.
- (c) The Trustee shall deposit the amount of \$_____, constituting the full amount of the Reserve Requirement, in the Reserve Account.
- (d) The Trustee shall transfer the amount of \$_____, constituting the remainder of such proceeds and representing the full amount of the Site Lease Payment, to the City for deposit in the Lease Revenue Bond Proceeds Account within the Project Fund.

SECTION 3.03. *Establishment and Application of Costs of Issuance Fund.* The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds under Section 3.02(a). The Trustee shall disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on such Written Requisitions and shall be fully protected in relying thereon. On February 1, 2011, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Interest Account and shall thereupon close the Costs of Issuance Fund.

SECTION 3.04. *Project Fund; Lease Revenue Bond Proceeds Account.* The City will establish and maintain a separate fund to be known as the "Project Fund". Within the Project Fund, the City will establish and maintain a separate account to be known as the "Lease Revenue Bond Proceeds Account". The City will disburse moneys in the Lease Revenue Bond Proceeds Account to pay Project Costs. The City shall maintain accurate records showing each disbursement from the Lease Revenue Bond Proceeds Account, including information showing the amount of each disbursement, the purpose thereof and the party to whom payment is made.

Upon the determination by the City that the Project have been completed and that no further amounts are required to disbursed from the Lease Revenue Bond Proceeds Account to pay Project Costs, the City will withdraw all amounts remaining on deposit in the Lease Revenue Bond Proceeds Account and transfer such amounts to the Trustee for deposit in the Interest Account, to be applied as a credit towards the Lease Payments next coming due and payable.

SECTION 3.05. *Validity of Bonds.* The recital contained in the Bonds that the same are issued under the laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. *Terms of Redemption.*

(a) Optional Redemption. (i) *Optional Redemption with Make-Whole Payment.* The Bonds are subject to redemption prior to maturity at the option of the Authority, as a whole or in part (and, if in part, pro-rata among maturities), on any Business Day, at the "Make-Whole Redemption Price" which is the greater of (1) the principal amount of the Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "Treasury Rate" plus 50 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

"Treasury Rate" means, with respect to any redemption for a particular Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Bond:

- (i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of four firms, specified by the Authority from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

(ii) *Extraordinary Optional Redemption.* The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, pro-rata among maturities), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to section 54AA or section 6431 of the Tax Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 45% cash subsidy payments from the United States Treasury with respect to the Bonds, pursuant to which the 45% cash subsidy payments from the United States Treasury with respect to the Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Bonds, the greater of (i) the principal amount of the Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds of such maturity to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Bonds of such maturity to be redeemed to the redemption date.

(b) Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on March 1 in the respective years as set forth in the following table; *provided, however*, that if some but not all of the Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Sinking Fund Redemption Date (<u>March 1</u>)	<u>Principal Amount To Be Redeemed</u>
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SECTION 4.02. *Selection of Bonds for Redemption.* Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of a single maturity, the Bonds shall be selected for redemption on a pro-rata basis among outstanding maturities. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

SECTION 4.03. *Notice of Redemption; Rescission.* The Trustee shall mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

The Authority has the right to rescind any notice of the redemption of Bonds under Section 4.01(a) by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Authority and the Trustee have no liability to the Bond Owners or

any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

SECTION 4.04. *Partial Redemption of Bonds.* Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

SECTION 4.05. *Effect of Redemption.* Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed under the provisions of this Article shall be canceled by the Trustee upon surrender thereof and destroyed in accordance with the retention policy of the Trustee then in effect.

ARTICLE V

REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

SECTION 5.01. *Security for the Bonds; Bond Fund.*

(a) Pledge of Revenues, Refundable Credits and Other Amounts. Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under this Indenture are hereby pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of this Indenture. In addition, all of the Refundable Credits are hereby pledged to secure the payment of the principal of and interest on the Bonds. Said pledges constitute a lien on and security interest in the Revenues, the Refundable Credits and such amounts and shall attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

(b) Assignment to Trustee. Under the Assignment Agreement, the Authority has transferred to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under Sections 4.5, 5.10, 7.3 and 8.4 thereof). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the

Authority to the Trustee. The Trustee is also entitled to and shall, subject to the provisions of Article VIII, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

The Authority further hereby irrevocably transfers, assigns and sets over to the Trustee, without recourse to the Authority, all of the Refundable Credits and all rights of the Authority to receive the Refundable Credits. The Authority shall submit (or cause to be submitted) all documentation, and take all actions, as may be required to receive and collect the Refundable Credits when due, as provided in Section 6.07(g).

The Authority shall cause the payment of the Refundable Credits be made directly by the federal government to the Trustee for the benefit of the Bonds. In connection therewith, the Authority shall submit (or cause to be submitted by the City) the Filing Agent Agreement and any other documentation, and take all actions, as may be required by the Trustee to enable the Trustee to receive and collect the Refundable Credits when due. Notwithstanding the foregoing, the Authority may elect to receive and collect the Refundable Credits itself or to have the City so receive and collect, provided however, in any event any Refundable Credits collected or received by the Authority or the City shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

(c) Deposit of Revenues and Refundable Credits in Bond Fund. All Revenues and all Refundable Credits shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Lease Agreement to be deposited in the Redemption Fund shall be promptly deposited in such funds. All Revenues and Refundable Credits deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under Article X, and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

SECTION 5.02. *Allocation of Revenues.* On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority:

- (a) Deposit to Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.
- (b) Deposit to Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of Term Bonds (if

any) which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

- (c) Deposit to Reserve Account. The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

SECTION 5.03. *Application of Interest Account.* All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

SECTION 5.04. *Application of Principal Account.* All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates, and the principal amount of Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

SECTION 5.05. *Application of Reserve Account.* All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under Section 4.01(b), to the extent that moneys deposited in the Interest Account or the Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under Section 4.01(b), the Trustee shall apply such amounts first, to the payment of interest and second, to the payment of principal (including principal payable upon mandatory sinking fund redemption).

If at any time the amounts on deposit in the Reserve Account are sufficient to enable the Authority to pay or redeem all of the Outstanding Bonds and the interest thereon, the Trustee shall apply the amounts in the Reserve Account for that purpose at the Written Request of the Authority. On the date on which all Bonds are retired hereunder or provision is made therefor under Article X, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Lease Payments.

If the amount held in the Reserve Account on any Interest Payment Date is excess of the Reserve Requirement, the Trustee shall transfer such amount to the Bond Fund to be applied in accordance with Section 5.02.

SECTION 5.06. *Application of Redemption Fund.* Upon the determination by the Authority to redeem any Bonds under Section 4.01(a), the Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues and Refundable Credits received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds to be redeemed under Section 4.01(a). At any time prior to the selection of Bonds for redemption, the Trustee may apply such

amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds. The Trustee is entitled to conclusively rely on any Written Request of the Authority received under this Section 5.06, and is fully protected in relying thereon.

SECTION 5.07. *Insurance and Condemnation Fund.*

(a) Establishment of Fund. Upon the receipt of proceeds of insurance or eminent domain with respect to the Leased Property, the Trustee shall establish and maintain an Insurance and Condemnation Fund, to be held and applied as hereinafter set forth in this Section 5.07.

(b) Deposit of Proceeds. Any Net Proceeds of insurance against accident to or destruction of the Leased Property collected by the City or the Authority in the event of any such accident or destruction shall be paid to the Trustee under Section 6.3 of the Lease and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Authority shall deposit or cause to be deposited with the Trustee the Net Proceeds therefrom, which the Trustee shall deposit in the Insurance and Condemnation Fund under Section 6.2(b) of the Lease.

(c) Application of Proceeds. All proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, or to replace any Leased Property taken in eminent domain proceedings, upon receipt of a Written Request of the City which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund and has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Any balance of the proceeds remaining after such work has been completed as certified by the City under a Written Certificate to the Trustee shall be paid to the City. The Trustee shall be entitled to conclusively rely on any Written Request or Written Certificate received under this subsection (c) of this Section 5.07 and in each case, shall be fully protected in relying thereon.

SECTION 5.08. *Investments.* All moneys in any of the funds or accounts established with the Trustee under this Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority in a Written Request of the Authority filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments which constitute money market funds. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All amounts in any of the funds or accounts established with the City under this Indenture shall be invested by the City solely in investments which are authorized for the investment of such funds under the applicable laws of the State of California and under the adopted investment policy of the City.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, *provided, however*, that earnings on the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and otherwise shall be transferred to the Bond Fund. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under this Section 5.08.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority a periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

SECTION 5.09. *Valuation and Disposition of Investments.*

(a) Except as otherwise provided in subsection (b) of this Section, the Authority covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued at the Fair Market Value thereof as such term is defined in subsection (d) below. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Authority in any Written Request of the Authority.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and investments in the Reserve Account shall be valued at cost thereof, (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the Authority shall inform the Trustee which funds (other than the Reserve Account) are subject to a yield restriction.

(c) Except for the Reserve Account (and any other funds or accounts described in subsection (b)), for the purpose of determining the amount in any fund or account

established hereunder, the value of Permitted Investments credited to such fund shall be valued by the Trustee at least annually on or before January 1. The Trustee may sell or present for redemption, any Permitted Investment so purchased by the Trustee whenever it is necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

(d) For purposes of this Section 5.09, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

(e) To the extent of any valuations made by the Trustee hereunder, the Trustee may utilize and rely upon computerized securities pricing services that may be available to it, including those available through its regular accounting system.

ARTICLE VI

COVENANTS OF THE AUTHORITY COVENANTS OF THE BOARD

SECTION 6.01. *Punctual Payment.* The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of the Revenues, the Refundable Credits and other amounts pledged for such payment as provided in this Indenture.

SECTION 6.02. *Extension of Payment of Bonds.* The Authority 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 hereunder, to the benefits of this 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 have not been so extended. Nothing in this Section 6.02 limits the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

SECTION 6.03. *Against Encumbrances.* The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues, the Refundable Credits and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

SECTION 6.04. *Power to Issue Bonds and Make Pledge and Assignment.* The Authority is duly authorized under law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues, the Refundable Credits and other amounts purported to be pledged and assigned, respectively, under this Indenture and under the Assignment Agreement in the manner and to the extent provided in this Indenture and the Assignment Agreement. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues, the Refundable Credits and other assets and all the rights of the Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

SECTION 6.05. *Accounting Records.* The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established under this Indenture. The Trustee shall make such books of record and account available for inspection by the Authority and the City, during business hours, upon reasonable notice, and under reasonable circumstances.

SECTION 6.06. *Limitation on Additional Obligations.* The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues or Refundable Credits in whole or in part.

SECTION 6.07. *Tax Covenants.*

(a) Application of Section 1400U-2 of the Tax Code. The City hereby irrevocably elects to apply the provisions of Section 1400U-2 of the Tax Code to the Bonds and intends that the Bonds be treated as recovery zone economic development bonds (RZEDBS"). In addition, the City hereby irrevocably elects to treat the Bonds as "Qualified Bonds" within the meaning of Section 54AA(g)(2) and Section 6431 of the Tax Code such that the Bonds will be eligible for direct payment by the Refundable Credits equal to forty-five percent (45%) of interest payable on the Bonds.

(b) Private Activity Limitation. The Authority shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the

Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code. The Refundable Credits shall not be treated as a federal guaranty.

(c) No Arbitrage. The Authority may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(d) Expenditure of Proceeds to Assure RZEDBS Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Bonds are expended and all federal tax requirements are met so as to cause the Bonds to be treated as RZEDBS and Qualified Bonds and therefore be eligible for the Refundable Credits within the meaning of Section 6431 of the Code.

(e) Rebate of Excess Investment Earnings to United States. The Authority shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The Authority shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from amounts paid by the City for that purpose under Section 4.5(d) of the Lease. The Authority shall keep or cause to be kept, and retain or cause to be retained for a period of 6 years following the retirement of the Bonds, records of the determinations made under this subsection (e).

(g) Filing of Forms To Receive Refundable Credits. The Authority will, within the 45-day period beginning on the date that is 90 days before the next Interest Payment Date, file Form 8038-CP or any successor form designated by the federal government, requesting payment of the Refundable Credits with respect to the next interest payment on the Bonds. If the Authority selects the Trustee to file such forms, the Trustee shall perform such service in accordance with a separate agreement to be entered into between the Authority and the Trustee relating to the provision of such service.

(h) Financing Capital Expenditures, No Working Capital. All Available Project Proceeds (other than Available Project Proceeds deposited in the Reserve Account) will be spent on capital expenditures with a reasonably expected economic life of one year or more.

(i) Qualified Economic Development Purpose. All Available Project Proceeds, other than amounts deposited into the Reserve Account, will be spent on a Qualified Economic Development Purpose.

(i) Limitation on Issuance Costs. No proceeds of the Bonds and investment earnings thereon, in an amount in excess of 2% of the proceeds of the sale of the Bonds, will be used to pay Costs of Issuance of the Bonds. If the fees of the Original Purchaser of the Bonds are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

(j) Expenditure of Proceeds to Assure Bonds Are Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Bonds are expended and all federal tax requirements are met so as to cause the Bonds to be treated as Recovery Zone Economic Development Bonds and Qualified Bonds and therefore be eligible for the Refundable Credits.

(k) Limitation on Original Issue Premium. All Bonds of each maturity of the issue shall be offered to the ultimate purchasers thereof (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the price of par and, at least 10% of the first Bonds sold in each maturity of the issue will be actually sold at a price not excess of the par amount thereof x .0025 x the number of complete years to maturity from the date of issue of the Bonds to the date of said maturity.

SECTION 6.08. *Enforcement of Lease.* The Trustee shall promptly collect all amounts (to the extent any such amounts are available for collection) due from the City under the Lease. Subject to the provisions of Article VIII, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Lease.

SECTION 6.09. *Waiver of laws.* The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.10. *Further Assurances.* The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. *Events of Default.* The following events constitute Events of Default hereunder:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period

of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee; provided, however, if in the reasonable opinion of the Authority 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 the Authority institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.

- (d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in the Lease.

SECTION 7.02. *Remedies Upon Event of Default.* If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority deposits with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its legal counsel, including the allocated costs of internal attorneys) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

SECTION 7.03. *Application of Revenues and Other Funds After Default.* If an Event of Default occurs and is continuing, all Revenues, Refundable Credits and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee in the following order of priority:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal

attorneys) incurred in and about the performance of its powers and duties under this Indenture;

- (b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of this 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;

Second: 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 acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), 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; and

SECTION 7.04. *Trustee to Represent Bond Owners.* The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture and applicable provisions of any law. All rights of action under this 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 all the Owners of such Bonds, subject to the provisions of this Indenture.

SECTION 7.05. *Limitation on Bond Owners' Right to Sue.* Notwithstanding any other provision hereof, no Owner of any Bonds has 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 this Indenture, the Lease or any other applicable law with respect to such Bonds, unless (a) such Owner has 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 have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written

request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

SECTION 7.06. *Absolute Obligation of Board.* Nothing herein or in the Bonds contained affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as herein provided, but only out of the Revenues, the Refundable Credits and other assets herein 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.

SECTION 7.07. *Termination of Proceedings.* In case any proceedings taken by the Trustee or by any one or more Bond Owners on account of any Event of Default have been discontinued or abandoned for any reason or have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

SECTION 7.08. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds 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 hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. *No Waiver of Default.* No delay or omission of the Trustee or any Owner of the Bonds 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 this Indenture to the Trustee or the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or the Bond Owners.

SECTION 7.10. *Notice to the Bond Owners of Default.* Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall promptly

give written notice thereof by first class mail, postage prepaid, to the Owner of each Outstanding Bond, unless such Event of Default has been cured before the giving of such notice; *provided, however* that except in the case of an Event of Default described in Sections 7.01(a) or 7.01(b), the Trustee may elect not to give such notice to the Bond Owners if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. *Appointment of Trustee.* U.S. Bank National Association is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this Article VIII so long as any Bonds are Outstanding.

SECTION 8.02. *Acceptance of Trusts; Removal and Resignation of Trustee.* The Trustee hereby accepts the express trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

- (a) 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 this Indenture and no implied duties or covenants shall be read into this Indenture against the Trustee.
- (b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and shall remove the Trustee (a) if at any time requested to do so by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (b) if at any time the Trustee ceases to be eligible in accordance with Section 8.02, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. Any such removal shall be made upon at least 30 days' prior written notice to the Trustee.
- (c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books.
- (d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. In the event of the removal

or resignation of the Trustee under subsections (b) or (d), respectively, the Authority shall promptly appoint a successor Trustee.

If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee 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 this Indenture, must signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and after payment by the Authority of all unpaid fees and expenses of the predecessor Trustee, 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 herein; but, nevertheless at the Written Request of the Authority or the request of 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 the Leased Property held by such predecessor Trustee under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall promptly mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

- (e) Any Trustee appointed under this Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, shall be authorized under such laws to exercise corporate trust powers, shall have (or, in the case of a corporation or association that is a member of a bank holding company system, the related bank holding company has) a combined capital and surplus of at least \$50,000,000, and shall be subject to supervision or examination by a federal or state agency, so long as any Bonds are

Outstanding. If such corporation or association publishes a report of condition at least annually under law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection (e), the combined capital and surplus of such corporation or association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If the Trustee at any time ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.03. *Merger or Consolidation.* Any bank, federal savings association, or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, federal savings association, or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, federal savings association, or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, federal savings association, or trust company shall be eligible under subsection (e) of Section 8.02 shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.04. *Liability of Trustee.*

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture, the Bonds or the Lease (including any right to receive moneys thereunder or the value of or title to the premises upon which the Leased Property is located), nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations of Trustee herein 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 shall not be liable in connection with the performance of its duties hereunder, except for its own negligence. 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 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made by a responsible officer, unless it is proved that the Trustee was grossly negligent in ascertaining the pertinent facts.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of 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 this Indenture or assigned to it under the Assignment Agreement.

(d) The Trustee is not liable for any action taken by it and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until it shall have actual knowledge thereof, or a corporate trust officer shall have received written notice thereof at its Office from the City, the Authority or the Owners of at least 25% in aggregate principal amount of the Outstanding Bonds. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions, covenants or agreements herein, under the Lease or the Bonds or of any of the documents executed in connection with the Bonds, or as to the existence of a default or an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City or the Authority of the terms, conditions, covenants or agreements set forth in the Lease, other than the covenants of the City to make Lease Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee thereunder.

(f) No provision of this Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents, receivers or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, receiver or attorney appointed with due care by it hereunder.

(h) The Trustee has no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of the Bond Owners under this Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including but not limited to fees and expenses of its attorneys) which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(i) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of Section 8.02(a), this Section 8.04 and Section 8.05, and shall be applicable to the assignment of any rights under the Lease to the Trustee under the Assignment Agreement.

(j) The Trustee is not accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions hereof.

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality,

durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease or this Indenture for the existence, furnishing or use of the Leased Property.

(l) The Trustee has 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.

(m) The Trustee is authorized and directed to execute the Assignment Agreement in its capacity as Trustee hereunder.

SECTION 8.05. *Right to Rely on Documents.* The Trustee shall be protected and shall incur no liability in acting or refraining from acting in reliance upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee is under no duty to make any investigation or inquiry as to any statements contained or matter referred to in any paper or document but may accept and conclusively rely upon the same as conclusive evidence of the truth and accuracy of any such statement or matter and shall be fully protected in relying thereon. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

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

SECTION 8.06. *Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of this Indenture shall be retained in its respective possession and in accordance with its retention policy then in effect and shall, upon reasonable notice to Trustee, be subject to the inspection of the Authority, the City and any Bond Owner, and their agents and representatives duly authorized in writing, during business hours and under reasonable conditions as agreed to by the Trustee.

SECTION 8.07. *Compensation and Indemnification.* The Authority shall pay to the Trustee from time to time, on demand, the compensation for all services rendered under this Indenture and also all reasonable expenses, advances (including any interest

on advances), charges, legal (including outside counsel and the allocated costs of internal attorneys) and consulting fees and other disbursements, incurred in and about the performance of its powers and duties under this Indenture.

The Authority shall indemnify the Trustee, its officers, directors, employees and agents against any cost, loss, liability or expense whatsoever (including but not limited to fees and expenses of its attorneys) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust and this Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder or under the Assignment Agreement or the Lease. As security for the performance of the obligations of the Authority under this Section 8.07 and the obligation of the Authority to make Additional Rental Payments to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such. The rights of the Trustee and the obligations of the Authority under this Section 8.07 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture and the Lease.

ARTICLE IX

MODIFICATION OR AMENDMENT HEREOF

SECTION 9.01. Amendments Permitted.

(a) Amendments With Bond Owner Consent. This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee. No such modification or amendment may (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues, the Refundable Credits and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by this Indenture on such Revenues, Refundable Credits and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) Amendments Without Owner Consent. This Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the

Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in this Indenture contained, 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 herein reserved to or conferred upon the Authority;
- (ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;
- (iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
- (iv) to modify, amend or supplement this Indenture in such manner as to assure that the Bonds remain Recovery Zone Economic Development Bonds and that the Authority remains entitled to collect the Refundable Credits under the Tax Code;
- (v) to incorporate provisions relating to a Qualified Reserve Account Surety Bond; or
- (v) to modify, amend or supplement this Indenture in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code.

(c) Limitation. The Trustee is not obligated to enter into any Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Bond Counsel Opinion Requirement. Prior to the Trustee entering into any Supplemental Indenture hereunder, the Authority shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

(e) Notice of Amendments. The Authority shall deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 9.01.

SECTION 9.02. *Effect of Supplemental Indenture.* Upon the execution of any Supplemental Indenture under this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. *Endorsement of Bonds; Preparation of New Bonds.* Bonds delivered after the execution of any Supplemental Indenture under this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, 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 Authority, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

SECTION 9.04. *Amendment of Particular Bonds.* The provisions of this Article IX do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

ARTICLE X

DEFEASANCE

SECTION 10.01. *Discharge of Indenture.* Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or
- (c) by delivering all of such Bonds to the Trustee for cancellation.

If the Authority also pays or causes to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the

Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues, Refundable Credits and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to Section 10.02. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it under this Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption. The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

SECTION 10.02. *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

The Authority may at any time surrender to the Trustee, for cancellation by Trustee, any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 10.03. *Deposit of Money or Securities with Trustee.* Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under this Indenture and shall be:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or
- (b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if

any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above). The Trustee shall be entitled to conclusively rely on such Written Request or opinion and shall be fully protected, in each case, in relying thereon.

SECTION 10.04. *Unclaimed Funds.* Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for 2 years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall (at the cost of the Authority) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. *Liability of Authority Limited to Revenues and Refundable Credits.* Notwithstanding anything in this Indenture or in the Bonds contained, the Authority is not required to advance any moneys derived from any source other than the Revenues, the Refundable Credits and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

SECTION 11.02. *Limitation of Rights to Parties and Bond Owners.* Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such

covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

SECTION 11.03. *Funds and Accounts.* Any fund or account required by this 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 industry standards to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under this Indenture.

SECTION 11.04. *Waiver of Notice; Requirement of Mailed Notice.* Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice is required to be given by mail, such requirement may be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

SECTION 11.05. *Destruction of Bonds.* Whenever in this Indenture provision is made for the cancellation by the Trustee, and the delivery to the Authority, of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and at the written request of the Authority the Trustee shall deliver a certificate of such destruction to the Authority.

SECTION 11.06. *Severability of Invalid Provisions.* If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 11.07. *Notices.* All notices or communications to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by telephone, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority or the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance
Fax: 916-691-2001

If to the Trustee: U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attention: Corporate Trust Administration
Fax: (206) 344-4630

SECTION 11.08. *Evidence of Rights of Bond Owners.* Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond 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 this Indenture and shall be conclusive in favor of the Trustee and the Authority if made in the manner provided in this Section 11.08.

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 Authority in accordance therewith or reliance thereon.

SECTION 11.09. *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 this Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or 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 Authority or 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 Section 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 Authority or the City or any other obligor on the Bonds. In case of a dispute as to such right, the Trustee shall be entitled to rely upon the advice of counsel in any decision by Trustee and shall be fully protected in relying thereon.

Upon request, the Authority shall specify to the Trustee those Bonds disqualified under this Section 11.09.

SECTION 11.10. *Money Held for Particular Bonds.* The money held by the Trustee for the payment of the interest, premium, if any, or principal 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 of the Bonds entitled thereto, *subject, however,* to the provisions of Section 10.04 but without any liability for interest thereon.

SECTION 11.11. *Waiver of Personal Liability.* No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.12. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Indenture either the Authority, the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority, the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.13. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.14. *Payment on Non-Business Day.* In the event any payment is required to be made hereunder on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and with the same effect as if made on such preceding non-Business Day.

SECTION 11.15. *Governing Law.* This Indenture shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the ELK GROVE FINANCE AUTHORITY has caused this Indenture to be signed in its name by its Administrator and attested to by its Secretary, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

ELK GROVE FINANCE AUTHORITY

By _____
Administrator

Attest:

Secretary

**U.S. BANK NATIONAL ASSOCIATION, as
Trustee**

By _____
Authorized Officer

APPENDIX A

DEFINITIONS

“Additional Bonds” means Additional Bonds issued in accordance with Section 2.08 hereof.

“Additional Rental Payments” means the amounts of additional rental which are payable by the City under Section 4.5 of the Lease or which are otherwise identified as Additional Rental Payments under the Lease.

“Assignment Agreement” means the Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended.

“Authority” means the Elk Grove Finance Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of July 13, 2005, by and between the City of Elk Grove and the Parking Authority of the City of Elk Grove, and under the laws of the State of California.

“Authorized Representative” means: (a) with respect to the Authority, its President, Administrator, Chair, Vice Chair, Executive Director, Treasurer, Assistant Treasurer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Administrator, Chair, Vice Chair, Executive Director, Treasurer or Assistant Treasurer and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, City Manager, Finance Director or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its Mayor, City Manager or Finance Director and filed with the Trustee.

“Available Project Proceeds” means (i) the proceeds from the sale of the Bonds, (ii) less Costs of Issuance of the Bonds paid from proceeds of the sale of the Bonds (not exceeding 2% of the proceeds of the sale of the Bonds), plus (iii) investment earnings on the difference between (i) - (ii).

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee under Section 5.01.

“Bond Law” means the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bond Year” means each twelve-month period extending from March 2 in one calendar year to March 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including March 1, 2011.

“Bonds” means the \$_____ aggregate principal amount of Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) authorized by and at any time Outstanding under the Bond Law and this Indenture.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the City in which the Office of the Trustee is located.

“City” means the City of Elk Grove, a municipal corporation organized and existing under the laws of the State of California.

“Closing Date” means _____, 2010, being the date of delivery of the Bonds to the Original Purchaser.

“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 their respective 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; 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 under Section 3.03.

“Depository” means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository under Section 2.04.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any of the events specified in Section 7.01.

“Excess Investment Earnings” means an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Bonds at a yield in excess of the yield on the Bonds.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Filing Agent Agreement" the Filing Agent Agreement dated as of _____, 2010, between the Authority and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof, providing for the collection of the Refundable Credits by the Trustee.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

"Indenture" means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

"Information Services" means Financial Information, Inc.'s Financial Daily Called Bond Service; Standard & Poor's J.J. Kenny Information Services; Moody's Municipal and Government; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee under Section 5.07.

"Interest Account" means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

"Interest Payment Date" means each March 1 and September 1, commencing March 1, 2011, so long as any Bonds remain unpaid.

"Lease" means the Lease Agreement dated as of November 1, 2010, between the Authority as lessor and the City as lessee of the Leased Property, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Indenture.

"Lease Payment Date" means, with respect to any Interest Payment Date, the 5th Business Day immediately preceding such Interest Payment Date.

"Lease Payments" means the amounts payable by the City under Section 4.3(a) of the Lease, including any prepayment thereof and including any amounts payable upon a delinquency in the payment thereof.

“Leased Property” means the real property described in Appendix A to the Lease, together with all improvements and facilities at any time situated thereon, consisting generally of the land and improvements constituting the existing police facilities, council chambers and City library (real property commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard).

“Lease Revenue Bond Proceeds Account” means the account by that name established and held by the City within the Project Fund under Section 3.04.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Proceeds” means amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Property, or the proceeds of any taking of the Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.04(a).

“Office” means the corporate trust office of the Trustee in San Francisco, California or Seattle, Washington, or such other or additional offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust business is conducted.

“Original Purchaser” means _____, as original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding”, when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this 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 Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under this Indenture.

“Owner”, whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Permitted Encumbrances” means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease; (b) the Site Lease, the Lease and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, material man, supplier or vendor not filed or perfected in the manner prescribed by law; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Lawyer’s Title Company; and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any federal agencies whose obligations are backed by the full faith and credit of the United States of America.
- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by S&P (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (d) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize under federal law, which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1 or better by S&P.
- (e) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee or its affiliates) in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation, including the Bank Insurance Fund and the Savings Association Insurance Fund.
- (f) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated AA or better from S&P, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating from S&P falls below AA. For purpose of this clause, the rating category “AA” includes all gradations within such rating category.
- (g) Bonds, notes or other obligations issued by any corporation or public agency, which as of the date of purchase are rated AA or better from S&P. For purpose of this clause, the rating category “AA” includes all gradations within such rating category.
- (h) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

“Principal Account” means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

“Project” means the undertaking by the City for the construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related to such facility and incidental expenses related thereto.

“Project Costs” means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for the purchase of the Project or otherwise relating to the acquisition, construction and installation of the Project;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) preliminary costs of the Project, including but not limited to design, environmental, engineering and architectural services, costs for testing, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and costs for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- (e) costs of equipping and furnishing the Project, and costs of taking occupancy of the Project including costs incurred in connection with the relocation of City administrative functions and personnel into the Project;
- (f) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (g) all financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- (h) the Lease Payments coming due during the period of construction of the Project and for not more than six months thereafter.

“Project Fund” means the fund by that name established and held by the City under Section 3.04.

“Qualified Economic Development Purpose” means expenditures for purposes of promoting development or other economic activity in a recovery zone including (i) capital

expenditures paid or incurred with respect to property located in the recovery zone, (ii) expenditures for public infrastructure and construction of public facilities, and (iii) expenditures for job training and educational programs.

“Record Date” means, with respect to 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.

“Recovery Zone” means a recovery zone within the meaning of Section 1400U-1(b) of the Tax Code consisting of (i) any area designated by the Authority as having significant poverty, unemployment, rate of home foreclosures, or general distress, (ii) any area designated by the Authority as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990, and (iii) any are for which a designation as an empowerment zone or renewal community is in effect.

“Redemption Fund” means the fund by that name established and held by the Trustee under Section 5.06.

“Refundable Credits” means, with respect to the Series B Bonds, the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code.

“Registration Books” means the records maintained by the Trustee under Section 2.05 for the registration and transfer of ownership of the Bonds.

“Reserve Account” means the account by that name established and held by the Trustee in the Bond Fund established under Section 5.02.

“Reserve Requirement” means, as of any date of calculation, the lesser of (a) 10% of the original principal amount of the Bonds, or (b) the maximum annual debt service on the Bonds coming due and payable in the current or any future Bond Year, or (c) 125% of average annual debt service on the Bonds.

“Revenues” means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts described in Section 7.5(b)(v) of the Lease, and (ii) any Additional Rental Payments; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

“Securities Depositories” means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority designates in written notice filed with the Trustee.

“Site Lease” means the Site Lease dated as of November 1, 2010, between the City as lessor and the Authority as lessee, as amended from time to time in accordance with its terms.

“Site Lease Payment” means the amount of \$_____ which is payable by the Authority to the City on the Closing Date under Section 3 of the Site Lease.

“S&P” means Standard & Poor’s, a division of the McGraw Hill Companies, of New York, New York, its successors and assigns.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Term” means, with reference to the Lease, the time during which the Lease is in effect, as provided in Section 4.2 thereof.

“Term Bonds” means the Bonds maturing on March 1, 20__.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of United States of America, or its successor or successors, as Trustee hereunder as provided in Article VIII.

“Written Certificate,” “Written Request” and “Written Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, 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.

APPENDIX B

BOND FORM

NO. R- _____

***\$ _____ ***

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

ELK GROVE FINANCE AUTHORITY

**2010 LEASE REVENUE BONDS
(Capital Facility)**

INTEREST RATE: _____% MATURITY DATE: March 1, _____, 2010 ORIGINAL ISSUE DATE: _____, 2010 CUSIP: _____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: *** _____ ***

SPECIMEN

The ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before _____ 15, 2010, in which event it shall bear interest from the Original Issue Date specified above; *provided, however*, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, at the Interest Rate per annum specified above, payable semiannually on March 1 and September 1 in each year, commencing March 1, 2011 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of U.S. Bank National Association, in Seattle, Washington (the "Trust Office"), as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee mailed to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books

of the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee as of such Record Date by a registered owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States designated by such registered owner in such written request.

This Bond is not a debt of the City of Elk Grove (the "City"), the County of Orange, the State of California, or any of its political subdivisions, and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Bond be payable out of any funds or properties of the Authority other than the Revenues.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) (the "Bonds"), in an aggregate principal amount of \$ _____, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, and under an Indenture of Trust dated as of November 1, 2010, between the Authority and the Trustee (the "Indenture") and a resolution of the Authority adopted on _____, 2010, authorizing the issuance of the Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Authority to finance the acquisition and construction of capital improvements of the City. This Bond and the interest and premium, if any, hereon are special obligations of the Authority, payable from the Revenues, and secured by a charge and lien on the Revenues as defined in the Indenture, consisting principally of lease payments made by the City under a Lease Agreement dated as of November 1, 2010, between the Authority as lessor and the City as lessee (the "Lease"). As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

The rights and obligations of the Authority and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

The Bonds are subject to redemption prior to maturity at the option of the Authority, as a whole or in part (and, if in part, pro-rata among maturities), on any Business Day, at the "Make-Whole Redemption Price" which is the greater of (1) the

principal amount of the Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” plus 50 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption for a particular Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond:

(i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of four firms, specified by the Authority from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, pro-rata among maturities), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to section 54AA or section 6431 of the Tax Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 45% cash subsidy payments from the United States Treasury with respect to the Bonds, pursuant to which the 45% cash subsidy payments from the United States Treasury with respect to the Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Bonds, the greater of (i) the principal amount of the Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds of such maturity to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Bonds of such maturity to be redeemed to the redemption date.

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 30 nor more than 60 days prior to the redemption date to the respective owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption. Notice of any optional redemption of the Bonds may be rescinded under the circumstances set forth in the Indenture, upon notice to the owners of such Bonds.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. This Bond may be exchanged at the Trust Office for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Authority or the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified by the Authority that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Bond Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the Elk Grove Finance Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its President and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

ELK GROVE FINANCE AUTHORITY

By _____
President

Attest:

Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____ whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby _____ irrevocably constitute(s) _____ and _____ appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor institution.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

EXHIBIT E

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

BOND PURCHASE AGREEMENT

_____, 2010

Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

_____. (the "Underwriter") hereby offers to enter into this agreement with the Elk Grove Finance Authority (the "Issuer") and the City of Elk Grove (the "City"), California. Upon the acceptance hereof by the Issuer and the City, this offer will be binding upon the Issuer, the City and the Underwriter. This offer is made subject to (i) the written acceptance hereof by the Issuer and the City and (ii) withdrawal by the Underwriter upon written notice (by facsimile or otherwise) delivered to the Issuer and the City at any time prior to the acceptance hereof by the Issuer and the City.

1. **Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Issuer at the Closing Time on the Closing Date (both as defined herein), and the Issuer hereby agrees to sell and deliver to the Underwriter \$_____ aggregate principal amount of its 2010 Lease Revenue Bonds (Capital Facility) (the "Bonds"). The Bonds shall be dated their date of delivery, shall mature on the dates and shall bear interest at the rates set forth in Schedule I attached hereto, and shall be subject to redemption and have such other terms as are provided in the Indenture of Trust (the "Indenture"), dated as of November 1, 2010, by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The aggregate purchase price for the Bonds shall be \$_____ (representing the aggregate principal amount thereof, [minus a net original issue discount of \$_____], less an Underwriter's discount of \$_____). (The date of such payment and delivery is referred to herein as the "Closing Date," the hour and date of such delivery and payment is referred to herein as the "Closing Time," and the other actions contemplated hereby to take place at the time of such payment and delivery being herein

sometimes called the “Closing”).

2. **The Bonds.** The Bonds shall be described in, and shall be issued and secured pursuant to, the provisions of the Constitution and the laws of the State of California (the “State”) including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 (commencing with Section 6584), Division 7, Title 1 of the Government Code of the State (the “Bond Law”) and the Indenture. The Bonds are being issued to (i) finance a portion of the costs of construction of a household hazardous waste facility and acquisition of land, furnishings and equipment related thereto, (ii) fund capitalized interest on the Bonds through _____, (iii) fund a deposit to the Reserve Fund in an amount equal to the Reserve Requirement, and (iv) pay costs of issuance of the Bonds.

The Bonds are payable from Revenues (as defined in the Indenture) pledged to the Bonds under the Indenture. Revenues primarily consist of certain amounts received by the Authority or the Trustee under or with respect to the Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and between the Authority and the City, including Lease Payments to be made by the City to the Authority under the Lease; (ii) any proceeds of Bonds originally deposited with the Trustee and all moneys on deposit in the funds and accounts (other than the Rebate Fund) established under the Indenture; (iii) investment income with respect to such moneys held by the Trustee and (iv) any insurance proceeds or condemnation awards received by or payable to the Trustee relating to the Lease Payments, including interest or profits. The Issuer will assign to the Trustee substantially all of its rights under the Lease to the Trustee pursuant to an Assignment Agreement, dated as of November 1, 2010 (the “Assignment Agreement”), by and between the Issuer and the Trustee.

The Bonds will be issued as Recovery Zone Economic Development Bonds under the American Recovery and Reinvestment Act (the “Recovery Act”). Pursuant to Section 1400U-1 of the Internal Revenue Code of 1986, as amended (the “Tax Code”), the Authority has received an allocation in the amount of \$_____, and pursuant to Section 1400U-2 has elected to treat the Bonds as Recovery Zone Economic Development Bonds for which it has received such allocation. The Authority intends that the Bonds be “qualified bonds” (“Qualified Bonds”) under Section 54AA(g)(2) and Section 6431 of the Tax Code which make the Authority eligible for a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Bonds. Such cash subsidy payments received by the Authority are herein referred to as “Refundable Credits.” Refundable Credits are expected to be received contemporaneously with each Interest Payment Date.

The Indenture, the Lease, the Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the City and the Issuer relating to the Bonds, the Assignment Agreement and this Bond Purchase Agreement are referred to collectively herein as the “Issuer Documents.” The Site Lease, the Lease, the Continuing Disclosure Agreement, dated as of November 1, 2010 (the “Continuing Disclosure Agreement”), by and between the City and U.S. Bank National Association, as dissemination agent, and this Bond Purchase Agreement are referred to collectively herein as the “City Documents.”

3. **Offering by the Underwriter.** It shall be a condition to the Issuer’s obligations to sell and to deliver the Bonds to the Underwriter and to the Underwriter’s

obligation to purchase, to accept delivery of and to pay for the Bonds that the entire principal amount of the Bonds shall be issued, sold and delivered by the Issuer and purchased, accepted and paid for by the Underwriter at the Closing. It is understood that the Underwriter proposes to offer the Bonds for sale to the public (which may include selected dealers) at prices or yields as set forth on the inside pages of the Official Statement. Concessions from the public offering price may be allowed to selected dealers. It is understood that the initial public offering price and concessions set forth in the Official Statement may vary after the initial public offering. It is further understood that the Bonds may be offered to the public at prices other than the par value thereof. The net premium on the sale of the Bonds to the public, if any, shall accrue to the benefit of the Underwriter.

4. Official Statement, Delivery of Other Documents, Use of Documents.

The Issuer and the City hereby authorize the use by the Underwriter of the Preliminary Official Statement, dated November ____, 2010 (the "Preliminary Official Statement") and the Official Statement of the Issuer (including any supplements or amendments to the Official Statement) and the Indenture and the information therein contained, in connection with the public offering and sale of the Bonds. Such Official Statement, including the cover page, the appendices thereto relating to the Bonds, with such changes and amendments thereto as may be mutually agreed to by the Issuer, the City and the Underwriter, is hereinafter referred to as the "Official Statement."

(a) The Issuer shall deliver to the Underwriter, within seven business days from the date hereof, such number of copies of the final Official Statement executed on behalf of and approved for distribution by the Issuer as the Underwriter may reasonably request in order for the Underwriter to comply with the rules of the Municipal Securities Rulemaking Board (the "MSRB") and Rule 15c2-12(b)(4) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule").

(b) As soon as practicable following receipt thereof, the Underwriter shall deliver the Official Statement, and any supplements or amendments thereto, to the MSRB.

5. Representations, Warranties and Agreements of the Issuer. The Issuer represents, warrants and agrees as follows:

(a) The Issuer is a joint exercise of powers authority duly organized and validly existing under the laws of the State.

(b) The Issuer has full legal right, power and authority (i) to enter into the Issuer Documents, to sell, issue and deliver the Bonds to the Underwriter as provided herein; and (ii) to carry out and consummate the transactions on its part contemplated by the Issuer Documents.

(c) By all necessary official action, the Issuer has duly authorized and approved the Issuer Documents, has duly authorized and approved the Preliminary Official Statement and the Official Statement, has duly authorized and approved the execution and delivery of, and the performance by the Issuer of the obligations in connection with the issuance of the Bonds on its part contained in the Bonds and the Issuer Documents and the consummation

by it of all other transactions contemplated by the Issuer Documents in connection with the issuance of the Bonds.

(d) The Issuer is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation of any state or of the United States, or any agency or instrumentality of either, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Indenture) or other instrument to which the Issuer is a party which breach or default has or may have an adverse effect on the ability of the Issuer to perform its obligations under the Issuer Documents, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the authentication and delivery of the Bonds, or the execution and delivery of the Issuer Documents, and compliance with the provisions on the Issuer's part contained therein, will not conflict in any material way with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Issuer or under the terms of any such law, regulation or instrument, except as provided by the Bonds and the Indenture.

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Issuer of its obligations in connection with the issuance of the Bonds under this Bond Purchase Agreement or the Indenture have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds; except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Issuer of its obligations under the Indenture have been duly obtained.

(f) The Bonds when issued will conform to the descriptions thereof contained in the Official Statement under the caption "DESCRIPTION OF THE BONDS"; and the Indenture when executed and delivered by the Issuer will conform to the descriptions thereof contained in the Official Statement under the captions "THE BONDS," "SECURITY FOR THE BONDS," and in APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

(g) The Bonds, when issued, authenticated and delivered in accordance with the Indenture, and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the Issuer, entitled to the benefits of the Indenture, and upon such issuance and delivery, the Indenture will provide, for the benefit of the owners from time to time of the Bonds, the legally valid and binding pledge of and lien and security interest it purports to create.

(h) There is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court, government agency, public board or body pending or, to the actual knowledge of the Issuer, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Revenues pursuant to the Indenture, or contesting or affecting as to the Issuer the validity or enforceability of the Bond Law, the Bonds, or the Issuer Documents or contesting the designation of the Bonds as Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the Issuer for the issuance of the Bonds, or the execution and delivery or adoption by the Issuer of the Issuer Documents, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby; nor, to the best knowledge of the Issuer, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity of the Bond Law, as to the Issuer, or the authorization, execution, delivery or performance by the Issuer of the Bonds, or the Issuer Documents.

(i) The Issuer will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Issuer shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction, provided, that the Underwriter shall bear all costs in connection with the Issuer's action under (i) and (ii) herein, and (iii) assure or maintain the exemption of interest on the Bonds from personal income taxes of the State.

(j) As of the date thereof, the Preliminary Official Statement did not, except for the omission of certain information permitted to be omitted in accordance with the Rule, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) As of its date, and (unless an event occurs of the nature described in paragraph (l) of this Section 5) at all times subsequent thereto up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the Issuer shall apply only to the information contained in the Official Statement relating to the Issuer.

(l) If the Official Statement is supplemented or amended pursuant to paragraph (m) of this Section 5, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times

subsequent thereto up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the Issuer shall apply only to the information contained in the Official Statement relating to the Issuer.

(m) If between the date of this Bond Purchase Agreement and that date which is 25 days after the end of the underwriting period (as determined in accordance with Section 14 hereof) any event known to the Issuer shall occur affecting the Issuer which might adversely affect the marketability of the Bonds or the market prices thereof, or which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Issuer shall notify the Underwriter thereof, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Issuer will at its expense prepare and furnish to the Underwriter a reasonable number of copies of such supplement to, or amendment of, the Official Statement in a form and in a manner approved by the Underwriter.

(n) The Issuer will refrain from taking any action, or permitting any action to be taken, with regard to which the Issuer may exercise control, that results in the loss of the designation of the Bonds as Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State.

(o) Any certificate signed by any officer of the Issuer and delivered to the Underwriter pursuant to the Issuer Documents or any document contemplated thereby, shall be deemed a representation and warranty by the Issuer to the Underwriter as to the statements made therein.

(p) The Issuer will cause the proceeds from the sale of the Bonds to be paid to the Trustee for the purposes specified in the Indenture and the Official Statement. So long as any of the Bonds are outstanding and except as may be authorized by the Indenture, the Issuer will not issue or sell any bonds or other obligations, other than the Bonds sold thereby, the interest on and premium, if any, or principal of which will be payable from the Revenues and funds and accounts pledged under the Indenture.

(q) The Issuer shall honor all other covenants on its part contained in the Issuer Documents which are incorporated herein and made a part of this Bond Purchase Agreement.

6. **Representations, Warranties and Agreements of the City.** The City represents, warrants and agrees as follows:

(a) The City is duly organized and existing under the laws of the State.

(b) The City has full legal right, power and authority to enter into and to carry out the transactions on its part contemplated by the City Documents.

(c) By all necessary official action, the City has duly authorized and approved the City Documents, has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations in connection with the issuance of the Bonds on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the City Documents in connection with the issuance of the Bonds.

(d) The City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation of any state or of the United States of America, or any agency or instrumentality of either, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party which breach or default has or may have an adverse effect on the ability of the City to perform its obligations under the City Documents, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the City Documents, and compliance with the provisions on the City's part contained therein, will not conflict in any material way with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations in connection with the City Documents have been duly obtained; except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations under the City Documents have been duly obtained.

(f) The City Documents when executed and delivered by the City will conform to the descriptions thereof contained in the Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS" and in APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court, government agency, public board or body pending, or to the actual knowledge of the City, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Revenues pursuant to the Indenture, or contesting or affecting as to the City the validity or enforceability of the Bond Law, the Bonds, or the City Documents or contesting the designation of the Bonds as

Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or the execution and delivery or adoption by the City of the City Documents, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby; nor, to the best knowledge of the City, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the City Documents.

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction, provided, that the Underwriter shall bear all costs in connection with the City's action under (i) and (ii) herein, and (iii) assure or maintain the designation of the Bonds as Qualified Bonds and the exemption of interest on the Bonds from personal income taxes of the State.

(i) As of the date thereof, the Preliminary Official Statement did not, except for the omission of certain information permitted to be omitted in accordance with the Rule, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(j) As of the date thereof, and (unless an event occurs of the nature described in paragraph (k) of this Section 6) at all times subsequent thereto up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(k) If the Official Statement is supplemented or amended pursuant to paragraph (k) of this Section 6, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(l) If between the date of this Bond Purchase Agreement and that date which is 25 days after the end of the underwriting period (as determined in accordance with Section 14 hereof) any event known to the City shall occur affecting the City which might adversely affect the marketability of the Bonds or the market prices thereof, or which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the City shall notify the Underwriter thereof, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will, in conjunction with and at the expense of the Issuer, prepare and furnish to the Underwriter a reasonable number of copies of such supplement to, or amendment of, the Official Statement in a form and in a manner approved by the Underwriter.

(m) The City will refrain from taking any action, or permitting any action to be taken, with regard to which the City may exercise control, that results in the loss of the designation of the Bonds as Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State.

(n) Any certificate signed by any officer of the City and delivered to the Underwriter pursuant to the City Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(o) There has been no material adverse change in the financial condition of the City since June 30, 2009, except as disclosed in the Official Statement.

7. **Closing.** At 8:00 a.m., Los Angeles time, on _____, 2010, or on such earlier date or as soon thereafter as practicable, as may be mutually agreed upon by the Issuer, the City and the Underwriter, the Issuer will, subject to the terms and conditions hereof, cause The Depository Trust Company, New York, New York (“DTC”) to release the Bonds for the beneficial ownership of the Underwriter, and will deliver to the Underwriter the other documents hereinafter mentioned; and the Underwriter will accept such delivery at the offices of Jones Hall, A Professional Corporation, San Francisco, California and will pay the purchase price of the Bonds as set forth in Paragraph 1(a) hereof by delivering federal or other immediately available funds in the amount of such purchase price to the Trustee. The Bonds shall be prepared in fully registered form without coupons in authorized denominations and registered in the name of Cede & Co. as nominee of DTC.

8. **Closing Conditions.** The Underwriter has entered into this Bond Purchase Agreement in reliance upon the representations and warranties of the Issuer and the City contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer and the City of its respective obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter’s obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Issuer and the City of their obligations to be performed hereunder and

under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The representations and warranties of the Issuer and the City contained herein shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date;

(b) At the time of the Closing, the Issuer Documents and the City Documents shall be in full force and effect in accordance with their terms and shall not have been amended, modified or supplemented and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Underwriter;

(c) At the time of the Closing, all necessary official action of the Issuer, the City and of the other parties thereto relating to the Issuer Documents and the City Documents, respectively, shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect;

(d) Subsequent to the date hereof, there shall not have occurred any change in or affecting particularly the Issuer, the City or the Bonds, as the foregoing matters are described in the Official Statement, which in the reasonable opinion of the Underwriter materially impairs the investment quality of the Bonds;

(e) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(1) The Official Statement and each supplement or amendment, if any, thereto, executed by a designated officer of the Issuer and the City;

(2) A copy of the Indenture, executed by the Issuer and the Trustee;

(3) A copy of the Lease, executed by the Issuer and the City along with evidence of recordation;

(4) A copy of the Site Lease, executed by the Issuer and the City along with evidence of recordation;

(5) A copy of the Assignment Agreement, executed by the Issuer and the Trustee, along with evidence of recordation;

(6) A copy of the Continuing Disclosure Agreement, executed by the City and the Trustee, as Dissemination Agent thereunder;

(7) Certificates of the Issuer and the City, respectively, with respect to the matters described in Sections 5 and 6 and in paragraphs (a), (b), (c) and (d) of this Section 8;

(8) An opinion (the “Final Approving Legal Opinion”), dated the Closing Date and addressed to the Issuer, of Jones Hall, A Professional Corporation, Bond Counsel to the Issuer, in substantially the form set forth in the Official Statement as Appendix B, accompanied by a reliance letter from Bond Counsel to the effect that such opinion may be relied upon by the Underwriter, with the same effect as if such opinion were addressed to them;

(9) An opinion, dated the Closing Date and addressed to the Underwriter and the Trustee of Jones Hall, A Professional Corporation, Bond Counsel, in substantially the form attached hereto as Exhibit A;

(10) An opinion, dated the Closing Date and addressed to the Issuer and the Underwriter, of counsel for the Issuer, in substantially the form attached hereto as Exhibit B;

(11) An opinion, dated the Closing Date and addressed to the Underwriter, of counsel for the City, in substantially the form attached hereto as Exhibit C;

(12) An opinion, dated the Closing Date and addressed to the Issuer, the Underwriter and the City, of Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel for the Issuer, in substantially the form attached hereto as Exhibit D;

(13) A certificate of the Trustee in form and substance acceptable to Bond Counsel and the Underwriter:

(14) An opinion of counsel to the Trustee to the effect that:

(i) Due Organization and Existence - the Trustee has been duly organized and is validly existing and in good standing as a national banking association under the laws of the United States of America with full corporate power to enter into and perform its duties under the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreement, to authenticate and deliver the Bonds to the Underwriter pursuant to the terms of the Indenture, and to undertake the trusts of the Indenture;

(ii) Corporate Action - the Trustee has duly authorized, executed and delivered the Indenture and the Assignment Agreement, and by all proper corporate action has authorized the acceptance and performance of the duties and obligations of the Trustee under the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreement, and to authorize in such capacity as Trustee the authentication and delivery of the Bonds;

(iii) Due Authorization, Execution and Delivery - assuming due authorization, execution and delivery by the Issuer, each of the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreement is the valid, legal and binding agreement of the Trustee, enforceable in accordance

with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights in general and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(iv) Consents - exclusive of federal or state securities laws and regulations, to the best of such counsel's knowledge after reasonable inquiry and investigation, other than routine filings required to be made with governmental agencies in order to preserve the Trustee's authority to perform a trust business (all of which routine filings such counsel believes, after reasonable inquiry and investigation, to have been made), no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreements or the authentication and delivery of the Bonds; and

(v) No Litigation - to the best of such counsel's knowledge, there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Bonds, the Indenture, the Continuing Disclosure Agreement, or the Assignment Agreements.

(15) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of the Indenture and the Assignment Agreements, and the authentication and delivery of the Bonds by the Trustee.

(16) A Tax Certificate;

(17) Certified copies of the Authority Resolution and the City Resolution;

(18) Evidence that Standard & Poor's Ratings Service has assigned its rating of "___" to the Bonds;

(19) Transcripts of all proceedings relating to the authorization and issuance of the Bonds; and

(20) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the Issuer's and the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Issuer and the City on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by each of the Issuer and the City.

All the opinions, letters, certificates, instruments and other documents mentioned

above or elsewhere in this Bond Purchase Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to Bond Counsel, Counsel for the Underwriter, and the Underwriter. The opinions and certificates referred to in this paragraph (e) shall be deemed satisfactory provided they are substantially in the forms set forth in this Bond Purchase Agreement.

If the Issuer and the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Bond Purchase Agreement, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the Issuer nor the City shall be under any further obligation hereunder.

9. **Termination.** The Underwriter shall have the right to terminate the Underwriter's obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds by notifying the Issuer and the City, in writing or by telegram, of their election to do so, if, after the execution hereof and prior to the Closing: (a) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency which in the reasonable opinion of the Underwriter has a material adverse effect on the market for the Bonds; (b) there shall have occurred the declaration of a general banking moratorium by any authority of the United States or the States of New York or California; (c) an event shall have occurred or been discovered as described in paragraph (m) of Section 5 or paragraph (l) of Section 6 hereof which in the opinion of the Underwriter requires the preparation and publication of disclosure material or a supplement or amendment to the Official Statement; (d) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency in the State, or on behalf of the Treasury Department of the United States or the Internal Revenue Service or a decision by any court of competent jurisdiction under Article III of the Constitution of the United States or under the Constitution of the State or by the Tax Court of the United States shall be rendered which, in the Underwriter's reasonable opinion, materially adversely affects the market price of the Bonds; (e) legislation shall be introduced, by amendment or otherwise, or be enacted by the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby or by the Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of obligations of the general character of the Bonds or the Bonds, as contemplated hereby or by the Official Statement; (f) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; (g) the New York Stock Exchange, or other national securities exchange or association or any governmental authority, shall impose as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by or the charge to

the net capital requirements of broker-dealers; (h) trading in securities on the New York Stock Exchange or the American Stock Exchange shall have been suspended or limited or minimum prices have been established on either such exchange; (i) any action shall have been taken by any government in respect of its monetary affairs which, in the reasonable opinion of the Underwriter, has a material adverse effect on the market for the Bonds; or (j) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (provided that for this purpose the Preliminary Official Statement shall be deemed to be the Official Statement until a final Official Statement has been printed and delivered to the Underwriter).

If this Bond Purchase Agreement shall be terminated pursuant to Section 8 or this Section 9, or if the purchase provided for herein is not consummated because any condition to the Underwriter's obligation hereunder is not satisfied or because of any refusal, inability or failure on the part of the Issuer or the City to comply with any of the terms or to fulfill any of the conditions of this Bond Purchase Agreement, or if for any reason the Issuer or the City shall be unable to perform all of their respective obligations under this Bond Purchase Agreement, the Issuer and the City shall not be liable to the Underwriter for damages on account of loss of anticipated profits arising out of the transactions covered by this Bond Purchase Agreement.

10. Payment of Costs and Expenses. (a) The Issuer shall pay or reimburse all costs and expenses incident to the sale and delivery of the Bonds to the Underwriter, including, but not limited to: (i) the fees and expenses of the Issuer and its Counsel; (ii) the fees and expenses of the City and its Counsel; (iii) the fees and expenses of Bond Counsel and Disclosure Counsel; (iv) all costs and expenses incurred in connection with the preparation, printing and delivery of the Bonds; (v) all expenses in connection with the preparation, printing, distribution and delivery of the Preliminary Official Statement, the Official Statement and any amendment or supplement thereto; (vi) the fees and expenses of the Trustee and Trustee's Counsel; (vii) rating fees; (viii) CUSIP Bureau fees; and (ix) CDIAC, DTC, MSRB, California Municipal Statistics, California Public Securities Association and Public Securities Association fees, and all other fees and expenses of the Underwriter except as provided in paragraph (b) below.

(b) The Underwriter shall pay all advertising expenses in connection with the public offering of the Bonds.

11. Representations, Warranties and Agreements to Survive Delivery. The representations, warranties, indemnities, agreements and other statements of the Issuer, the City and the Underwriter or their officers or partners set forth in, or made pursuant to, this Bond Purchase Agreement will remain operative and in full force and effect regardless of any investigation made by or on behalf of the Issuer, the City or the Underwriter or any controlling person and will survive delivery of and payment for the Bonds.

12. **Notices.** Any notice or other communication to be given under this Bond Purchase Agreement may be given by delivering the same in writing:

To the Issuer: Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: [Administrator /Treasurer]

To the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: City Manager

To the Underwriter: _____

Attention: _____

13. **Parties in Interest.** This Bond Purchase Agreement is made solely for the benefit of the Issuer, the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Issuer's and the City's representations, warranties and agreements contained in this Bond Purchase Agreement shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Bonds pursuant to this Bond Purchase Agreement; and (iii) any termination of this Bond Purchase Agreement.

14. **Determination of End of the Underwriting Period.** For purposes of this Bond Purchase Agreement, the End of the Underwriting Period for the Bonds shall mean the earlier of (a) the day of the Closing unless the Issuer and the City have been notified in writing by the Underwriter, on or prior to the day of the Closing, that the "end of the underwriting period" for the Bonds for all purposes of the Rule will not occur on the day of the Closing, or (b) the date on which notice is given to the Issuer and the City by the Underwriter in accordance with the following sentence. If the Underwriter has given notice to the Issuer and the City pursuant to clause (a) above that the "end of the underwriting period" for the Bonds will not occur on the day of the Closing, the Underwriter agrees to notify the Issuer and the City in writing as soon as practicable following the "end of the underwriting period" for the Bonds for all purposes of the Rule.

15. **Effectiveness.** This Bond Purchase Agreement shall become effective upon the execution of the acceptance by the designee of the Issuer and the City and shall be valid and enforceable at the time of such acceptance.

16. **Headings.** The headings of the sections of this Bond Purchase Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

17. **Governing Law.** This Bond Purchase Agreement shall be construed in accordance with the laws of the State.

18. **Counterparts.** This Bond Purchase Agreement may be executed in any number of counterparts.

If the foregoing is in accordance with your understanding of the Bond Purchase Agreement please sign and return to us the enclosed duplicate copies hereof, whereupon it will become a binding agreement among the Issuer, the City and the Underwriter in accordance with its terms.

Very truly yours,

as the Underwriter

By: _____
Authorized Representative

Accepted as of the date first above written:

ELK GROVE FINANCE AUTHORITY

By: _____
Executive Director/Treasurer

CITY OF ELK GROVE

By: _____
City Manager

Schedule I

MATURITY SCHEDULE

\$ _____

**ELK GROVE FINANCE AUTHORITY
2010 LEASE REVENUE BONDS
(CAPITAL FACILITY)**

(FEDERALLY TAXABLE - RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>[†]
---------------------------------	------------------------------------	---------------------------------	---------------------	---------------------------------

Exhibit A

Supplemental Opinion of Jones Hall, A Professional Corporation
Bond Counsel

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[from Jones Hall]

[Closing Date]

U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101

Ladies and Gentlemen:

Respectfully submitted,

Exhibit B

Opinion of Counsel for the Issuer
Addressed to the Issuer and the Underwriter

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[to be revised to Jones Hall form]

[Closing Date]

Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

We are counsel to the Elk Grove Finance Authority (the “Issuer”) in connection with the issuance of the above-referenced bonds (the “Bonds”) and in such capacity, we have examined the original, certified copies, or copies otherwise identified to our satisfaction as being true copies of such resolutions, documents, certificates, and records as we have deemed relevant and necessary (except as we have specifically limited the scope of our investigation herein) as the basis for the opinions set forth herein relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth, we are of the opinion that:

The Issuer is a duly organized and validly existing public body, corporate and politic, organized under the laws of the State of California acting pursuant to the Bond Law (as defined in the Official Statement respecting the Bonds) with full legal right, power and authority to perform all of its obligations under the Bond Purchase Agreement, dated _____, 2010 (the “Bond Purchase Agreement”), by and among the Issuer, the City of Elk Grove (the “City”) and _____ (the “Underwriter”), the Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Issuer and U.S. Bank National Association (the “Trustee”), the Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the Issuer and the City, the Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and

between the Issuer and the City, the Assignment Agreement, dated as of November 1, 2010, by and between the Issuer and the Trustee (the "Assignment Agreement" and, together with the Bond Purchase Agreement, the Indenture, the Site Lease and the Lease, the "Legal Documents"). The Issuer has duly authorized the Legal Documents and assuming due authorization, execution and delivery by the other parties thereto, the Legal Documents constitute the legal, valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, moratorium, insolvency, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

1. To my actual knowledge, without independent investigation, there is no action, suit or proceeding before or by any court, public board or body pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the Issuer or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Legal Documents, or (c) find illegal, invalid or unenforceable the Bond Purchase Agreement or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds to which the Issuer is a party.

2. To my actual knowledge, without independent investigation, the execution and delivery of the Legal Documents and the other instruments contemplated by any of such documents to which the Issuer is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Issuer is a party or is otherwise subject or bound in a manner which would materially adversely affect the Issuer's performance under the Legal Documents.

3. All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the Issuer of its obligations under the Legal Documents have been obtained and are in full force and effect.

5. No facts have come to my attention which cause me to believe that the Official Statement as of its date (excluding financial, demographic, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; The Depository Trust Company, New York, New York and its book-entry only system; statements relating to the treatment of the Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "CONCLUDING INFORMATION – Tax Matters;" as to all of which I express no opinion) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We are furnishing this letter to the addressees hereof with respect to the Bonds at

the request of the Issuer, and this letter may not be relied upon for any purpose other than in connection with the issuance of the Bonds. This letter shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

Exhibit C

Opinion of Counsel for the City
Addressed to the City and the Underwriter

§ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[Closing Date]

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

We are counsel to the City of Elk Grove (the “City”) in connection with the issuance of the above-referenced bonds (the “Bonds”) and in such capacity, we have examined the original, certified copies, or copies otherwise identified to our satisfaction as being true copies of such resolutions, documents, certificates, and records as we have deemed relevant and necessary (except as we have specifically limited the scope of our investigation herein) as the basis for the opinions set forth herein relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth, we are of the opinion that:

The City is a duly organized and validly existing public body, corporate and politic, organized under the laws of the State of California with full legal right, power and authority to perform all of its obligations under the Bond Purchase Agreement, dated _____, 2010 (the “Bond Purchase Agreement”), by and among the Elk Grove Finance Authority (the “Issuer” or “Authority”), the City and _____ (the “Underwriter”), the Continuing Disclosure Agreement, dated as of November 1, 2010, by and between the City and U.S. Bank National Association, as dissemination agent (the “Continuing Disclosure Agreement”), the Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the City and the Authority, the Lease Agreement, dated as of November 1, 2010, by and between the Authority and the City (the “Lease” and, together with the Bond Purchase Agreement, the Continuing Disclosure Agreement, the Site Lease and the Lease, the “Legal Documents”). The City has duly authorized the Legal Documents and assuming due authorization, execution and delivery by the other parties thereto, the Legal Documents constitute legal, valid and binding obligations of the City enforceable against the City in

accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, moratorium, insolvency, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

4. To my actual knowledge, without independent investigation, there is no action, suit or proceeding before or by any court, public board or body pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the City or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Legal Documents, or (c) find illegal, invalid or unenforceable the Bond Purchase Agreement or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds to which the City is a party.

5. To my actual knowledge, without independent investigation, the execution and delivery of the Legal Documents and the other instruments contemplated by any of such documents to which the City is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound in a manner which would materially adversely affect the City's performance under the Legal Documents.

6. All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the City of its obligations under the Legal Documents have been obtained and are in full force and effect.

7. No facts have come to my attention which cause me to believe that the Official Statement as of its date (excluding financial, demographic, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; The Depository Trust Company, New York, New York and its book-entry only system; statements relating to the treatment of the Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "CONCLUDING INFORMATION – Tax Matters;" as to all of which I express no opinion) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We are furnishing this letter to the addressees hereof with respect to the Bonds at the request of the City, and this letter may not be relied upon for any purpose other than in connection with the issuance of the Bonds. This letter shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

Exhibit D

Opinion of Fulbright & Jaworski L.L.P., Disclosure Counsel
Addressed to the Underwriter, the Issuer and the City

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[Closing Date]

Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

We have acted as Disclosure Counsel to the Elk Grove Finance Authority (the “Issuer”) with respect to the above-referenced bonds (the “Bonds”). This opinion is rendered to the Issuer and the Underwriter named in the Bond Purchase Agreement, dated _____, 2010 (the “Bond Purchase Agreement”), by and among the Underwriter, the City of Elk Grove (the “City”) and the Issuer, pursuant to which the Underwriter has agreed to purchase the Bonds. The Bonds are being issued pursuant to the provisions of the Constitution and the laws of the State of California including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 (commencing with Section 6584), Division 7, Title 1 of the Government Code of the State of California. The Bonds shall be issued and secured pursuant to an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee, authorizing the issuance of the Bonds. The Bonds are more fully described in the final Official Statement of the Issuer, dated November __, 2010 (the “Official Statement”).

In rendering this opinion, we have reviewed such records, documents, certificates and opinions, and made such other investigations of law and fact as we have deemed necessary or appropriate.

With respect to the matters covered by the approving opinions rendered by us as Bond Counsel to the Issuer (“Bond Counsel”), dated the date hereof, the Underwriter has received a letter from Bond Counsel allowing the Underwriter to rely on such opinion.

This letter is limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

In our capacity as Disclosure Counsel, we have rendered certain legal advice and assistance to the Issuer in connection with the preparation of the Official Statement. Rendering such legal advice and assistance involved, among other things, discussions and inquiries concerning various legal matters, review of certain records, documents and proceedings, and participation in conferences with, among others, the Underwriter, representatives of the Issuer and the City, and counsel to the Issuer and the City, at which conferences the contents of the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance to you in connection with the preparation of the Official Statement which cause us to believe that the Official Statement as of its date (excluding therefrom financial, demographic, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; The Depository Trust Company, New York, New York and its book-entry only system; statements relating to the treatment of the Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption “CONCLUDING INFORMATION — Tax Matters;” as to all of which we express no opinion) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Official Statement.

We are furnishing this opinion to you, as Disclosure Counsel to the Issuer, pursuant to the Bond Purchase Agreement, solely for your benefit. This opinion is rendered in connection with the transaction described herein, and may not be relied upon by you for any other purpose. No attorney-client relationship by virtue of this opinion exists between our firm and the addressees hereto other than the Issuer and the City. This opinion shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent. Our engagement with respect to this matter terminates upon the delivery of this opinion to you at the time of the closing relating to the Bonds, and we have no obligation to update this opinion.

Respectfully submitted,

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER ___, 2010**NEW ISSUE – BOOK ENTRY ONLY****RATING: S&P: “A+”****(See “CONCLUDING INFORMATION - Rating” herein.)**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, interest on the Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “CONCLUDING INFORMATION – Tax Matters.”

\$10,495,000*

ELK GROVE FINANCE AUTHORITY

(Sacramento County, California)

2010 LEASE REVENUE BONDS**(CAPITAL FACILITY)****(FEDERALLY TAXABLE – RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)**

[SEAL]

Dated: Date of Delivery

Due: September 1, as shown on the inside front cover

The Elk Grove Finance Authority (the “Authority”) will issue its 2010 Lease Revenue Bonds (Capital Facility) (the “Bonds”) under an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as Trustee. Proceeds of the Bonds will be used to (i) finance a portion of the costs of construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related thereto, (ii) fund capitalized interest on the Bonds through September 1, 2011, (iii) fund a deposit to the Reserve Fund in an amount equal to the Reserve Requirement, and (iv) pay costs of issuance of the Bonds.

The Bonds will be payable solely from, and secured by, Revenues, Refundable Credits and certain funds and accounts held under the Indenture. Revenues consist primarily of lease payments (“Lease Payments”) to be made by the City pursuant to a Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and between the Authority and the City, for the leasing of certain real property. Under the Lease, the City covenants to take such action as necessary to include the Lease Payments in its annual budgets and to make all necessary appropriations for such Lease Payments (subject to abatement under certain circumstances as described in this Official Statement). The term “Refundable Credits” is defined in the Indenture to mean the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code. *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.*

The Bonds are subject to make-whole and extraordinary event optional redemption and mandatory sinking account redemption prior to their stated maturity as described in this Official Statement.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of, and interest on, the Bonds will be paid directly to DTC by the Trustee. Principal of the Bonds is payable on their maturity dates set forth on the inside cover. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2011. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM, AND SECURED BY, A PLEDGE OF REVENUES, REFUNDABLE CREDITS AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE CITY, THE COUNTY OF SACRAMENTO, THE STATE OF CALIFORNIA, NOR ANY OF ITS POLITICAL SUBDIVISIONS (INCLUDING ANY MEMBER OF THE AUTHORITY). THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of some of the risk factors that should be considered, in addition to other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds. This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and 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 November ___, 2010.

Dated: November ___, 2010

* Preliminary, subject to change.

\$10,495,000*
ELK GROVE FINANCE AUTHORITY
2010 LEASE REVENUE BONDS
(Capital Facility)
(Federally Taxable – Recovery Zone Economic Development Bonds)

MATURITY SCHEDULE

\$ _____ Serial Bonds

Payment Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] Number
-------------------------------	---------------------	------------------	-------	------------------------------

\$ _____ % Term Bonds due September 1, 20__ – Yield: ____% CUSIP[†] No. _____
 \$ _____ % Term Bonds due September 1, 20__ – Yield: ____% CUSIP[†] No. _____

[†] CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2010 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau and are for convenience of reference only. Neither the City, the Authority nor the Underwriter assumes responsibility for the accuracy of such numbers.

**ELK GROVE FINANCE AUTHORITY
CITY OF ELK GROVE
SACRAMENTO COUNTY, CALIFORNIA**

AUTHORITY BOARD / CITY COUNCIL

Sophia Scherman, *Chair / Mayor*
Steven M. Detrick, *Vice Chair / Vice-Mayor*
James Cooper, *Boardmember / City Council Member*
Gary Davis, *Boardmember / City Council Member*
Patrick Hume, *Boardmember / City Council Member*

AUTHORITY / CITY OFFICIALS AND STAFF

Laura S. Gill, *Administrator / City Manager*
Rebecca L. Craig, *Assistant City Manager*
Rebecca Carr, *Authority Treasurer / Director of Finance and Administration*
Jason Lingren, *Interim Secretary / Interim City Clerk*
Cedar Kehoe, *Integrated Waste Program Manager*
Susan Burns Cochran, *Authority Counsel / City Attorney*

SPECIAL SERVICES

Bond Counsel

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

Disclosure Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Trustee

U.S. Bank National Association
Seattle, Washington

Financial Advisor

KNN Public Finance, A Division of Zions Bank
Oakland, California

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any Bonds by any person in any jurisdiction in which such offer of solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful 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 matter of opinion, whether or not expressly so described, are intended solely as such and are not to be construed as a representation of fact.

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 other similar words and include, but are not limited to, statements under the captions “PLAN OF FINANCING,” “THE CITY,” “CITY FINANCIAL INFORMATION” and “STATE OF CALIFORNIA BUDGET.” The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the City has agreed to provide certain on-going financial and other data (see “CONCLUDING INFORMATION – Continuing Disclosure”), neither the Authority nor the City plans to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based change.

The information set forth in this Official Statement has been obtained from the Authority, the City and other sources that are believed to be reliable, but it is not guaranteed as to its accuracy or completeness. The information and expressions of opinions in this Official Statement are subject to change without notice, and neither delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date of this Official Statement. All summaries of the resolutions, the Indenture, laws and statutes or other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exception from the registration requirements contained in such acts. The Bonds have not been registered or qualified under the securities laws of any state.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER MAY OFFER AND SELL BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE OFFERING PRICE. THE OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE ORIGINAL PURCHASERS.

[insert map]

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\$10,495,000*
ELK GROVE FINANCE AUTHORITY
2010 LEASE REVENUE BONDS
(Capital Facility)
(Federally Taxable – Recovery Zone Economic Development Bonds)

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement.

General

This Official Statement, including the cover page, the inside cover page and appendices, is provided to furnish information in connection with the sale by the Elk Grove Finance Authority (the “Authority”) of its \$10,495,000* aggregate principal amount 2010 Lease Revenue Bonds (Capital Facility) (the “Bonds”). The Bonds are being issued pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the California Government Code, including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 thereof (the “Bond Law”), and an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as the trustee for the Bonds (the “Trustee”). Proceeds from the sale of the Bonds will be used to (i) finance a portion of the costs of construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related thereto, (ii) fund capitalized interest on the Bonds through September 1, 2011, (iii) fund a deposit to the Reserve Fund in an amount equal to the Reserve Requirement, and (iv) pay costs of issuance of the Bonds.

The Bonds are payable solely from and secured by a pledge of Revenues, Refundable Credits (each defined below) and moneys in certain funds and accounts held under the Indenture. Revenues consist primarily of lease payments (“Lease Payments”) to be made by the City pursuant to a Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and between the Authority and the City as rental for the right to use and occupy certain real property (the “Leased Property”). See “Security for the Bonds” below.

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2011. The Bonds will mature in the amounts and on the dates and bear interest at rates shown on the inside cover of this Official Statement. The Bonds will be issued in fully registered form only and, when issued and 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 the depository for the Bonds and all payments due on the Bonds will be made to Cede & Co. Ownership interests in the Bonds may be purchased only in book-entry form. See “THE BONDS – Book-Entry Only System” and “APPENDIX D – DTC’S BOOK-ENTRY ONLY SYSTEM.”

Recovery Zone Economic Development Bonds

The Bonds will be issued as Recovery Zone Economic Development Bonds under the American Recovery and Reinvestment Act (the “Recovery Act”), which was signed into law by President Obama on

* Preliminary, subject to change.

February 17, 2009, and added Section 1400U, Section 54AA and Section 6431 to the Internal Revenue Code of 1986, as amended (the “Tax Code”). Pursuant to Section 1400U-1 of the Tax Code, the City received \$1,372,000 in Recovery Zone Economic Development Bond allocation on its own, plus approximately \$10.5 million of County allocation which was transferred to the City from the County. Pursuant to Section 1400U-2 the City will elect to treat the Bonds as Recovery Zone Economic Development Bonds for which it has received such allocations. The Authority intends that the Bonds be “qualified bonds” under Section 54AA(g)(2) and Section 6431 of the Tax Code which make the Authority eligible for a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Bonds. Such cash subsidy payments received by the Authority are referred to in the Indenture as “Refundable Credits,” and are pledged to the payment of the Bonds. Refundable Credits is defined in the Indenture to mean the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code. Refundable Credits are expected to be received contemporaneously with each Interest Payment Date, upon timely receipt by the Internal Revenue Service of IRS Form 8038-CP, which is due at least 45 days (but not more than 90 days) before each Interest Payment Date.

Security for the Bonds

The Bonds will be payable solely from and secured by Revenues, Refundable Credits and certain funds and accounts held under the Indenture. Revenues consist primarily of Lease Payments to be made by the City pursuant to the Lease. Pursuant to the Indenture, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, all of the Refundable Credits and all rights of the Authority to receive the Refundable Credits. Pursuant to an Assignment Agreement, dated as of November 1, 2010 (the “Assignment Agreement”), by and between the Authority and the Trustee, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, certain of the Authority’s rights under the Lease, including its rights to receive Lease Payments for the purpose of securing the payment of debt service on the Bonds. Under the Lease, the City covenants to take such action as necessary to include the Lease Payments in its annual budgets and to make all necessary appropriations for such Lease Payments (subject to abatement under certain circumstances described in the Lease). *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.* See “SECURITY FOR THE BONDS.”

A Reserve Account will be established and maintained by the Trustee pursuant to the Indenture. Upon issuance of the Bonds, the Trustee will deposit \$ _____* from the sale proceeds into the Reserve Account, which amount is equal to the initial Reserve Requirement for the Bonds (defined below, see “SECURITY FOR THE BONDS – Reserve Account”). Pursuant to the Indenture, money in the Reserve Account will be used by the Trustee to replenish the Interest Account and/or the Principal Account in the event of deficiency in such accounts for payment of interest and/or principal of the Bonds. Lease Payments payable by the City under the Lease are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. However, under certain circumstances, Lease Payments may be abated under the Lease without constituting a default. See “SECURITY FOR THE BONDS – Reserve Account,” “ – Abatement” and “BONDOWNERS’ RISKS – Abatement.”

The City

The City is located approximately four (4) miles south of the City of Sacramento along Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,300 to a January 1, 2010 population of approximately a little less than

* Preliminary, subject to change.

143,900, according to State of California Department of Finance estimates. The City is a general law city and operates under a Council-Manager form of government. The five members of the City Council are elected bi-annually at large to four-year alternating terms. The Mayor is selected by the City Council from among its members. See “THE CITY” and “CITY FINANCIAL INFORMATION.”

Continuing Disclosure

The City has covenanted in a Continuing Disclosure Agreement to prepare and deliver an annual report to certain repositories and to provide certain other information. See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Summaries of Documents

This Official Statement contains descriptions of the Bonds, the Indenture, the Lease, the Site Lease, the Assignment Agreement, the Authority, the City and various other agreements and documents. The descriptions and summaries of documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Capitalized terms which are not defined in this Official Statement have the meanings set forth in the Indenture. Copies of the Indenture and the Lease are available for inspection during business hours at the corporate trust office of the Trustee in Seattle, Washington.

Professionals Involved in the Offering

U.S. Bank National Association, Seattle, Washington, will act as Trustee with respect to the Bonds. All proceedings in connection with the issuance of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Certain legal matters will also be passed on for the Authority and the City by the City Attorney. The fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement speaks only as of its date as set forth on the cover, and the information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the City since the date of this Official Statement.

Unless otherwise expressly noted, all references to internet websites in this Official Statement are shown for reference and convenience only, and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the Authority or the City and neither the Authority nor the City makes no representation regarding the information therein.

PLAN OF FINANCING

The Project

The Bonds are being sold to finance a portion of the costs to construct of a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto (the "Project"). Specifically, the City plans to acquire a 5-acre portion of a 20.37-acre site located at 10401 Grant Line Road and intends to construct, furnish and equip on the 5-acre site a household hazardous waste collection facility consisting of a [30,000] square foot building and related parking area.

The 5-acre land acquisition is a part of the 20.37 acre site purchase pursuant to a Purchase and Sale Agreement, dated July 14, 2010, entered into by the City with the owner of the land. The purchase price for the land is approximately \$4.5 million, of which approximately \$1.1 million is attributable to the 5-acre site which is part of the Project. The land is currently undergoing remediation for toxics. Escrow is scheduled to close on the entire 21.37 acre site in December 2010. The current estimate for construction of the remainder of the Project is an additional \$8 million, which includes costs for demolition, building and site construction, soft costs and contingency for the facility. At the household hazardous waste collection facility, attendants will receive, inspect, sort, package and ship residential hazardous waste such as batteries, oil, paint, antifreeze, solvents and household cleaning products. The City certified the final EIR for the Project on November 1, 2009.

The City has agreed to lease certain property, specifically two City Police Facilities and the Elk Grove Library (the "Leased Property") to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), pursuant to which the Authority agrees to make an upfront rental payment (the "Site Lease Payment") to the City that is sufficient to provide the funds to finance the Project, to be provided from the proceeds of the Bonds.

The site of the Project is separate and distinct from the Leased Property, and is not subject to the Site Lease or the Lease and does not in any way provide security for the Bonds, unless substituted as provided in the Site Lease and the Project Lease.

Leased Property

The Leased Property consists of the City's Police Facilities and the Elk Grove Library. The Police Facilities are located at 8380 and 8400 Laguna Palms Way in the Civic Center Complex and consist of two single story wood frame buildings constructed in 2001, containing 24,607 square feet and 24,100 square feet, respectively. An additional 2,111 square feet of building space was added to the latter building in 2005.

The Elk Grove Library, which was recently moved to its new location at 8900 Elk Grove Boulevard, near Old Town Elk Grove, opened December 6, 2008. The 13,785-square-foot, City-owned, two-story building built in 2006 includes a group study room, a teen space, a community meeting room with an 80-seat capacity, 52 public-access computers, and a collection of thousands of books, periodicals, DVDs, CDs, and other materials. The City purchased the shell building to replace the current leased facility for the Elk Grove Library in late 2006. In November 2007, the Elk Grove City Council approved a ten-year lease agreement with the Sacramento Public Library Authority to staff and operate the library.

The City, based primarily on an estimate of the replacement cost derived for the purpose of its property insurance coverage, will certify at closing that the estimated value of the Leased Property is in excess of the principal amount of the Bonds.

Sources and Uses of Funds

The table below shows the estimated sources and uses of the proceeds from the sale of the Bonds:

Sources:

Par amount of the Bonds	\$
Plus: Cash Contribution ⁽¹⁾	
Less: Underwriter's discount	
Total Sources	<u>\$_____.</u>

Uses:

Lease Revenue Bond Proceeds Account	\$
Lease Payment Fund ⁽²⁾	
Reserve Account ⁽³⁾	
Costs of issuance ⁽⁴⁾	-
Total Uses	<u>\$_____.</u>

- (1) Cash contribution from the City to fund the costs of issuance in excess of 2% of the par amount of Bonds. The remaining \$_____ of the costs of issuance will be funded from the proceeds of the Bonds.
- (2) Represents capitalized interest on the Bonds through September 1, 2011.
- (3) Deposit equal to the initial Reserve Requirement with respect to the Bonds. See "SECURITY FOR THE BONDS—Reserve Account".
- (4) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor and Trustee, rating costs, printing expenses and other costs.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates per annum as set forth on the inside front cover of this Official Statement. The Bonds will be issued in authorized denominations of \$5,000 and will be dated their date of delivery. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and payable on March 1 and September 1 of each year, commencing March 1, 2011 (each an "Interest Payment Date"), until maturity or earlier redemption.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless: (i) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date (*i.e.*, the 15th day of the month preceding the Interest Payment Date), in which event it will bear interest from such Interest Payment Date, (ii) a Bond is authenticated on or before February 15, 2011, in which event interest will be payable from the Closing Date, or (iii) interest on any Bond is in default as of the date of its authentication, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

The Bonds will be initially delivered as one fully registered certificate for each maturity and will be delivered by means of the book-entry system of DTC. See "Book-Entry Only System" below.

Recovery Zone Economic Development Bonds

Section 1531 (pertaining to “Build America Bonds”) and Section 1401 (pertaining to Recovery Zone Economic Development Bonds) of the American Recovery and Reinvestment Act, which was signed into law by President Obama on February 17, 2009, added Section 54AA, Section 6431 and Section 1400U to the Tax Code. The Authority intends to elect to treat the Bonds as “Recovery Zone Economic Development Bonds” under Section 1400U-2, and intends that the Bonds be “qualified bonds” under Section 54AA(g)(2) and Section 6431 of the Tax Code which make the Authority eligible for a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Bonds. Such cash subsidy payments received by the Authority are referred to in the Indenture as “Refundable Credits,” and are pledged to the payment of the Bonds. Refundable Credits is defined in the Indenture to mean the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code. Refundable Credits are expected to be received contemporaneously with each Interest Payment Date, upon timely receipt by the Internal Revenue Service of IRS Form 8038-CP, which is due at least 45 days (but not more than 90 days) before each Interest Payment Date. *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.*

Redemption

Optional Redemption with Make-Whole Payment. The Bonds will be subject to redemption prior to maturity at the option of the Authority, as a whole or in part, on any Business Day, at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price” is the greater of (1) the issue price of the Bonds of such maturity as determined in accordance with the Internal Revenue Code of 1986 (the “Code”) or (2) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” plus 30 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption for a particular Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond:

(i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or

if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of four firms, specified by the Authority from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

Extraordinary Optional Redemption. The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, in such order of maturity as the Authority shall direct), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to section 54AA or section 6431 of the Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 45% cash subsidy payments from the United States Treasury with respect to the Bonds, pursuant to which the 45% cash subsidy payments from the United States Treasury with respect to the Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Bonds, the greater of (i) the issue price of the Bonds of such maturity as determined in accordance with the Code or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds of such maturity to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Bonds of such maturity to be redeemed to the redemption date.

Mandatory Sinking Account Redemption. The Term Bonds maturing September 1, 20__ and September 1, 20__ are subject to mandatory redemption in part by lot, a redemption price equal to the principal amount of the Bonds to be redeemed, together with interest accrued thereon to the redemption date, without premium, as set forth in the following tables. If some but not all of the Term Bonds have been redeemed pursuant to an optional redemption as described above, the total amount of sinking account payments to be made after such redemption will be reduced pro rata as described in the Indenture.

Term Bonds Maturing on September 1, 20

Redemption Date (September 1)	Principal Amount
----------------------------------	------------------

† maturity.

Term Bonds Maturing on September 1, 20

Redemption Date (September 1)	Principal Amount
----------------------------------	------------------

† maturity.

Notice of Redemption. Notice of redemption will be mailed by the Trustee, first class, postage prepaid, not more than 60 and not less than 30 days before any redemption date, to the respective registered Owners of any Bonds designated for redemption at their addresses appearing on the registration books maintained by the Trustee and to one or more Securities Depositories and the Municipal Securities Rulemaking Board. Neither the failure to receive any notice nor any defect therein will affect the proceedings for such redemption.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee will select the Bonds to be redeemed from all Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, Bonds will be deemed to be comprised of \$5,000 portions and each portion will be subject to redemption as if such portion were a separate Bond.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption has been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date specified in such notice.

Book-Entry Only System

The Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in multiples of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See "APPENDIX D – DTC'S BOOK-ENTRY ONLY SYSTEM."

In the event that such book-entry system is discontinued with respect to the Bonds, the Authority will execute and deliver replacements in the form of registered certificates and, thereafter, the Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture. In addition, the following provisions would then apply: the principal of, and redemption premium, if any, on the Bonds will be payable on the surrender thereof at maturity or the redemption date, as applicable, at the corporate trust office of the Trustee in Los Angeles, California (or such other location as designated by the Trustee). The interest on the Bonds will be payable by check mailed on each Interest Payment Date to the registered bondowners as shown on the registration books of the Trustee as of the close of business on the Record Date before such the Interest Payment Date; provided, that a registered owner of \$1,000,000 or more in aggregate principal amount of Bonds may specify in writing prior to the Record Date that the interest payment payable on each succeeding Interest Payment Date be made by wire transfer.

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Annual Debt Service

The following table shows the scheduled annual debt service for the Bonds:

Bond Year Ending September 1	Principal*	Interest*	Annual Debt Service*
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			

* Preliminary, subject to change.

SECURITY FOR THE BONDS

Pledge of Revenues and Refundable Credits

The Bonds are payable from and secured by a pledge of Revenues, Refundable Credits and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, mean (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts described in the provisions of the Lease relating to permitted amendments that provide for additional rental to be pledged or assigned for the payment of bonds issued to finance or refinance projects for which the City is authorized to expend its funds, and (ii) any Additional Rental Payments (consisting of certain administrative costs due to the Authority and the Trustee under the

Lease), and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Pursuant to the Assignment Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, certain of its rights under the Lease, including its right to receive Lease Payments for the purpose of securing the payment of debt service on the Bonds.

In addition, pursuant to the Indenture, the Authority has irrevocably transferred, assigned and set over to the Trustee, without recourse to the Authority, all of the Refundable Credits and all rights of the Authority to receive the Refundable Credits. Any Refundable Credits collected or received by the Authority are deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will be paid by the Authority to the Trustee for deposit in the Bond Fund.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES, REFUNDABLE CREDITS AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS (INCLUDING ANY MEMBER OF THE AUTHORITY) IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Lease Payments; Covenant to Appropriate

The City covenants, under the Lease, to make Lease Payments as rental for the right to use and occupy the Leased Property. Amounts of the scheduled Lease Payments are calculated to be sufficient to pay debt service on the Bonds when due. Lease Payments will be paid by the City semiannually to the Trustee on or before the fifth Business Day immediately preceding each Interest Payment Date. Upon receipt, the Trustee will deposit the Lease Payments in the Bond Fund for the purposes of paying principal of and interest on the Bonds and replenishing the Reserve Account, if required.

All Refundable Credits which are held on deposit in the Bond Fund as of any Lease Payment Date will be credited towards the Lease Payment then due. *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.*

The City covenants under the Lease to take such action as may be necessary to include all Lease Payments and Additional Rental Payments in its annual budgets and to make the necessary annual appropriations for all such rental payments. Under certain circumstances described in the Lease, however, Lease Payments are subject to abatement during periods of substantial interference with the City's use and occupancy of all or a portion of the Leased Property, as described below.

Abatement

The Lease provides that the obligation of the City to pay Lease Payments will be abated by reason of (i) any damage or destruction such that there is substantial interference with the use and occupancy of all or any portion of the Leased Property, or (ii) a temporarily taking of the Leased Property or a permanent taking of a portion of the Leased Property. Such abatement will be in an amount determined by the City, such that the resulting unabated portion of the Lease Payments will represent fair

consideration for the use and occupancy of the remaining usable portions of the Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. The City has waived its right to terminate the Lease by virtue of such damage, destruction or condemnation of the Leased Property, except in the case of a permanent taking of all of the Leased Property, see “Insurance; Condemnation” below.

Notwithstanding the foregoing, under the Lease, the Lease Payments will not be subject to abatement to the extent that Refundable Credits, the amounts in the Reserve Account or proceeds from rental interruption insurance are available to pay the portion of the Lease Payments which would otherwise be abated.

Insurance; Condemnation

In the event of an abatement of Lease Payments, debt service on the Bonds may, to a certain extent, be covered by insurance proceeds. The City is required to procure and maintain rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of certain hazards pursuant to the Lease. Such insurance will be in an amount at least equal to the maximum amount of Lease Payments coming due and payable during any consecutive two Fiscal Years. The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Bond Fund, for application as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

The Lease also requires the City to maintain title insurance, standard commercial general liability insurance and casualty insurance with respect to the Leased Property. The City is not required to maintain earthquake or flood insurance. Any Net Proceeds under such title insurance policy will be deposited with the Trustee in the Bond Fund, to be credited towards the prepayment of the remaining Lease Payments under the Lease. The required casualty insurance will have a coverage amount at least equal to the lesser of (a) the replacement value of the insured buildings, or (b) the aggregate principal amount of the Outstanding Bonds, and may be subject to such deductibles as the City deems adequate and prudent.

If all or a portion of the Leased Property is damaged or destroyed, or taken under the power of eminent domain, proceeds from the casualty insurance or the condemnation award will be deposited in the Insurance and Condemnation Fund maintained by the Trustee. The City must apply all proceeds deposited in the Insurance and Condemnation Fund to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property or to replace any Leased Property taken in eminent domain proceedings.

In the event that the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease will cease as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, the (a) the Lease continues in full force and effect with respect to the Leased Property and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary, and (b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration of the use and occupancy of the remaining usable portions of the Leased Property. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under the Lease.

See “BONDOWNERS’ RISKS – Abatement,” “– Application of Net Proceeds” and “– Risk of Uninsured Loss.”

Reserve Account

Pursuant to the Indenture, the Trustee will establish and maintain a Reserve Account in the Bond Fund. On or before each Interest Payment Date, after the required deposits to the Interest Account and the Principal Account have been made, the Trustee will deposit Revenues in the Reserve Account; provided, that no such deposit need to be made so long as the balance therein is equal to the Reserve Requirement. The Reserve Requirement, as defined in the Indenture, means as of any date of calculation, the lesser of (a) \$ _____* or (b) the maximum amount of principal of and interest on the Bonds coming due in the current or any future Bond Year, such amount to be computed net of any Refundable Credits received in such Bond Year. Money on deposit in the Reserve Account will be used solely for the purpose of (i) paying principal of, or interest on, the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, the Trustee will apply such amounts first, to the payment of interest and second, to the payment of principal.

Substitution of Property

Pursuant to the Lease, the City may substitute other land, facilities or improvements (the “Substitute Property”) for the Leased Property or portion thereof (the “Former Property”) subject to the following conditions:

- (a) No Event of Default has occurred and is continuing under and as defined in the Lease.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of the Lease which adds the legal description of the Substitute Property to the Lease and Site Lease and deletes the legal description of the Former Property.
- (d) The City has obtained a CLTA policy of title insurance insuring the City’s leasehold estate in the Substitute Property in an amount at least equal to the estimated value of the Leased Property.
- (e) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.
- (f) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made in the Lease.
- (g) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the estimated value of the Substitute Property is at least equal to the estimated value of the Former Property, and that the useful life of the Substitute Property at least extends to September 1, 2040.
- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

* Preliminary, subject to change.

Release of Property

Pursuant to the Lease, the City release any portion of the Leased Property from the Lease (the “Released Property”) subject to the following conditions:

- (a) No Event of Default has occurred and is continuing under and as defined in the Lease.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of the Lease which removes the Released Property from the Site Lease and the Lease.
- (c) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease following such release is at least equal to the aggregate original principal amount of the Bonds, and the fair rental value of the property which remains subject to the Lease following such release is at least equal to the Lease Payments thereafter coming due and payable.
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Amendment of Lease

Pursuant to the Lease, the Authority and the City may amend or modify any of the provisions of the Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the outstanding Bonds; or (b) without the consent of any of the Bond Owners for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in the Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement the Lease in such manner as to assure that the Bonds remain Recovery Zone Economic Development Bonds and that the Authority remains entitled to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein;
- (v) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has obtained and filed with the Trustee documentation showing that the appraised value of the Leased Property is at least equal to the aggregate original principal amount of the outstanding Bonds and all such other bonds, notes, leases or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds;

(vi) in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

Additional Bonds

In addition to the Bonds, the Authority and the Trustee may without the consent of the Owners, provide for the issuance and delivery of Additional Bonds in one or more Series. The Trustee may authenticate and deliver to or upon the Request of the Authority, such Additional Bonds, in an aggregate principal amount authorized by a Supplemental Indenture. The proceeds of such Additional Bonds may be used for additional capital improvements, including for the purpose of refunding outstanding Bonds.

Such Additional Bonds may only be issued upon compliance by the Authority with the provisions of the Indenture and certain conditions precedent as provided in the Indenture, including that an amount will be deposited into the Reserve Account to maintain the amount therein at least equal to the Reserve Requirement, and the Lease will be amended so as to increase the Lease Payments payable by the City thereunder by an aggregate amount equal to the principal and interest due and payable on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest on such Additional Bonds.

Any Additional Bonds will be on a parity with, and each Owner thereof shall have the same rights upon an Event of Default as the Owner of, any other Bonds issued and delivered under the Indenture, except as otherwise provided in the Supplemental Indenture under which Additional Bonds are issued. Such Supplemental Indenture will prescribe the form or forms of such Additional Bonds, and subject to the provisions of the Indenture, will provide for the distinctive designation, denominations, dates, principal payment dates, interest payment dates, interest rates, provisions for redemption, and places of payment for principal and interest.

Remedies

If the City defaults in performance of its obligations under the Lease, the Authority or the Trustee, as assignee of the Authority, may either terminate the Lease and re-enter and re-let all or a portion of the Leased Property or may retain the Lease and hold the City liable for all payments on an annual basis and still have the right to re-enter and re-let the Leased Property without effecting a surrender of the Lease. Additionally, the Trustee may pursue remedies at law or in equity to enforce the Lease.

Although the Lease and the Indenture provide that the Trustee, as assignee of the Authority, may take possession of the Leased Property if there is a default by the City, and the Lease provides that the Trustee may have such rights of access to the Leased Property as may be necessary to exercise any remedies, portions of the Leased Property may not be easily recoverable and, even if recovered, could be of little value to others. There can be no assurance that the Leased Property can be re-let for an amount equal to all outstanding Lease Payments. Due to the essential nature of the governmental functions of the Leased Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. In addition, the remedy of repossession and re-letting may prove to be unavailable or not economically viable with respect to all or portions of the Leased Property because the Authority has only a leasehold or other possessory right to some of the Lease Property. Therefore, repossession of the Leased Property in such instances may not be an available remedy. In addition, assuming the Leased Property could be repossessed, it may prove functionally impossible to release.

THE AUTHORITY

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of July 13, 2005 (the “Joint Powers Agreement”), by and between the City and the City of Elk Grove Parking Authority. The Joint Powers Agreement was entered into pursuant to the provisions of Article 1 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”). The governing body of the Authority consists of the same individuals who comprise the City Council of the City. The Authority was created for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. Pursuant to Article 1 of the Act, the Authority is qualified to assist in financing projects and certain public improvements and to issue bonds under Article 4 of the Act (being the Marks-Roos Local Bond Pooling Act of 1985).

The Authority has no taxing power. The Authority and the City are separate legal entities, and the debts and obligations of one such entity are not debts or obligations of the other entity.

THE CITY

General

The City is located approximately 4 miles south of the City of Sacramento along Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,750 to a January 1, 2010 population of 143,885 according to the State Department of Finance.

Despite its close proximity to California’s capital city, Elk Grove remained quietly independent of Sacramento’s growth and development as it expanded into adjoining countryside areas until the 1980’s. Elk Grove had its start in agriculture and it is still a big part of the area’s economy today, with vineyards, dairy and cattle and row crops; but, now, there are also high technology, professional service, commercial and retail enterprises. The City is located in the southern portion of Sacramento County and is halfway between Sacramento and Stockton, straddling Highway 99 and Interstate 5. It is within easy driving distance from both the Bay Area and Sierra Mountain resorts.

The City has experienced substantial growth, particularly since its incorporation in 2000. Housing developments in the City represent a transition from previous land use for agricultural or grazing purposes toward a mixture of urban land uses, which transition has also occurred in other areas of the City. The City provides a variety of services to its residents which include public safety, highways and streets, public improvements, planning and zoning, general administration, transit, solid waste, and drainage.

Elk Grove’s climate varies from low temperatures of 24 to 44 degrees to highs of 80 to 110 degrees. Average annual rainfall is 22 inches per year falling primarily from October through April. Elevation is 45 feet.

City Government

The City has a Council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of city business and the coordination of all City departments. The City Council is composed of five members elected bi-annually at large to four-year alternating terms. The Mayor is selected by the City Council from among its members. The City budgeted for 270 full-time positions in fiscal year 2010-11. The City contracts for certain services within the public works, planning, building, trash hauling and transit departments. The City established its own police department in October 2006, following the expiration of its contract with the County Sheriff. The Elk Grove Police Officers’ Association is the City’s only labor organization, with 166 employees.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Sophia Scherman, <i>Mayor</i>	December 2012
Steven M. Detrick, <i>Vice-Mayor</i>	December 2012
James Cooper, <i>Council Member</i>	December 2012
Gary Davis, <i>Council Member</i>	December 2010
Patrick Hume, <i>Council Member</i>	December 2010

The City Manager is appointed by the City Council. Below are brief biographies of the City Manager and certain members of the City's professional staff:

Laura S. Gill, City Manager. Ms. Gill was appointed City Manager of the City in May 2008. Prior to such appointment, she served as the County of El Dorado's Chief Administrative Officer for 5 years. Prior to her work in El Dorado County Laura served the City of Durham, North Carolina for more than 15 years. She began her career there as a Budget and Management Analyst, rising through the ranks to Budget and Management Services Director. She also served as an Interim Assistant City Manager, Interim Property and Facilities Management Director, and Senior Assistant to the City Manager.

Laura obtained her Masters Degree in Public Administration from the University of North Carolina at Chapel Hill and her Bachelor's Degree from Wake Forest University in Winston-Salem, North Carolina.

Rebecca Craig, Assistant City Manager. In April 2010, Ms. Craig was appointed Assistant City Manager. Since 2007, Rebecca has served as the City's Finance Director and most recently the Interim Assistant City Manager. Ms. Craig is responsible for overseeing the operations of Development Services, including the Public Works, Planning and Building Departments. She will coordinate execution of policies and programs across departments to ensure effective service delivery. She will also be the city's management liaison for interagency projects region-wide.

Ms. Craig has more than 15 years of experience in local government, serving as Finance Director for the City of O'Fallon, Missouri and County of St. Charles, Missouri. Ms. Craig holds a Bachelor's Degree from the University of Missouri in Columbia and is a certified public accountant (CPA).

Rebecca Carr, Director of Finance and Administration. Ms. Carr joined the City in August 2010 as the Director of Finance and Administrative Services. She came from the County of Tulare where she served for 11 years, most recently as the Assistant Auditor-Controller. Rebecca is responsible for overseeing the activities and operations of the Finance Department including accounting, financial planning, cash and asset management, debt management, revenue administration and collection, purchasing, accounts payable, grant administration, and payroll. She also plans, directs, manages and oversees the activities and operation of Facilities & Fleet Division, GIS and Information Technology. Ms. Carr has a Bachelors degree from California State University, Fresno.

Cedar Kehoe, Integrated Waste Program Manager. In her six years with the City, Cedar Kehoe brings more than 20 years of expertise implementing a variety of integrated waste programs for public agencies and private companies. She was instrumental in the development of the first permanent household hazardous waste collection facility in the nation, and was the General Manager for San

Francisco’s Transfer Station. As General Manager, she managed all operations for the disposal, transportation, and recycling activities at the San Francisco Solid Waste Transfer and Recycling Center.

Cedar is involved in a number of organizations, including the Solid Waste Association of North America, California Resource Recovery Association, and the North American Hazardous Materials Management Association. Several programs that she managed have received numerous recognitions and awards, including the Bronze Award for Integrated System Excellence in 1998, the Meritorious Achievement Award for the Household Hazardous Waste programs in 1992 from the Solid Waste Association of North America, and the Business Arts Advocate Award in 1995 from the San Francisco Chamber of Commerce.

Population

The City’s population was approximately 143,885 on January 1, 2010, according to the California State Department of Finance’s estimates. The following table shows the estimated population growth for the City, the County and the State of California for calendar years 2000 through 2010.

**TABLE 1
City of Elk Grove
City, County and State Population Growth⁽¹⁾
Calendar Years 2000 through 2010**

Calendar Year	City of Elk Grove	% Change from Prior Period	County of Sacramento	% Change from Prior Period	State of California	% Change from Prior Year
2000	--	--	1,223,499	2.4%	33,873,086	1.6%
2001	75,762	7.6%	1,252,850	2.8	34,430,970	1.8
2002	81,519	6.3	1,287,833	2.2	35,063,959	1.7
2003	86,634	27.3	1,318,352	2.1	35,652,700	1.5
2004	110,246	10.5	1,345,990	1.7	36,199,342	1.3
2005	121,803	7.8	1,368,649	1.3	36,676,931	1.1
2006	131,266	3.8	1,386,480	1.2	37,087,005	1.0
2007	136,211	2.2	1,402,501	1.1	37,463,609	1.1
2008	139,259	1.6	1,418,344	1.0	37,871,509	1.0
2009	141,512	1.7	1,432,168	1.0	38,255,508	1.1
2010	143,885	1.7	1,445,327	0.9	38,648,090	1.0

(1) As of January 1 of each year.

Source: State of California Department of Finance.

Employment

The following table shows certain employment statistics for the City of Elk Grove Census Designated Place (CDP) and the County for calendar years 2000 through 2009.

TABLE 2
City of Elk Grove
City and County Employment Statistics
Calendar Years 2000 through 2009⁽¹⁾

<u>Year</u>	<u>City (Census Designated Place)</u>			<u>County</u>
	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2000	32,000	30,800	3.5%	4.3%
2001	32,800	31,600	3.6	4.5
2002	33,800	32,300	4.5	5.7
2003	34,400	32,800	4.7	5.9
2004	34,700	33,100	4.5	5.6
2005	34,900	33,500	4.0	5.0
2006	35,300	34,000	3.8	4.8
2007	35,600	34,100	4.3	5.4
2008	35,700	33,600	5.8	7.2
2009	35,600	32,300	9.2	11.3

(1) Not seasonally adjusted. Figures represent the 12-month average for each such year.

Source: State of California, Employment Development Department.

The following table summarizes the civilian labor force in the County of Sacramento – Arden Arcade – Roseville MSA for the calendar years 2005 through 2009. These figures are metropolitan statistical area statistics including Sacramento, El Dorado, Placer and Yolo Counties, and may not necessarily accurately reflect employment trends in the City.

TABLE 3
Sacramento County
Annual Average Employment by Industry
Calendar Years 2005 through 2009

Industry	2005	2006	2007	2008	2009
Private, non-farm					
<i>Goods producing:</i>					
Mining and natural resources	700	700	700	700	500
Construction	73,400	70,700	66,900	56,200	43,000
Manufacturing – durable goods	29,800	29,700	28,100	26,400	22,700
Manufacturing – non-durable goods	13,300	13,100	12,700	12,400	11,700
<i>Service Providing:</i>					
Wholesale trade	26,900	28,400	27,900	26,500	24,100
Retail trade	98,700	100,700	99,800	95,100	87,100
Transport., warehousing and utilities	23,400	24,500	25,400	25,100	23,300
Information	19,900	20,000	20,100	19,200	18,300
Financial activities	63,500	64,600	61,800	57,500	53,600
Professional and business services	108,600	112,500	112,100	110,100	100,700
Educational and health services	88,200	92,100	96,800	99,400	99,400
Leisure and hospitality	82,100	85,300	86,600	85,900	81,900
Other services	<u>28,500</u>	<u>28,300</u>	<u>29,000</u>	<u>29,600</u>	<u>28,700</u>
Subtotal	<u>656,900</u>	<u>670,700</u>	<u>668,100</u>	<u>643,800</u>	<u>594,900</u>
Government	224,000	228,400	235,000	238,200	238,500
Farm	7,400	7,500	7,900	8,200	8,700
Total	<u>888,300</u>	<u>906,600</u>	<u>911,000</u>	<u>890,200</u>	<u>842,100</u>

(1) Employment reported by place of work; does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add due to rounding. Based on March 2008 benchmark. Not seasonally adjusted.

Source: State of California, Employment Development Department.

The following table shows the top ten employers within the City:

TABLE 4
City of Elk Grove
Top Ten Employers (2008-09)

<u>Company</u>	<u>Product or service</u>	<u>No. of Employees</u>	<u>% of Total City Employment</u>
Elk Grove Unified School District	Education	5,000	14.02%
Kaiser Permanente.	Healthcare	1,468	4.12
Apple Computer, Inc.	Technology	1,100	3.09
California State Automobile Assoc. ¹	Insurance	750	2.10
Methodist Hospital of Sacramento	Healthcare	550	1.54
Cosumnes River College District	Education	330	0.93
AllData	Technology	282	0.79
Wal-Mart	Retail	273	0.77
Bimbo Bakeries	Food Products	265	0.74
City of Elk Grove	Government	<u>250</u>	<u>0.70</u>
		10,268	28.80%

1. California State Automobile Association (AAA) has since closed its offices located in the City and is no longer a major employer within the City.

Source: City of Elk Grove audited financial statements for fiscal year 2009-10.

Per Capita Personal Income

The following table shows the annual per capita personal income for the Sacramento-Arden-Arcade-Roseville MSA, the State of California and the United States from 2004 through 2008.

TABLE 5
Sacramento-Arden-Arcade-Roseville MSA, California and the United States
Per Capita Personal Income
Calendar Years 2004 through 2008

<u>Year</u>	<u>County MSA</u>	<u>State</u>	<u>U.S.</u>
2004	\$35,396	\$36,904	\$33,881
2005	36,989	38,767	35,424
2006	38,996	41,567	37,698
2007	40,572	43,402	39,392
2008	41,119	43,852	40,166

(1) Per capita personal income is the total personal income divided by the total midyear population estimates of the U.S. Bureau of the Census. Estimates reflect county population estimates available as of April 2010.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Construction Activity

The following table summarizes the number of construction permits issued from fiscal years 2004-05 through 2008-09:

TABLE 6
City of Elk Grove
Number of Construction Permits
Fiscal Years 2004-05 through 2008-09

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Type of Permit:					
Residential	3,603	1,137	675	427	346
Commercial	95	71	54	40	40
Total	3,689	1,208	729	467	386

Source: City of Elk Grove.

The fluctuation in building permits issued reflects, in part, large-scale tract development that is cyclical. In addition, the real estate market in Northern California, particularly with respect to residential units, has been weak in recent years. See also "CITY FINANCIAL INFORMATION – Property Taxes."

Community

Education. The City is served by the Elk Grove Unified School District (EGUSD), one of the fastest growing school districts in the country and the 5th largest in California in fiscal year 2008-09. EGUSD includes 320 square miles, or about one third of Sacramento County. Notably, Elk Grove is projected to experience a greater growth in its student population over the next 25 years than any other city in Sacramento County. Cosumnes River Community College is near the City's northern boundary, and California State University, Sacramento is just a short drive away in the City of Sacramento.

Transportation. The City has convenient access to two major highways—Interstate 5 and Highway 99, providing easy access to highway transportation routes. Rail transportation is also available in Sacramento, 15 miles north of the City. Public transportation is provided by e-tran, the City’s first in the nation 100% hybrid electric commuter bus fleet. The Sacramento International Airport is located approximately 26 miles north of the City off Interstate 5 and provides the major carrier airlines.

Recreation. Elk Grove has close to 50 parks, totaling more than 140 acres of lush landscaping and recreational amenities, including picnic areas, softball fields, a skate park and swim center. Emerald Lakes Golf Center and Valley Hi Country Club and a number of driving ranges provide area golfers with facilities to meet their needs. Additional local attractions in or near the City include Laguna Creek Parkway, a 13-mile waterway featuring wetlands, open space, walking and riding trails, fishing and bird watching; Stone Lakes Refuge, on the western edge of the City, consisting of a narrow stretch of floodplain which was recently dedicated as a National Wildlife Refuge comprised of 3,000 acres along the Pacific Flyway; and Cosumnes River Preserve, on the southern edge of the City, a riparian habitat running along the Cosumnes River.

Community Facilities. More than 50 churches in the greater Elk Grove area provide worship services for many faiths. The City is serviced locally by four medical facilities and systems, including Kaiser Permanente Hospital, Methodist Hospital/Mercy Healthcare, Sutter Health Systems and UC Davis Medical Center. The Elk Grove Senior Center provides classes, trips, game night, yoga, bingo, estate planning, AARP classes and tax preparation assistance. There are three health clubs that serve the Elk Grove area offering full facilities for swimming, indoor basketball court, weight training, racquetball, tennis and aerobics.

CITY FINANCIAL INFORMATION

Budgetary Process and Administration

The City Council adopts a budget annually for all governmental fund types. The City adheres to particular procedures in the budgeting process. In May, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. The operating budget includes proposed expenditures and the means of financing them. Public meetings are conducted to obtain taxpayer comments. Budgets are adopted by City Council resolution for the General Fund, Special Revenue Funds and Capital Project Funds. Budget adjustments from reserves and between funds are approved by the City Council and budget transfers within fund or department are approved by the City Manager. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds without the City Council’s approval. Budgets are adopted on a basis consistent with generally accepted accounting principles for all funds, except capital projects reported in the Capital Project Funds, which are budgeted on a project length basis.

Mid-year reviews of an adopted budget are conducted annually and adjustments and amendments are made thereto and approved by the City Council.

City Budgets for Fiscal Years 2008-09 through 2010-11

The City’s budget for fiscal year 2010-11 was adopted by the City Council on June 9, 2010. A complete copy of the City’s adopted fiscal year 2010-11 budget can be obtained from the City’s Finance Department or the City’s website at www.elkgrovecity.org.

The table below shows the City's budget and actual results for General Fund revenues and expenditures for fiscal years 2008-09 and 2009-10 and the adopted budget for fiscal year 2010-11. Actual results for fiscal year 2010-11 could vary significantly from the adopted budget for such year.

TABLE 7
City of Elk Grove
General Fund Budget Summary
Fiscal Years 2008-09 through 2010-11

	2008-09 Actual	2009-10 Revised Budget	2009-10 Unaudited	2010-11 Adopted Budget	Variance with 2009-10 Unaudited
Revenues					
Taxes	\$33,713,594	\$30,325,500	\$30,022,000	\$31,020,000	\$694,000
Intergovernmental	11,509,877	10,140,000	10,195,000	10,350,000	210,000
Fines and forfeitures	1,772,013	2,222,500	1,401,628	1,452,500	(770,000)
Licenses, fees and permits	618,650	443,000	532,393	464,650	21,650
Interest	618,234	300,000	300,300	300,000	-
Other Revenue	579,066	265,500	387,133	443,091	177,591
Cost Allocation	1,688,686	2,075,000	2,075,774	2,228,068	153,068
Transfers In	1,116,643	2,164,000	2,455,800	1,392,041	(771,959)
Total Revenues	\$51,616,763	\$47,935,000	\$47,370,028	\$47,650,350	\$(285,150)
Expenditures					
Compensation	\$29,992,988	\$29,657,000	\$27,804,008	\$28,707,419	\$(949,581)
Operating Expenses	17,643,529	13,487,000	10,894,450	11,701,361	(1,785,639)
Internal Services	--	4,791,500	4,791,500	3,967,466	(824,034)
Capital Outlay	902,198	725,000	9,800	--	(725,000)
Debt Service	57,330	---	--	--	--
Transfers Out:	2,453,679	1,200,000	3,623,388	4,949,104	3,749,104
Total Expenditures	\$51,049,724	\$49,860,500	\$47,123,146	\$49,325,350	\$(535,150)
Net Change In Fund Balances	567,039	(1,925,000)	246,882	(1,675,000)	250,000
Fund Balances at Beginning of Year	\$16,874,256	\$17,441,295	\$17,441,295	\$17,688,177	\$246,882
Fund Balances at End of Year	\$17,441,295	\$15,516,295	\$17,688,177	\$16,013,177	\$496,882

Source: City of Elk Grove. 2010-11 Budget.

The General Fund accounts for approximately 25% of all activities in fiscal year 2010-11 Budget. The City experienced significant population growth from 2003 through 2006 that resulted in an expanded residential and commercial assessed value base. The population growth also contributed to additional retail sales. Sales tax is a volatile revenue source, yet it is the City's largest single source for general operations. Although retail sales have weakened since fiscal year 2006-07, projections indicate the decline has reached bottom in fiscal year 2009-10 at approximately 15% decline. Sales tax revenues will stabilize and are projected to increase statewide by 6% in fiscal year 2010-11 as consumer confidence improves, fuel prices increase, and additional retailers enter the market.

Property taxes are considered a stable revenue source for long-term dependability; however, the market is correcting for multi-year over-inflated new home values. Although assessed values declined [17]% and [9.8]% in fiscal year 2008-09 and fiscal year 2009-10, respectively, recent sales activity indicates that assessed value growth will be flat or even experience marginal growth in fiscal year 2010-11.

One-fourth of the sales tax revenue and all Vehicle Licensing Fees (VLF) are distributed per State formulas (Triple Flip and VLF Swap agreements) semi-annually based upon assessed property values and are therefore projected to remain constant with fiscal year 2009-10 activity. Other taxes, including Utility User's, Transient Occupancy and Franchise fees, are remaining steady for now. The City accounted for the development processing and related permit fees in the General Fund as operating revenue until they were segregated to a special revenue fund in fiscal year 2008.

Operating expenditures decreased by nearly 8% from fiscal year 2008-09 to fiscal year 2009-10. Expenditures are projected to be \$2 million or more under budget for fiscal year 2009-10, which protects the General Fund's contingency reserve for future use.

The 2010-11 Budget calls for eight furlough days (equal to 3% of salary) for fiscal year 2010-11. The 2010-11 Budget also reduces the number of employees that can cash out a portion of their vacation and/or administrative leave from twice a year to once a year and reduces cash overtime compensation to members of the Elk Grove Police Association.

The City Council adopted a Fund Balance Reserve Policy in February 2009 that establishes a goal to retain 20% of current general fund expenditures and set such amount aside as designated fund balance. The City currently is meeting this established reserve fund goal. As of July 1, 2010, the contingency reserve as a percentage of adjusted general fund appropriation of \$49,860,500 equaled 20.66%.

Financial Statements

Set forth in the following tables are the City's General Fund balance sheets and statements of revenues, expenditures and changes in General Fund Balance for fiscal years 2004-05 through 2008-09, which are based on the City's audited financial statements. The balance sheets and statements presented in this Official Statement are subject to the various notes attached to the City's financial statements for the respective years. Excerpts of the City's Comprehensive Annual Financial Report ("CAFR") for fiscal year ended June 30, 2009, which includes the City's 2008-09 audited financial statements, is set forth in Appendix A. A complete copy of the City's CAFR for fiscal year 2008-09 is available on the City's website, at www.elkgrovecity.org and those for prior years can be obtained from the City's Finance Department.

The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board ("GASB") published its Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include a Management's Discussion and Analysis (introducing the basic financial statements and providing an analytical overview of the government's financial activities); basic financial statements including (i) government-wide financial statements prepared using the economic resources measurement focus and the accrual basis of accounting; (ii) fund financial statements, which may include (A) governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds),

prepared using the current financial resources measurement focus and the modified accrual method of accounting, (B) proprietary fund financial statements (including financial data for enterprise and internal service funds) prepared using the economic resources measurement focus and the accrual basis of accounting, and (C) fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) prepared using the economic resources measurement focus and the accrual basis of accounting; and (iii) notes to the financial statements; and required supplementary information.

The City implemented GASB Statement No. 34, beginning with its audited financial statements for fiscal year 2004-05.

TABLE 8
City of Elk Grove
General Fund Balance Sheets
Fiscal Years 2004-05 through 2008-09

	2004-05	2005-06	2006-07	2007-08 ⁽¹⁾	2008-09	2009-10 unaudited
Assets						
Cash and investments	\$11,299,588	\$9,451,349	\$9,801,702	\$6,175,433	\$13,044,613	\$16,978,107
Imprest cash	1,250	2,750	--	--	--	
Receivables						
Accounts	4,227,834	3,128,873	3,173,850	179,655	331,810	474,377
Taxes	867,205	3,828,814	478,522	3,368,748	2,608,917	2,527,467
Accrued interest	26,152	23,288	32,286	46,802	138,798	5,268
Prepaid Costs	--	193,260	287,812	154,450	30,315	30,315
Due from other governments	4,415,234	1,774,010	2,788,720	288,491	211,743	2,907,455
Due from other funds	5,059,435	7,356,218	4,930,949	8,242,464	2,731,880	3,833,324
Advances to other funds	256,015	200,419	137,040	71,236	--	--
Long term dev fees receivable	--	--	--	3,011,206	3,011,206	3,011,206
Total Assets	<u>\$26,152,713</u>	<u>\$25,958,981</u>	<u>\$21,630,881</u>	<u>\$21,538,485</u>	<u>\$22,109,282</u>	<u>\$29,767,519</u>
Liabilities						
Accounts payable	\$2,932,886	\$4,564,044	\$3,358,677	\$796,741	\$703,986	\$779,022
Accrued salaries and benefits	172,541	745,833	463,430	697,836	789,277	766,907
Compensated absences	--	269,972	--	--	--	
Deposits payable	16,364	99,851	469,857	7386	1,407	2,928
Advances from other funds	--	--	--	3,011,206	3,011,206	3,011,206
Deferred revenue	1,107,448	1,771,325	--	--	--	1,597,505
Total Liabilities	<u>\$4,229,239</u>	<u>\$7,451,025</u>	<u>\$4,291,964</u>	<u>\$4,513,169</u>	<u>\$4,505,876</u>	<u>\$6,157,568</u>
Fund Balances						
Reserved						
Advances to other funds	--	200,419	137,040	71,236	--	--
Prepaid Costs	--	193,260	287,812	32,165	30,315	30,315
Encumbrances	20,480	885,429	--	277,589	131,796	37,140
Imprest cash	1,250	2,750	--	--	--	--
Unreserved						
Designated	21,294,326	16,794,326	16,794,326	16,644,326	13,244,396	13,244,396
Undesignated	351,403	431,772	119,739	--	4,196,899	10,298,100
Total Fund Balance	<u>\$21,923,474</u>	<u>\$18,507,956</u>	<u>\$17,338,917</u>	<u>\$17,025,316</u>	<u>\$17,603,406</u>	<u>\$23,609,951</u>
Total Liabilities & Fund Balance	<u>\$26,152,713</u>	<u>\$25,958,981</u>	<u>\$21,630,881</u>	<u>\$21,538,485</u>	<u>\$22,109,282</u>	<u>\$29,767,519</u>

(1) City changed auditing firms after the 2006-07 fiscal year and different labeling of categories was employed.
Source: City of Elk Grove audited financial statements for fiscal years 2004-05 through 2008-09 (audited) and 2009-10 (unaudited).

TABLE 9
City of Elk Grove
Statements of Revenues, Expenditures and Changes in General Fund Balance
Fiscal Years 2005-06 through 2009-10

	2005-06	2006-07	2007-08 ⁽⁵⁾	2008-09	2009-10 (unaudited)
Revenues					
Taxes					
Property taxes ⁽¹⁾	\$21,204,595	\$22,970,289	\$12,057,091	\$11,430,115	\$ 8,315,364
Sales and use tax	19,882,694	19,688,838	14,430,375	11,411,206	10,942,740
In-lieu sales tax ⁽²⁾	--	--	4,688,688	4,869,854	2,965,668
Utility users' tax	2,837,630	3,116,938	3,416,503	3,487,428	3,123,597
Transient occupancy tax	863,062	876,238	970,170	1,037,160	997,006
Property transfer tax	--	--	596,255	607,262	548,827
Franchise tax	703,256	724,351	820,604	870,568	1,213,908
Licenses, fees & permits	3,814,802	3,616,520	531,900	485,126	462,185
Fines and forfeitures	534,493	952,018	1,205,108	1,820,664	1,643,163
Intergovernmental	1,024,675	1,677,360	11,979,515	11,520,646	10,233,642
Charges for services ⁽³⁾	9,571,626	9,130,893	351,547	338,953	226,108
Use of money/property	495,022	564,595	774,813	850,579	29,613
Miscellaneous	85,034	80,167	62,690	282,898	201,394
Total Revenues	<u>\$61,016,889</u>	<u>\$63,398,207</u>	<u>\$51,885,259</u>	<u>\$49,012,459</u>	<u>\$40,903,215</u>
Expenditures					
Current					
General government ⁽¹⁾	\$18,561,527	\$20,486,827	\$20,493,094	\$18,586,453	17,422,192
Public safety ⁽⁴⁾	27,793,432	29,890,408	28,078,781	28,074,990	25,101,293
Community development ⁽³⁾	9,522,884	8,709,382	1,733,185	1,530,537	1,261,200
Public ways & facilities	7,298,974	7,260,135	--	--	--
Capital outlay	--	--	764,613	--	210,419
Debt service					
Principal retirement	94,562	--	--	20,314	--
Interest & fiscal charges	314,716	--	--	--	--
Total expenditures	<u>\$63,586,095</u>	<u>\$66,382,239</u>	<u>\$51,069,673</u>	<u>\$48,731,282</u>	<u>\$43,995,104</u>
Excess (deficiency) of revenues over (under) expenditures	(2,569,206)	(2,984,032)	815,586	281,177	(3,091,889)
Other financing sources(uses)					
Transfers in	2,121,905	3,492,235	2,929,400	2,805,239	12,755,919
Transfers out	(3,051,671)	(1,597,044)	(4,058,587)	(2,508,416)	(3,657,485)
Capital leases	83,454	--	--	--	--
Total other fin. sources (uses)	<u>(846,312)</u>	<u>1,895,191</u>	<u>(1,129,187)</u>	<u>296,913</u>	<u>9,098,434</u>
Net change in fund balance	(3,415,518)	(1,088,841)	(313,601)	578,090	6,006,545
Fund balance – beginning	<u>\$21,923,474</u>	<u>\$18,507,956</u>	<u>\$17,338,917</u>	<u>\$17,025,316</u>	<u>17,603,406</u>
Prior period adjustment		(80,198)			
Fund balance – ending	<u>\$18,507,956</u>	<u>\$17,338,917</u>	<u>\$17,025,316</u>	<u>\$17,603,406</u>	<u>\$23,609,951</u>

(1) Under the Revenue Neutrality Agreement between the City and the County of Sacramento entered into at incorporation, the City receives reduced property tax receipts for 25 years, ending in fiscal year 2024-25, consisting of 85% reduction in fiscal years 2005-06 through 2009-

10, 80% reduction in 2010-11 through 2013-14, 75% reduction 2014-15 through 2017-18, 70% reduction in 2018-19, and a 10% less reduction each year until 2025-16 when the City retains 100%. The City records the property tax receipts at a gross amount and records the amount withheld by the County as a General Government expense.

- (2) In Lieu Sales Tax is the property tax reimbursement that the City receives as a result of the triple - flip (triple - flip is the shift enacted by the State in fiscal year 2004-05 whereby local governments shift ¼ - cent of their Sales and Use Tax to the State in exchange for an equivalent amount of property tax). These revenues were reported as sales and use tax in fiscal years 2005-06 and 2006-07.
- (3) The City segregated contracted Development Services to a special revenue fund beginning in fiscal year 2007-08.
- (4) The City initially procured police services through a contract with the County Sheriff and subsequently established its own force in fiscal year 2006-07.
- (5) City changed auditing firms after the 2006-07 fiscal year and different labeling of certain categories was employed.

Source: City of Elk Grove financial statements 2005-06 through 2008-09 (audited) and 2009-10 (unaudited).

Revenues Available for Lease Payments

The City will make Lease Payments on each Interest Payment Date from moneys held in the General Fund that are available for general government purposes. The following table shows such revenues received by the City for fiscal years 2007-08 through 2009-10 (unaudited):

TABLE 10
City of Elk Grove
General Fund Revenues Available for General Government Purposes
by Revenue Source
Fiscal Years 2007-08 (audited) through 2009-10 (unaudited)

Category	2007-08		2008-09		2009-10 (unaudited)	
	Revenues	Percent of Total	Revenues	Percent of Total	Revenues	Percent of Total
Property tax	\$12,057,091	23%	\$11,430,115	23%	\$ 8,315,364	20%
Sales tax	14,430,375	28	11,411,206	23	10,942,740	27
Sales tax in-lieu fees	4,688,688	9	4,869,854	10	2,965,668	7
Utility users' tax	3,416,503	7	3,487,428	7	3,123,597	8
Transient occupancy tax	970,170	2	1,037,160	2	997,006	2
Property transfer tax	596,255	1	607,262	1	548,827	1
Franchise tax and fees	820,604	2	870,568	2	1,213,908	3
Licenses, fees and permits	531,900	1	485,126	1	462,185	1
All other	14,373,673	28	14,813,740	30	12,334,910	30
Total ⁽¹⁾	\$51,885,259	100%	\$49,012,459	100%	\$40,903,215	100%

(1) Totals may not add due to rounding.
Source: City of Elk Grove Finance Department.

Sales Taxes

Sales and use taxes represent one of the largest source of tax revenue to the City (approximately 27% of General Fund revenues in fiscal year 2008-09). The City's sales tax revenue represents the City's one percent share of the sales and use tax imposed on taxable transactions occurring within the City's boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax (the "Sales Tax Law"). A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. Effective January 1, 2002, the aggregate tax rate in the State is 7.25%. An additional 0.5% is collected in Sacramento County for transportation purposes.

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

TABLE 11
City of Elk Grove
Sales Tax Rates

State General Fund	6.00%
Local Rate	1.25
Sacramento Transportation Authority	<u>0.50</u>
Total	7.75%

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis. Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax. Certain transactions are exempt from the State sales tax. A list can be found in the State Board of Equalization's January 2007 publication entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at <http://www.boe.ca.gov>. See also "RISK FACTORS - Sales Taxes."

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the Board first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment. Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly

projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

History of Taxable Transactions. Summaries of historic sales tax revenues (including in lieu sales tax revenues) and a break out of sales by type of business within the City are shown in the following tables.

TABLE 12
City of Elk Grove
Sales Tax Revenues⁽¹⁾
Fiscal Years 2003-04 through 2009-10

<u>Fiscal Year</u>	<u>Sales Tax Revenues</u>	<u>Percent Change</u>
2005-06	\$19,655,388	n/a
2006-07	18,833,378	-4.18
2007-08	19,119,063	1.52
2008-09	16,281,060	-14.84
2009-10 ⁽²⁾	13,908,408	-14.57

(1) Excludes amounts that were earmarked for specific purposes.

(2) Unaudited amounts.

Source: City of Elk Grove Finance Department.

TABLE 13
City of Elk Grove
Taxable Transactions
(In Thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009⁽¹⁾</u>
Apparel stores	59,715	61,285	64,722	52,856	24,254
General merchandise stores	188,921	193,255	194,931	200,163	77,633
Food stores	94,877	98,073	96,863	85,488	40,643
Eating and drinking places	139,161	153,310	156,446	153,321	76,091
Home furnishings and appliances	59,633	64,162	55,637	70,250	36,673
Building Materials	115,866	98,121	77,909	64,211	30,733
Auto dealers and auto supplies	535,577	499,087	500,134	367,232	135,971
Service stations	115,254	138,189	148,730	167,778	60,156
Other retail stores	<u>223,128</u>	<u>231,847</u>	<u>213,664</u>	<u>168,507</u>	<u>62,567</u>
Retail Stores Totals	1,532,132	1,537,329	1,509,036	1,329,806	544,721
All Other Outlets	<u>206,369</u>	<u>180,442</u>	<u>196,341</u>	<u>199,072</u>	<u>76,962</u>
Total All Outlets	1,738,501	1,717,771	1,705,377	1,528,577	621,683

⁽¹⁾ Most current information available, through second quarter 2009.

Source: California State Board of Equalization Statistical Research and Consulting Division.

Triple Flip. On March 2, 2004, voters approved a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion of economic recovery bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the “Triple Flip.” Currently, the State has issued approximately \$14.07 billion of economic recovery bonds. Under the “Triple Flip,” one-quarter of local governments’ one percent share of the sales tax imposed on taxable transactions within their jurisdictions is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the economic recovery bonds are repaid, which is currently expected to occur in approximately 13 years. See “STATE OF CALIFORNIA BUDGET” and “LIMITATIONS ON REVENUES AND APPROPRIATIONS.”

Property Taxes

Property taxes represent the another major source of tax revenue to the City (approximately 23% of General Fund revenues in fiscal year 2009-10). However, after adjusting the City’s property tax revenue for payments owed to the County pursuant to the Revenue Neutrality Agreement, described below, net property taxes amounted to approximately 8% of the City’s General Fund Tax revenues.

Tax Sharing Agreement with County. Property taxes revenues to the City have been affected by the “Revenue Neutrality Agreement” between the City and Sacramento County. The agreement was entered into upon incorporation as means of mitigating the financial impacts of the incorporation of the City in 2000-01 on the County’s general fund. This agreement calls for reductions in property tax receipts to the City over a period of 25 years, ending in 2024-25, when the City will receive 100% of its share of property taxes. The percentage of taxes retained by the County ranges from 85% for fiscal years 2005-06 through 2009-10 to 10% for fiscal year 2024-25. See “APPENDIX B - Audited Financial Statements for Fiscal Year Ended June 30, 2009 Note 15 – Commitments” and “Note 1 to Table 9” herein. The City records property tax receipts at a gross amount and records the amount withheld by the County as an expense. Pursuant to the Revenue Neutrality Agreement, the City paid the County \$[7,588,135] during fiscal year 2008-09.

General Property Taxes. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which have a viable tax lien, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at

5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Certain counties in the State of California, including Sacramento, offer a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. The City has elected to participate in the Teeter Plan. Consequently, the City’s receipt of property taxes is in the amount of the levy.

Assessed Valuation. The table below presents the assessed valuation of taxable property in the City from fiscal year 2006-07 through fiscal year 2010-11.

TABLE 14
City of Elk Grove
Assessed Value and Estimated Value of All Taxable Property
Fiscal Years 2006-07 through 2010-11
(000s omitted)

Fiscal Year	Residential	Commercial	Industrial	Other	Less Exemptions	Total Assessed Value
2006-07	\$11,642,680	\$1,035,050	\$323,173	\$3,043,373	\$179,795	\$15,864,481
2007-08	12,812,159	1,307,483	331,711	3,269,371	234,787	17,485,938
2008-09	14,318,680	1,748,263	418,427	918,496	270,922	17,132,945
2009-10	12,355,624	1,397,230	422,999	249,617	200,207	14,225,263
2010-11	12,206,754	1,324,802	395,891	243,635	197,785	13,973,297

Source: City of Elk Grove, based on information provided by the Sacramento County Auditor-Controller Office.

As shown in the table above, assessed valuations in the City have decreased in the last few years. Economic and other factors beyond the City’s control, such as economic recession, deflation or land values, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster could cause a deduction in the assessed value of taxable property in the City.

Largest Property Taxpayers. The largest local secured property taxpayers in the City, as shown on the 2008-09 secured tax roll, are listed in the table below. The City’s receipt of property taxes is limited due to an agreement with the County entered into in connection with the incorporation of the City in 2000-01. See “Property Taxes” above. A list of the ten largest local secured taxpayers in the City for the most recent fiscal year is included in the following table. For fiscal year 2008-09, the total assessed valuation of the ten largest local secured taxpayers is 3.57% of the total City assessed valuation of \$17,132,944,807.

TABLE 15
City of Elk Grove
Largest Property Taxpayers
June 30, 2009

Taxpayer	2009 Assessed Valuation	Percentage of Total Assessed Valuation ⁽¹⁾
Donahue Schriber Asset Management Corporation	\$ 181,723,113	1.06%
Apple Computer Inc.	87,365,089	0.51
Oakmont Properties II Limited Partnership	63,610,056	0.37
9130 Nolan State LLC	44,637,603	0.26
SB RBLI Land Company Arbor Ranch	44,491,788	0.26
Pappas Laguna 2 LP	40,650,273	0.24
Laguna Gateway Phase II LP	39,374,922	0.23
Elk Grove Franklin Retail LLC	37,191,616	0.22
L V Apartments LLC	36,694,000	0.21
Somerfield North LLC	36,522,761	0.21
Total	\$612,291,221	3.57%

⁽¹⁾ The total City assessed valuation for fiscal year 2008-09 is \$17,132,944,807.

Source: County of Sacramento Assessor's Office and the SBE Non Unitary Tax Roll.

Proposition 13 Limitations. Article XIII A of the State of California Constitution imposes limits on annual adjustments to real property assessed values and to the amount of *ad valorem* tax that may be levied on real property. See "LIMITATIONS ON TAX REVENUES AND APPROPRIATIONS – Article XIII A."

Proposition 8 Adjustments. Proposition 8, approved by state voters in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions under this code section may be initiated by the County Assessor or requested by the property owner.

After a roll reduction is granted under this code section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the California Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

In 2009, the County Assessor's Office initiated a proactive review of single-family homes, condominiums, townhouses, multi-family properties, commercial properties, industrial properties and timeshare properties. According to the County Assessor, over 170,000 properties resulted in reductions to assessed value. The County Assessor office again initiated such a review and 275,000 parcels received automatic assessed value reductions for 2010 due to a negative Consumer Price Index inflation

adjustment for the year. The City cannot predict what the impact of such future reviews, if any, will be on the City's property tax revenues. See "RISK FACTORS – Real Estate Volatility."

Proposition 1A. On July 24, 2009, the State legislature approved a diversion of local property tax revenues to the State pursuant to the provisions of Proposition 1A. The City's share of this payment to the State was \$1,597,505. The State is required to repay these funds to the City by June 30, 2013. For more information on Proposition 1A, see "STATE OF CALIFORNIA BUDGET" herein.

Other Sources of Revenues

Vehicle License Fee. The Vehicle License Fee (VLF) is a fee in lieu of property tax that is based on the depreciated value of the vehicle. The VLF is collected by the State's Department of Motor Vehicles and disbursed by the State Controller to cities and counties based on population. The City's VLF revenues were \$1,597,505 in fiscal year 2008-09.

Utility Users' Tax. A utility users' tax is levied on telephone, gas, electricity, sewer, and cable television services. The current rate for this charge is 2.5%.

Real Property Transfer Tax. The County imposes a transfer tax on real property sold in the City, at a rate of \$1.10 per \$1,000 of real property value. Half of this amount is returned to the City.

Transient Occupancy Tax. The City levies a 12% transient occupancy tax on hotel and motel bills.

Franchise Tax. The City imposes fees on refuse, oil, and cable television companies for the privilege of using City streets.

Direct and Overlapping Debt

Set forth below for the City is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated as of October 1, 2010. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases long-term obligations issued by a public agency are payable from the general fund or other revenues of such public agency.

TABLE 16
City of Elk Grove
Direct and Overlapping Debt Statement
(as of October 1, 2010)

2010-11 Assessed Valuation: \$14,860,369,425

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 10/1/10</u>
Los Rios Community College District	10.639%	\$ 20,627,425
Sacramento Unified School District	0.384	1,344,319
Elk Grove Community Facilities Districts	100.	164,970,000
Elk Grove Unified School District Community Facilities District No. 1	56.156	86,669,276
Sacramento County Community Facilities Districts	100.	10,088,882
California Statewide Community Development Authority 1915 Act Bonds	100.	<u>6,497,965</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$290,197,867
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	12.810%	\$ 47,285,977
Sacramento County Pension Obligations	12.810	117,406,631
Sacramento County Board of Education Certificates of Participation	12.810	1,351,786
Los Rios Community College District Certificates of Participation	10.639	692,067
Sacramento Unified School District Certificates of Participation	0.384	319,123
Sacramento Unified School District Pension Obligations	0.384	13,939
City of Elk Grove General Fund Obligations	100.	<u>15,565,000</u> (2)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$182,634,523
Less: Sacramento County self-supporting obligations		<u>905,031</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$181,729,492
GROSS COMBINED TOTAL DEBT		\$472,832,390 (3)
NET COMBINED TOTAL DEBT		\$471,927,359

- (1) Based on 2009-10 ratios.
- (2) Excludes lease revenue bonds to be sold.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Assessed Valuation:

Combined Direct Debt (\$15,565,000)	0.10%
Total Overlapping Tax and Assessment Debt	1.95%
Gross Combined Total Debt	3.18%
Net Combined Total Debt.....	3.18%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

Long-Term Obligations Payable Out of General Fund

The City's general obligation debt consists of Police Transition costs and capital leases for City Hall and Police Facility buildings. Police transition costs are paid by general fund expenditures. The capital leases for the City Hall and Police Facility buildings are paid by the debt service fund, which is funded by a combination of impact fees and general fund transfers

On May 31, 2007 the Authority issued the Series 2007 Lease Revenue Bonds in the amount of \$18,585,000 to fund the purchase of the City's administrative office located at 8401 Laguna Palms Way and to pay off the capital leases for 8380 and 8400 Laguna Palms Way, which comprise the City Hall complex. The bonds have interest rates of 4.0% to 5.0% and mature beginning July 1, 2007 through July 1, 2027.

At June 30, 2009, the City's liability with respect to compensated absences amounted to approximately \$2,425,666, with \$2,369,798 of this amount to be paid in future years from the General Fund.

Investment Policy and Portfolio

The Chief Financial Officer manages the City's investment portfolio. For additional information concerning the City investments, see "APPENDIX B - Audited Financial Statements For Fiscal Year Ended June 30, 2009 - Note 2 - Cash and Investments."

The following table shows the City's investment portfolio as of June 30, 2010. Of the total amount invested, approximately 12.9% represent General Fund moneys.

TABLE 17
City of Elk Grove
Investment Portfolio
as of June 30, 2010

<u>Investment Type</u>	<u>% of Investment Portfolio</u>	<u>Market Value</u>
Demand Deposit Accounts	10.00%	\$ 16,143,518
Pooled Investments	33.25	53,660,415
Agency and Corporate Securities	<u>56.75</u>	<u>91,413,460</u>
Total⁽¹⁾	100.00%	\$161,217,394

(1) Total may not add due to rounding.

Source: City of Elk Grove Finance Department.

Employee Relations

The only City employees represented by an employee association, the Elk Grove Police Officers Association, are the City's police officers. The current contract with the City expires June 30, 2012 and covers 166 employees. The remainder of the City staff is employed at will.

Health Coverage

City employees are covered under a medical and prescriptions policy with coverage limited to \$2,000,000 in aggregate. The City offers a "cafeteria plan," which includes a monthly health contribution that an employee may apply toward premiums for medical, dental, vision, and life insurance. Subject to

certain restrictions, employees may put any unused funds in a deferred compensation plan or the City will allow such funds to be designated as salary.

Pension Plans

The City contracts with the California Public Employees' Retirement System ("CalPERS") for retirement benefits. CalPERS is organized and operates pursuant to the laws of the state of California and is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. The City participates in the Miscellaneous 2.7% at 55 Risk pool and the Safety 3% at 50 Risk pool. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

Active plan members in the CalPERS plans are required to contribute 8% of their annual covered salary. The City is required to contribute an actuarially determined rate. The rate for fiscal year 2008-09 was 12.217% for miscellaneous employees and 18.101% for safety employees of the annual covered payroll. The contribution requirements of the plan members are established by State statutes and the employer contribution rate is established and may be amended by CalPers. The City contributes 8% and 9% to the plan on behalf of the employee. For fiscal year 2008-09, total paid to CalPERS was \$1,762,982. Total employer contribution rate was 20.217% for miscellaneous and 27.101% for safety employees. The City's contribution to CalPERS for the combined employer requirement and employee benefit for the years ending June 30, 2007, 2008 and 2009 were \$3,986,665, \$4,326,633, and \$4,851,410 respectively.

Because the City is only ten years old and delivers a significant amount of services with contracted workers, the pension liability referenced below is statewide averages:

Funding History - Safety Employees

Valuation Date	Accrued Liabilities	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/2004	\$5,383,921,942	\$4,424,586,846	\$ 959,335,096	82.2%	\$575,296,434	166.8%
6/30/2005	7,278,049,834	6,102,615,567	1,175,434,267	83.9	754,730,438	155.7
6/30/2006	6,367,049,264	5,295,150,375	1,071,898,889	83.2	664,147,796	161.4
6/30/2007	7,986,055,176	6,826,599,459	1,159,455,717	85.5	831,607,658	139.4
6/30/2008	8,700,467,733	7,464,927,716	1,235,540,017	85.8	914,840,596	135.1

Funding History – Miscellaneous Employees

Valuation Date	Accrued Liabilities	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/2004	\$ 681,517,006	\$ 580,960,891	\$100,556,115	85.2%	\$160,107,449	62.8%
6/30/2005	872,346,612	729,556,809	142,759,803	83.6	203,995,039	70.0
6/30/2006	1,280,157,040	1,069,546,974	210,610,066	83.6	304,898,179	69.1
6/30/2007	1,627,025,950	1,362,059,317	264,966,633	83.7	376,292,121	70.4
6/30/2008	1,823,366,479	1,529,548,799	293,817,680	83.9	414,589,514	70.9

Source: City of Elk Grove 2008-09 Comprehensive Annual Financial Report, Actuarial Valuation as of June 30, 2008.

Deferred Compensation

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Sections 457 and 414(h). Under these plans, participants are not taxed on the deferred portion of their compensation until distributed; distributions may be made only at termination, retirement, death or in an emergency as defined by the plan. The City will match up to 6% or 2% of the covered payroll as a benefit under Internal Revenue Code Section 401A. For the 2008-09 fiscal year the City's matching contribution was \$717,939.

Other Post-Employment Benefits Other Than Pensions

The Governmental Accounting Standards Board ("GASB") issued Statement No. 45 entitled "Accounting and Financial Reporting By Employers for Post Employment Benefits Other Than Pensions" ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits, known collectively as "Other Post-Employment Benefits" or "OPEBs." GASB 45 generally requires state and local governmental employers to account for and report the cost of OPEBs and outstanding obligations and commitments related to OPEBs in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of their initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. GASB 45 is to be phased in based on a government's total annual revenues, over a three year period beginning with accounting periods beginning after December 15, 2006.

The City provides two separate OPEB plans for qualified executive staff and employees who retire from the City. One OPEB plan is a single employer defined contribution health reimbursement arrangement administered through the use of an OPEB Trust Fund (the HRA Plan) and the other OPEB plan is a single employer defined benefit plan providing a health insurance premium rate subsidy administered by CalPERS on behalf of the City (the Health Insurance Rate Subsidy Plan).

In May 2009, the City undertook to review its HRA Plan which was established in 2007. The recommended changes ratified in December 2009 included overhauling the retiree healthcare benefit, reducing the number of employees who qualify for the benefit and adding a defined contribution plan for those that do not qualify for the benefit, and converting salaries from the pay for performance model to the step plan. The step plan becomes effective July 1, 2011.

The benefit provided by the HRA Plan to eligible retirees of the City is an irrevocable contribution (\$800 per month for the three executives under the 2007 Plan and \$100 per pay period for existing employees and new hires) for each covered employee deposited into a health reimbursement account for use by the retiree and eligible dependents to pay for medical expenses allowed under the Internal Revenue Code.

As of June 30, 2009, the City had three retirees who met the executive staff eligibility requirements for the 2007 HRA Plan. Since eligibility is limited to employees directly retiring from the City and their eligible dependents, no other terminated employees met the eligibility requirements of the HRA Plan at June 30, 2009. At June 30, 2009, 271 employees were active plan members.

Under the Health Insurance Rate Subsidy Plan, the City provides retirees the ability to continue their healthcare coverage under the City's cafeteria plan at a cost equal to current eligible employees, which is administered by CalPERS. The City is funding this benefit on a pay-as-you-go basis at a rate

currently set by actuarial methods and assumptions described below at \$101 per eligible employee per month. At June 30, 2009, 271 employees were active plan members.

The City’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress below presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Only one year is presented as this is the first year of the plan, which HRA Plan has since been revised.

Schedule of Funding Progress for HRA

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as percentage of Covered Payroll
6/30/2008	\$1,652,956	\$3,260,694	\$1,607,738	50.7%	\$21,443,642	7.5%

Schedule of Funding Progress for Rate Subsidy Plan

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as percentage of Covered Payroll
6/30/2008	---	\$697,197	\$697,197	0.0%	\$21,443,642	3.3%

Source: City of Elk Grove audited financial statement for fiscal year 2008-09.

The actuarial valuation, dated June 30, 2008, used the Entry Age Normal actuarial cost method, a discount rate of 6.5%, which is the long-term expected rate of return on the City’s investment fund, an annual general inflation rate of 3.00%, and an annual aggregate payroll increase of 3.00%. The unfunded accrued actuarial liability (UAAL) is being amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2008-09 fiscal year. Health insurance premium increases of 4% were used for the Rate Subsidy Plan.

The City entered into the AIG Valic HealthSecure HRA Plan and Trust Agreement on March 17, 2008 and funded the defined contribution plan in the name of the City on May 2, 2008. The irrevocable trust issues a quarterly stand alone Participant Activity Statement. Investments are reported at fair value based on quoted market prices of identical assets in active markets as determined by the trustee. The account activity and investment allocation is included in the monthly investment report to Council and can be viewed on the City’s website at www.elkgrovecity.org under the Office of the City Clerk Agendas and Minutes.

In December 2009, the City Council revised the HRA Benefit for employees. Program costs for fiscal year 2010-11, approximately \$400,000, will continue to be funded through prior year ARC payments that now exceed the amount required by actuarial study. In fiscal year 2011-12, program expenses will be incorporated in the compensation budget.

Risk Management

As of September 1, 2010, the City is insured for workers' compensation coverage through Travelers Property Casualty Company of America (Travelers) which provides dollar one coverage to statutory limits. The City pays for the premium for all employees. In addition, the City is required to pay Sacramento County for its share of unresolved claims made by sheriff deputies who provided services under the City's contract with the County which terminated in 2006. This obligation will terminate in 2013. The Risk Management budget includes reserves of \$256,067 to meet this obligation, all funded by the General Fund.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City reports all insurance expense in the Risk Management internal service fund. The City participates in a joint venture under a Joint Powers Agreement (JPA) with the California State Association of Counties – Excess Insurance Authority (CSAC-EIA). Established in 1979, CSAC-EIA provides 93% of California counties, and 60% of California Cities, a risk pool and provides a viable and cost effective solution for the entities' insurance and risk management needs. The purpose of CSAC-EIA is to spread the adverse effect of losses among the member entities and to purchase excess insurance as a group, thereby reducing its costs. The City is part of the General Liability I program (which includes Errors and Omissions coverage and Employment Liability coverage). CSAC-EIA provides the City up to \$20 million liability coverage in excess of the City's self-insured retention of \$50,000. CSAC-EIA also provides the City with property and crime bond insurance.

The City's deductibles and maximum coverage follows:

	Self-Insured Retention	CSAC-EIA Pool Layer	Excess Layer (Total Coverage)
General Liability Coverage	\$ 50,000	\$5,000,000	\$ 20,000,000
Property Coverage	5,000		602,500,000
Auto Coverage	5,000		602,500,000
Bus Coverage	100,000		602,500,000
Infrastructure Coverage	100,000		602,500,000
Fidelity Coverage	2,500		1,000,000

Source: City's 2008-09 audited financials.

CSAC-EIA is governed by a 61 member Board of Directors, composed of one representative from each member county and seven members elected by the public entity membership. Each member entity pays a contribution commensurate with the level of coverage provided and shares surpluses and deficits proportionate to their participation. See "APPENDIX B - Audited Financial Statements for Fiscal Year Ended June 30, 2009 - Note 14 - Risk Management."

BONDOWNERS' RISKS

INVESTMENT IN THE BONDS INVOLVES ELEMENTS OF RISK. THE FOLLOWING SECTION DESCRIBES CERTAIN SPECIFIC RISK FACTORS AFFECTING THE PAYMENT AND SECURITY OF THE BONDS. THE FOLLOWING DISCUSSION OF RISKS IS NOT MEANT TO BE AN EXHAUSTIVE LIST OF THE RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS AND THE ORDER OF DISCUSSION OF SUCH RISKS DOES NOT NECESSARILY REFLECT THE RELATIVE IMPORTANCE OF THE VARIOUS RISKS. POTENTIAL INVESTORS ARE ADVISED TO CONSIDER THE FOLLOWING FACTORS ALONG WITH ALL OTHER INFORMATION IN THIS OFFICIAL STATEMENT IN EVALUATING THE BONDS. THERE CAN BE NO ASSURANCE THAT OTHER RISK FACTORS NOT DISCUSSED UNDER THIS CAPTION WILL NOT BECOME MATERIAL IN THE FUTURE.

Limited Obligations with Respect to the Bonds

The Bonds are special obligations of the Authority payable solely from and secured by a pledge of Revenues, Refundable Credits and certain funds and accounts held under the Indenture. Revenues consist primarily of Lease Payments payable by the City under the Lease and amounts on deposit from time to time in the funds and accounts held by the Trustee. If for any of the reasons described herein, or for any other reason, the Revenues collected under the Lease are not sufficient to pay debt service on the Bonds, the Authority will not be obligated to utilize any other of its funds, other than moneys on deposit in the Reserve Account and certain other amounts on deposit in the funds and accounts established under the Indenture, to pay debt service on the Bonds

The Authority has no taxing power. The obligation of the City to make Lease Payments under the Lease does not constitute an obligation of the City which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make Lease Payments under the Lease constitutes an indebtedness of the City, State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitations.

Loss or Reduction of Refundable Credit with Respect to Build America Bonds

The Bonds are eligible for the Refundable Credits. Failure to satisfy certain requirements, which the Authority has covenanted to comply with, subsequent to the issuance of the Bonds may result in a delay or forfeiture of all or a portion of the Refundable Credits and may cause the Bonds to cease to be treated as "Qualified Bonds" under the Tax Code either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the Bonds. See "CONCLUDING MATTERS – Tax Matters."

No assurance can be given that any future legislation or clarifications or amendments to the Tax Code, if enacted into law, will not contain proposals which could reduce or eliminate the Refundable Credits with respect to the Bonds or adversely affect the market price or marketability of the Bonds. *Nevertheless, failure by the Authority to receive Refundable Credits does not relieve the City of its obligation to make Lease Payments under the Lease.*

Abatement

The Lease provides that the obligation of the City to pay Lease Payments may be abated as the result of a partial or temporary condemnation or substantial interference with the City's use and occupancy of all or a portion of the Leased Property by reason damage or destruction (unless there is

sufficient money in the Reserve Account or from the proceeds from rental interruption insurance to pay the portion of the Lease Payments that would otherwise be abated). Such abatement will continue until the Leased Property is repaired to tenantable condition. See “SECURITY FOR THE BONDS – Abatement” and “– Insurance; Condemnation.” In the event that the Leased Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City’s rental interruption insurance will be available or Refundable Credits will be available in lieu of Lease Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of the Leased Property or the optional redemption of the Bonds (see “Application of Net Proceeds” and “THE BONDS – Redemption – *Optional Redemption*”), a default on the Bonds may occur if there is an insufficient amount of funds in the Reserve Account to make up for the deficit.

Application of Net Proceeds

In the event that the Leased Property is damaged, destroyed or taken under the power of eminent domain, proceeds from casualty insurance or the condemnation award may be used to optionally redeem the Bonds, if the City elects not to use such proceeds to repair or replace the Leased Property under the provisions of the Lease. See “SECURITY FOR THE BONDS – Insurance; Condemnation.” The City covenants under the Lease to maintain casualty insurance with respect to the Leased Property that has a coverage amount at least equal to the lesser of (i) 100 percent of the replacement value of the insured buildings, or (ii) 100 percent of the aggregate principal amount of the Bonds. Under certain circumstances, proceeds of casualty insurance or condemnation award may not be sufficient to pay for the optional redemption of all of the Bonds. In the event that there are not enough remaining proceeds to redeem the Bonds in full, then a default on the Bonds may occur if the amounts of the Lease Payments, as abated pursuant to the terms of the Lease, are not sufficient to cover debt service on the Bonds when due.

Substitution of Property

The Lease permits the City to substitute other property for the Leased Property or portions thereof, provided that the City obtains an opinion of Bond counsel to the effect that the substitution or release of the Leased Property is permitted under the Lease and will not impair the validity of enforceability of the Lease or cause the Bonds to cease to be treated as “Qualified Bonds” under the Tax Code, and provided certain other criteria are met. See “APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Risk of Uninsured Loss

The City covenants under the Lease to maintain certain insurance policies on the Leased Property. These insurance policies do not cover all types of risks. The Leased Property could be damaged or destroyed due to a casualty for which the Leased Property is uninsured. Additionally, the Leased Property could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City’s liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. There can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Property will be sufficient to redeem the Bonds. See “Application of Net Proceeds.”

Additional Obligations of the City

Under the Lease, the City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds. To the extent that additional

obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of, and taxes and other governmental charges levied against, the Leased Property) are payable from funds lawfully available to the City. If the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

State Finances

The State of California has experienced in the recent past significant financial and budgetary stress. State budgets are affected by national and State economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State's budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. As discussed in further detail under the caption "STATE OF CALIFORNIA BUDGET," the State's 2009-10 budget and proposed 2010-11 budget contain measures which impact the City's finances.

Natural Calamities; Earthquakes

From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City which therefore may have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Leased Property, or that the City would have insurance or other resources available to make repairs to the Leased Property in order to make Lease Payments under the Lease.

The City, like most communities in California, is an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. Several active fault zones lie within Northern California. In the event of a significant earthquake, substantial damage could occur to the Leased Property. The casualty and liability insurance may not cover losses due to earthquake. The City is not required to maintain earthquake insurance under the Lease. Rental interruption insurance will not cover interruption of Lease Payments due to earthquake. If there was to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City's right to use and occupy all or a portion of the Leased Property, which could result in Lease Payments being subject to abatement.

Limited Recourse on Lease Default

If an event of default occurs and is continuing under the Lease, there is no remedy of acceleration of any Lease Payment which have not come due. The remedies provided for in the Lease include, in addition to all other remedies provided at law, reletting the Leased Property or, without terminating the Lease, collecting each installment of rent as it becomes due and holding the City liable therefor. If the Trustee does not terminate the Lease, the Trustee may be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest could prove both expensive and time-consuming.

The Lease permits the Trustee, as the Authority's assignee, to take possession of and re-let the Leased Property in the event of a default by the City under the Lease. However, due to the fact that the Leased Property serves essential governmental purposes, a court may determine to not permit such remedy to be exercised. Even if such remedy may be exercised, no assurance can be given that the Trustee could readily relet the Leased Property for rents which are sufficient to enable it to pay debt service on the Bonds in full when due.

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 and premium, if any, on the Bonds or to preserve the tax-exempt status of interest on the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and 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 in the exercise of, or limitations on or modifications to, the rights of the Owners.

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the Authority, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State.

Investment of Funds

The Reserve Account and all other funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." All investments, including Permitted Investments, authorized by law from time to time for investments by the Authority contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture could have a material adverse effect on the security for the Bonds.

Future Initiative and Legislation

As discussed herein under "LIMITATIONS ON TAX REVENUES AND APPROPRIATIONS," the California's Constitutional initiative process has resulted in the adoption of measures which pose certain limits on the ability of cities and local agencies to generate revenues, through property taxes or otherwise. From time to time, other initiative measures could be adopted, affecting the City's ability to generate revenues and to increase appropriations. No assurances can be given as to the potential impact of any future initiative or legislation on the finances and operations of the City.

Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

LIMITATIONS ON TAX REVENUES AND APPROPRIATIONS

There are a number of provisions in the State of California Constitution that limit the ability of the City to raise and expend tax revenues. Contained below is a description of some of these limitations. In addition to the ones discussed in this section below, other initiative measures could be adopted from time to time further affecting the City's revenues and finances.

Property Tax Limitations – Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly referred to as "Proposition 13" or the "Jarvis-Gann Initiative") to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors.

Article XIII A further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. An amendment to Article XIII A was adopted in October 1986 by initiative that exempts from the one percent limitation any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*).

In the general election held on November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amended Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property

damaged or destroyed in a disaster and in certain other minor or technical ways.

Article XIII A Implementing Legislation

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based on their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in California no longer record property values on tax rolls at the assessed value of 25 percent of market value, which was expressed as \$4.00 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1.00 per \$100 of taxable value. Unless otherwise noted, all taxable property value included in this Official Statement (unless noted differently) is shown at 100 percent of market value and all tax rates reflect the \$1 per \$100 of taxable value.

Challenges to Article XIII A

California trial and appellate courts have upheld the constitutionality of Article XIII A’s assessment rules in three significant cases. The United States Supreme Court, in an appeal to one of these cases, upheld the constitutionality of Article XIII A’s tax assessment system. The City cannot predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the City’s receipt of property tax revenues should a future decision hold unconstitutional the method of assessing property.

Appropriations Limitations: Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The “base year” for establishing such appropriations limit is the 1978-79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

The City’s appropriations limit and the appropriations subject to the limit for fiscal year 2010-11 was amended pursuant to Article XIII B. The growth in per capita income increase calculation method was used as the inflation factor. The appropriation limitation established for fiscal year 2010-11 for the City is \$66,020,689 and the adopted fiscal year 2010-11 Budget does not exceed the appropriation limit.

Proposition 218: Article XIII C and Article XIII D

Proposition 218 added Articles XIII C and XIII D to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges.

The general financial condition of the City may be affected by provisions of Article XIII C and Article XIII D. In particular, provisions of Article XIII C (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIII D that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the provisions of Proposition 218 or the possible effects of Proposition 218. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 may impact the City's ability to make Lease Payments. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102 percent of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

STATE OF CALIFORNIA BUDGET

Information regarding the State budget is regularly available at various State-maintained websites. The State Budget further described below may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Budget Process

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of

projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each house of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each house of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

2009-10 State Budget

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

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

Proposition 1A Suspension. The 2009-10 Final Budget includes a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The State property tax diversion was covered through reductions in interfund transfers (by interfund loans in lieu of participating in a statewide securitization program) during the course of fiscal year 2009-10, saving the \$1,452,086 in fund balance designated for economic uncertainty.

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

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

2010-11 State Budget

The 2010 Budget Act was signed by the Governor on October 8, 2010 and closed an estimated budget gap of \$19.3 billion by a combination of expenditure reductions, federal funds and other solutions.

The 2010 Budget Act holds General Fund spending essentially flat compared to the prior year (\$86.6 billion in fiscal year 2010-11 compared to \$86.3 billion in fiscal year 2009-10). In order to create a prudent reserve for economic uncertainties, the Governor exercised his line-item veto authority to reduce General Fund spending by an additional \$963 million, raising the reserve level from \$375 million to \$1.3 billion. The 2010 Budget Act also makes a number of reductions in health and human services programs, but does not eliminate CalWORKs, community mental health programs, Adult Day Health care, or reductions proposed to the In Home Supportive Services program.

The 2010 Budget Act includes: (i) savings of over \$1.1 billion for corrections, from reduced inmate medical care costs (\$820 million), cuts from inmate and parole population savings (\$200 million), and delayed local assistance payments (\$50 million); (ii) reduced spending for state employees by \$1.5 billion, including \$547.7 million in savings through a five percent reduction to departmental personnel costs and by pre-funding other post employment benefit costs, as well as \$2.5 billion in revenue solutions, comprising \$1.4 billion from the Legislative Analyst's revenue forecast, which was \$1.4 billion higher than the Governor's May Revision; (iii) the extension of the Net Operating Loss corporate tax benefit suspension for an additional two years, which results in increased tax revenue of about \$1.2 billion in 2010-11 and revision to recent corporate tax law changes related to penalties assessed when a corporation underpays their tax liability by more than \$1 million; and (iv) various changes to state pension laws for new state employees including those in bargaining units that do not currently have a Memorandum of Understanding with the State, as well as employees of the California State University, the judicial branch of government, and the Legislature.

A feature of the 2010 Budget Act affecting local governments includes a decrease of \$11.9 million in the State's General Fund by eliminating backfills for Vehicle License Fee revenues local governments lost when the state changed the manner in which fees are assessed for commercial truck trailers.

A complete copy of the 2010 Budget Act is posted by the California Department of Finance website at www.ebudget.ca.gov. This website is not incorporated herein by reference and the Authority, the City and the Underwriter do not make any representation as to the accuracy of the information provided therein.

Legislative Analyst's Office Overview of 2010 Budget Act. The Legislative Analyst's Office ("LAO") Overview of the 2010 Budget Act (the "2010 LAO Overview") released October 8, 2010, acknowledges the 2010 Budget Act's attempt to address one of the most vexing state budget shortfalls in California's history, the product of a continuing structural imbalance between state revenues and expenditures and a slow recovery from a severe recession that began in 2007 and ended in 2009. The 2010 LAO Overview notes that in May 2010, the Administration estimated that there would be a gap of \$17.9 billion between General Fund resources and expenditures in 2010-11 under then-existing laws and policies. To address this projected gap, the Legislature opted for a package of budget actions (prior to vetoes) including \$6.8 billion of expenditure-related solutions, \$5.4 billion of new federal funding (most of it not yet approved by Congress), \$3.3 billion of revenue actions, \$2.7 billion of largely one-time loans, transfers, and funding shifts. The LAO also notes that the 2010 Budget Act does not include the Governor's proposed elimination of the CalWORKs and subsidized childcare, and it does not include reductions in social services grant levels. The LAO believes that if all of the assumptions are met in the 2010 Budget Act and accompanying legislation, the State would be left with a \$364 million General Fund reserve at the end of 2010-11, however, the LAO also notes that two-thirds of the 2010 Budget Act solutions are one-time or temporary in nature, such that California will continue to face sizable annual budget problems in 2011-12 and beyond.

A complete copy of the 2010 LAO Overview is posted by the Office of the Legislative Analyst at www.lao.ca.gov. This website is not incorporated herein by reference and neither the Agency nor the Underwriter make any representation as to the accuracy of the information provided therein.

The City cannot predict what actions will be taken in this or any future fiscal year by the State Legislature or the Governor to deal with the State's current or future budget deficits, changing State revenues and expenditures, or what the effect of national and state economic conditions on future State budgets will be. Moreover, the State Legislature or Governor could take additional actions which could affect the State's receipts, expenditures and borrowings during the current fiscal year, and thereby influence the City's financial situation. Future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

Further information about the State budget is available from the Public Finance Division of the State Treasurer's Office. In addition, information about the State budget is regularly available at various State-maintained websites, including www.dof.ca.gov (Department of Finance), www.lao.ca.gov (Office of the Legislative Analyst) and www.treasurer.ca.gov (State Treasurer). The above-mentioned websites are included herein for informational purposes only. The Authority and the City make no representation concerning, and do not take any responsibility for, the accuracy or timeliness of information posted on such websites or the continued maintenance of such websites by the respective entities.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue (up to 8%) if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate currently in effect, which is 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A required the State, beginning March 1, 2006, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, except mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

As referenced above, the 2009-10 Final Budget of the State includes a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013.

See "CITY FINANCIAL INFORMATION – Budgetary Process; City Fiscal Year 2009-10 Budget," " – Property Taxes," and "STATE OF CALIFORNIA BUDGET – 2009-10 State Budget."

Future State Budgets. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from cities and counties in the State, including the City. The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal year, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets are being and will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

CONCLUDING INFORMATION

Absence of Litigation

To the Authority's and the City's knowledge, there is no litigation pending or threatened to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture, the Lease or any proceedings of the City or the Authority with respect thereto. In the opinion of the Authority and its counsel, there is no lawsuit or claim pending against the Authority which will materially impair the Authority's ability to entered into the Indenture or restrain or enjoin the collection of Revenues as contemplated therein. In the opinion of the City and its counsel, there is no lawsuit or claim pending against the City which will materially impair the City's ability to enter into the Lease or restrain or enjoin the payment of Lease Payments.

Continuing Disclosure

The City has covenanted for the benefit of Owners and Beneficial Owners of the Bonds to provide certain annual financial information and operating data relating to the City (the "Annual Report") by not later than March 31 in each year commencing March 31, 2011, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City or U.S. Bank National Association, as the Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system. The notices of material events will be filed by the City, or the Dissemination Agent on behalf of the City, with the MSRB. 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 AGREEMENT." This undertaking has been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

A failure by the City to comply with the provisions of the Continuing Disclosure Agreement is not an event of default under the Indenture (although the Owners and beneficial owners of the Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds. Therefore, a failure by the City to comply with the provisions of the Continuing Disclosure Agreement may adversely affect the marketability of the Bonds on the secondary market. The City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events, in the previous five year period.

Legal Matters

The legality of the issuance of the Bonds is subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Bond Counsel's opinions with respect to the

Bonds will be substantially in the forms set forth in APPENDIX B of this Official Statement. Certain legal matters will be passed on for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Certain legal matters will also be passed on for the Authority and the City by the City Attorney acting as the City Attorney and Authority Counsel. The fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the bonds is exempt from California personal income taxation.

In the opinion of Bond Counsel, the Bonds constitute Recovery Zone Economic Development Bonds within the meaning of Section 1400U-2 of the Tax Code and Qualified Bonds within the meaning of Sections 54AA(g)(2) and 6431(e) of the Tax Code and are eligible for the credit payable by the Federal government under Section 6431 of the Tax Code (the “Refundable Credits”). The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order for the Bonds to be treated as Qualified Bonds and continue to be eligible for the Refundable Credits. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Refundable Credits and may cause the Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination or retroactively to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Refundable Credits by the Federal government, nor does Bond Counsel express any opinion regarding other federal tax consequences arising with respect to the Bonds.

If the initial offering price to the public (excluding Bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimus original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such 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 purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX B.

Financial Advisor

KNN Public Finance, a division of Zions First National Bank, has acted as Financial Advisor to the City in conjunction with the issuance of the Bonds. The Financial Advisor has advised the City in preparation of this Official Statement and in other matters related to the planning, structuring, pricing, execution and delivery of the Bonds. The Financial Advisor will receive compensation contingent upon the sale and delivery of the Bonds.

The Financial Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information. Because of this limited participation, the Financial Advisor makes no guaranty, warranty or other representation respecting the accuracy or completeness of this Official Statement or any other matter related to this Official Statement.

Underwriting

_____ (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$ _____ (which equals the par amount of the Bonds less an underwriter's discount of \$ _____). The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

Rating

Standard & Poor's ("S&P") is expected to assign an rating of "A+" to the Bonds. S&P's rating reflects only the views of such organization and any desired explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Financial Statements

Excerpts of the City's Comprehensive Financial Report for fiscal year ended June 30, 2009, which include the City's 2008-09 financial statements and the Independent Auditor's Report issued by Richardson & Company, Sacramento, California (the "Auditor") regarding such financial statements, are set forth in Appendix A. The Auditor was not requested to consent to the inclusion of its report in Appendix A and it has not undertaken to update financial statements included in Appendix A. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

Miscellaneous

All of the preceding description and summaries of the Bonds, the Indenture and the Lease, other applicable agreements, legislation and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

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.

The Authority and the City have duly authorized the execution and delivery of this Official Statement by their duly authorized officers.

ELK GROVE FINANCE AUTHORITY

By: _____
Administrator

CITY OF ELK GROVE

By: _____
City Manager

APPENDIX A

EXCERPTS OF
CITY OF ELK GROVE COMPREHENSIVE FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2009

APPENDIX B
FORM OF OPINION OF BOND COUNSEL

APPENDIX C
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX D

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof. The Authority and the City give no assurances that (i) DTC, the Direct and Indirect Participants or others will distribute payments of principal, premium (if any) or interest with respect to the Bonds paid to DTC or its nominee as, the registered owner, to the Beneficial Owners, (ii) such entities will distribute redemption notices or other notices, to the Beneficial Owners, or (iii) an error or delay relating thereto will not occur.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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, premium (if any) and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any) and interest payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority 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 Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of November 1, 2010, is executed and delivered by the City of Elk Grove (the “City”), and U.S. Bank National Association, as trustee (the “Trustee”), and as dissemination agent (the Dissemination Agent”), in connection with the issuance of \$_____ Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Elk Grove Finance Authority and the Trustee.

The City, the Trustee and Dissemination Agent hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement 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 Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement, unless otherwise defined, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean the City Manager or Finance Director of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system located at <http://www.emma.msrb.org>, which is the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing with the report for the 2009-10 Fiscal Year, provide to the MSRB, via EMMA, in an electronic format accompanied by identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If within fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

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

(d) The Dissemination Agent (if other than the City) shall, if and to the extent, the City has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the City certifying that the Annual Report has been provided to the MSRB, via EMMA, pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

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

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

(i) So long as the Bonds remain Outstanding (within the meaning of the Indenture):

(A) the principal amount of Bonds outstanding as of June 30 preceding the filing of the Annual Report;

(B) the balance in each fund under the Indenture as of June 30 preceding the filing of the Annual Report; and

(C) updates as of June 30 preceding the filing of the Annual Report of the substance of the information contained in following tables in the Official Statement:

- (1) City Revenues and Expenditures;
- (2) Assessed Value of All Taxable Property in the City; and
- (3) Property Tax Levies and Collections in the City.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in 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 available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds[, if material]:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) The Trustee shall, within five (5) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) of this Section.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section.

(e) If in response to a request under subsection (b), 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 (f).

(f) 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 and each Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) 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 Owners of affected Bonds pursuant to the Indenture.

Section 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB as Repository in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, 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 this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the City shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article ___ of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their 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 or the Trustee's respective gross negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bondholders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance Director

To the Trustee: U.S. Bank National Association
633 West Fifth Street, 24th Floor
[Los Angeles, California 90071]
Attention: Corporate Trust Services

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent. Any notice or communication may also be sent by electronic mail, receipt of which shall be confirmed.

Section 14. Beneficiaries. This Disclosure Agreement 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.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

CITY OF ELK GROVE

By _____
City Manager

U.S. BANK NATIONAL ASSOCIATION,
as Trustee and Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

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

Name of Issuer: Elk Grove Finance Authority
Name of Bond Issue: \$_____2010 Lease Revenue Bonds (Capital Facility)
Date of Issuance: _____, 2010

NOTICE IS HEREBY GIVEN that the City of Elk Grove (the "City") has not provided an Annual Report with respect to the above named Bonds as required by the Indenture of Trust, dated as of November 1, 2010, by and between the Elk Grove Finance Authority and U.S. Bank National Association, as Trustee. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

**U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent**

By _____
Authorized Officer

cc: City of Elk Grove, Finance Director

EXHIBIT G

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94111
Attention: David T. Fama, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11928 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

TERMINATION AGREEMENT

This TERMINATION AGREEMENT (this "Agreement"), dated as of October 1, 2010, is among the CALEASE PUBLIC FUNDING CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and the CITY OF ELK GROVE, CALIFORNIA, a political subdivision organized and existing under the Constitution and laws of the State of California (the "City").

BACKGROUND:

1. In order to finance (i) the acquisition, construction, furnishing and equipping of a 24,000 square foot office building to be used by the Elk Grove Police Department and other government agencies located generally at 8380 Laguna Palms Way in the City of Elk Grove, California, and (ii) the acquisition of an adjacent parcel of land located generally at 8400 Laguna Palms Way in the City of Elk Grove, California (the "Facilities"), the City has previously leased the real property constituting the site thereof, as such real property is described more fully in Appendix A attached hereto and by this reference incorporated herein (the "Site"), to the Corporation, and the Corporation has leased the Site back to the City under a Lease and Leaseback Agreement dated as of June 13, 2002 (the "2002 Lease and Leaseback Agreement"), which was recorded in the Office of the Sacramento County Recorder on June 13, 2002, in Book 20020613 at Page 1360.

2. All right, title and interest of the Corporation in the 2002 Lease and Leaseback Agreement, including the right to receive Rental Payments from the City, was assigned by the Corporation to ORIX Public Finance LLC ("ORIX") pursuant an Assignment Agreement dated as of June 13, 2002 (the "2002 Assignment Agreement"), which was recorded in the Office of the Sacramento County Recorder on June 13, 2002 in Book 20020613 at Page 1361.

3. ORIX is no longer in business and is therefore unable to terminate the 2002 Assignment Agreement or financing statements recorded in the county records in connection with the 2002 Lease and Leaseback Agreement.

4. The City's Rental Payments under the 2002 Lease and Leaseback Agreement were prepaid by the City on June 20, 2007 from the proceeds of \$18,585,000 principal amount of Elk Grove Finance Authority Lease Revenue Bonds (2007 Capital Projects).

5. As a result of the prepayment of the Rental Payments in full, pursuant to Section 27 of the 2002 Lease and Leaseback Agreement, the 2002 Lease and Leaseback Agreement has terminated and title to the real property which is subject to the 2002 Lease and Leaseback Agreement has vested in the City.

6. The City has requested the Corporation enter into this Agreement for the purpose of terminating of record the 2002 Lease and Leaseback Agreement.

A G R E E M E N T :

In consideration of the foregoing and the material covenants hereinafter contained, the City and the Corporation formally covenant, agree and bind themselves as follows:

SECTION 1. *Termination of 2002 Lease and Leaseback Agreement.* The Corporation and the City hereby terminate the 2002 Lease and Leaseback Agreement. From and after the date of recordation of this Agreement, the 2002 Lease and Leaseback Agreement shall be of no force and effect.

SECTION 2. *Execution of Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

SECTION 3. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, all as of the date first above written.

CALEASE PUBLIC FUNDING CORPORATION

By _____
Its _____

CITY OF ELK GROVE, CALIFORNIA

By _____
Its _____

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of the following described land located in the City of Elk Grove, County of Sacramento, State of California, together with all buildings, facilities and other improvements which constitute real property and which are located thereon:

EXHIBIT H

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94111
Attention: David T. Fama, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11928 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

TERMINATION AGREEMENT

This TERMINATION AGREEMENT (this "Agreement"), dated as of October 1, 2010, is among the CALEASE PUBLIC FUNDING CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and the CITY OF ELK GROVE, CALIFORNIA, a political subdivision organized and existing under the Constitution and laws of the State of California (the "City").

BACKGROUND:

1. In order to finance the acquisition, construction, furnishing and equipping of a new city hall located generally at 8400 Laguna Palms Way in the City of Elk Grove, California (the "Facilities"), the City has previously leased the real property constituting the site thereof, as such real property is described more fully in Appendix A attached hereto and by this reference incorporated herein (the "Site"), to the Corporation, and the Corporation has leased the Site back to the City under a Lease and Leaseback Agreement dated as of April 2, 2001 (the "2001 Lease and Leaseback Agreement"), which was recorded in the Office of the Sacramento County Recorder on April 3, 2001, in Book 20010403 at Page 0216.

2. All right, title and interest of the Corporation in the 2001 Lease and Leaseback Agreement, including the right to receive Rental Payments from the City, was assigned by the Corporation to Transamerica Public Finance LLC ("Transamerica") pursuant to an Assignment Agreement dated as of April 2, 2001 (the "2001 Assignment Agreement"), which was recorded in the Office of the Sacramento County Recorder on April 3, 2001 in Book 20010403 at Page 0217.

3. Transmaerica is no longer in business and is therefore unable to terminate the 2001 Assignment Agreement or terminate financing statements recorded in the county records in connection with the 2001 Lease and Leaseback Agreement.

4. The City's Rental Payments under the 2001 Lease and Leaseback Agreement were prepaid by the City on June 20, 2007 from the proceeds of \$18,585,000 principal amount of Elk Grove Finance Authority Lease Revenue Bonds (2007 Capital Projects).

5. As a result of the prepayment of the Rental Payments in full, pursuant to Section 27 of the 2001 Lease and Leaseback Agreement, the 2001 Lease and Leaseback Agreement has terminated and title to the real property which is subject to the 2001 Lease and Leaseback Agreement has vested in the City.

6. The City has requested the Corporation to enter into this Agreement for the purpose of terminating of record the 2001 Lease and Leaseback Agreement.

A G R E E M E N T :

In consideration of the foregoing and the material covenants hereinafter contained, the City and the Corporation formally covenant, agree and bind themselves as follows:

SECTION 1. *Termination of 2001 Lease and Leaseback Agreement.* The Corporation and the City hereby terminate the 2001 Lease and Leaseback Agreement. From and after the date of recordation of this Agreement, the 2001 Lease and Leaseback Agreement shall be of no force and effect.

SECTION 2. *Execution of Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

SECTION 3. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, all as of the date first above written.

CALEASE PUBLIC FUNDING CORPORATION

By _____
Its _____

CITY OF ELK GROVE, CALIFORNIA

By _____
Its _____

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of the following described land located in the City of Elk Grove, County of Sacramento, State of California, together with all buildings, facilities and other improvements which constitute real property and which are located thereon:

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ELK GROVE FINANCE AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF LEASE REVENUE BONDS IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED \$12,700,000 TO FINANCE A CAPITAL FACILITY PROJECT OF THE CITY OF ELK GROVE, AND APPROVING RELATED DOCUMENTS AND OFFICIAL ACTIONS

WHEREAS, the City of Elk Grove (the “City”) is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto (the “Project”), a capital project of benefit to the City; and

WHEREAS, in order to provide financing for a portion of the cost of the Project, the City has proposed to lease real property constituting its existing interest in property commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard (the “Leased Property”) to the Elk Grove Finance Authority (the “Authority”) under a Site Lease dated as of November 1, 2010, in consideration of the payment by the Authority of an initial rental payment (the “Site Lease Payment”) which is sufficient to provide funds for such purposes; and

WHEREAS, the Authority proposes to issue and sell its 2010 Lease Revenue Bonds (Capital Facility), in the principal amount of not to exceed \$12,700,000 (the “Bonds”) under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the “Bond Law”), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease, and thereby provide financing for a portion of the cost of the Project; and

WHEREAS, in order to secure the payments of principal of and interest on the Bonds, the Authority proposes to lease the Leased Property back to the City under a Lease Agreement dated as of November 1, 2010 (the “Lease Agreement”), under which the City is obligated to pay semiannual lease payments as rental for the Leased Property; and

WHEREAS, the amounts required to finance a portion of the cost of the Project will be provided from the proceeds of Lease Revenue Bonds which the Authority has authorized to be issued concurrently with the Bonds; and

WHEREAS, Staff has determined, upon consultation with the City’s financial advisor, that a competitive sale is not feasible given the fact that the Bond closing needs to occur by the end of the year to utilize the Recovery Zone 45% interest rebate program; and

WHEREAS, the Board of Directors of the Authority wishes at this time to take action approving such financing transactions and all related documents and actions.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE ELK GROVE FINANCE AUTHORITY AS FOLLOWS:

Section 1. Approval of Financing Plan; Authorization of Bonds. The Board of Directors hereby approves the financing plan described in the recitals of this Resolution. To that end, the Board of Directors hereby authorizes the issuance of the Bonds under the Bond Law in the principal amount of not to exceed \$12,700,000 for the purpose of providing financing for a portion of the cost of the Project. The Bonds shall be issued under the Indenture of Trust which is approved below.

Section 2. Approval of Related Financing Agreements. The Board of Directors hereby approves each of the following agreements required to implement the financing plan to be accomplished by the Bonds, in substantially the respective forms on file with the Secretary together with any changes therein or additions thereto deemed advisable by the President, Executive Director or the Treasurer (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such changes or additions.

- Indenture of Trust between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), prescribing the terms and conditions upon which the Bonds will be issued and which may include provisions for insurance on the bonds if an Authorized Officer determines insuring the bonds will result in a lower cost of the financing.
- Site Lease between the City as lessor and the Authority as lessee, under which the City leases the Leased Property to the Authority in consideration of the payment of the Site Lease Payment which will be applied by the City to finance a portion of the costs of the Project.
- Lease Agreement between the Authority as lessor and the City as lessee, under which the Authority leases the Leased Property back to the City and the City agrees to pay semiannual lease payments which are sufficient to provide for payment of principal of and interest on the Bonds when due; and
- Assignment Agreement, between the Authority and the Trustee, whereby the Authority assigns certain of its rights under the Lease Agreement to the Trustee for the benefit of the Bond owners.
- Bond Purchase Agreement among the Authority, the City and the Underwriter, under which the Underwriter agrees to purchase the Bonds from the Authority.

An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the Authority to execute, and the Secretary is hereby authorized and directed to attest the final form of each of the foregoing agreements.

Section 3. Sale of Bonds. The Board of Directors hereby approves the sale of the Bonds by a competitive sale, the sale shall occur pursuant to the terms of the Official Notice of Sale in substantially the form on file with the Secretary, together with such additions thereto or changes therein as are acceptable to an Authorized Officer. The sale shall occur pursuant to the terms and conditions of the Purchase Agreement in substantially the form on file with the Secretary, together with such additions thereto or changes therein as are acceptable to an Authorized Officer. The Purchase Contract shall be executed in the name and on behalf of the Authority by an Authorized Officer, each of whom acting alone is hereby authorized and directed to execute and deliver said form of Purchase Agreement on behalf of the Authority.

The true interest cost (calculated net of the federal subsidy described in Section 5) on the Bonds shall not exceed 5%. Additionally, if the Bonds are sold pursuant to a negotiated sale, the underwriter's discount or fee (excluding original issue discount, if any) for the Bonds shall not exceed 4.5% of the principal amount of the Bonds.

Section 4. Notice of Intention. In The Secretary shall cause a copy of a Notice of Intention to Sell Bonds to be published once not less than five (5) days prior to the date of public sale of the Bonds in The Bond Buyer. The Secretary shall also cause a copy of such Notice to be published once not less than five (5) days prior to the date of public sale of the Bonds, in an official newspaper in of the City. The publication of such notice substantially in the form on file with the Secretary is hereby approved.

Section 5. Recovery Zone Economic Development Bonds Designation. The Board of Directors hereby directs an Authorized Officer to determine, based on advice from the City's financial advisor, whether it is feasible and in the best interests of the Authority to issue the Bonds in the form of "Recovery Zone Economic Development Bonds" under and within the meaning of the provisions of Section 1400U-2 of the Tax Code and to treat the Bonds as "Qualified Bonds" within the meaning of Section 54AA(g)(2) and Section 6431 of the Tax Code such that the Bonds will be eligible for a direct payment subsidy by the federal government equal to forty-five percent (45%) of interest payable on the Bonds. If an Authorized Officer determines that it is in the best interests of the Authority to issue the Bonds in such form, an Authorized Officer is authorized to make the necessary election in the name and on behalf of the Authority as required by the Tax Code, and to approve such amendments to the documents approved under this Resolution as may be required to effectuate such issuance.

Section 6. Official Statement. The Board of Directors hereby approves and deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in the form on file with the Secretary, together with such modifications thereof as may be approved by an Authorized Officer. An Authorized Officer is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date within the meaning of such Rule, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the Final Official Statement for and in the name and on behalf of

the Authority. The Board of Directors hereby authorizes the distribution of the Preliminary Official Statement and the Final Official Statement by the Underwriter.

Section 7. Official Actions. The Chair, the Executive Director, the Treasurer, the Secretary and all other officers of the Authority are each authorized and directed in the name and on behalf of the Authority to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this Resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

Section 8. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

PASSED AND ADOPTED at a regular meeting of the Board of Directors of the Elk Grove Finance Authority this 8th day of December 2010.

SOPHIA SCHERMAN, CHAIR of the
ELK GROVE FINANCE AUTHORITY

ATTEST:

APPROVED AS TO FORM:

JASON LINDGREN, SECRETARY

SUSAN COCHRAN, LEGAL COUNSEL

TO BE RECORDED AND WHEN RECORDED
RETURN TO:

Jones Hall
A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: David T. Fama

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX UNDER SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

SITE LEASE

This SITE LEASE (this "Site Lease"), dated for convenience as of November 1, 2010, is between the CITY OF ELK GROVE, a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "City"), and the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California, as lessee (the "Authority").

B A C K G R O U N D :

1. The City is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City (the "Project").

2. In order to provide funds to finance the portion of the costs of the Project, the City has proposed to lease the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting generally of the existing _____ police facilities and City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property"), to the Authority under this Site Lease, in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$ _____ (the "Bonds") under an Indenture of Trust dated as of November 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with this Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of November 1, 2010 (the "Lease"), which has been recorded concurrently herewith, under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

A G R E E M E N T :

In consideration of the above premises and of the mutual promises and covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:

SECTION 1. *Lease of Property to Board.* The City hereby leases the Leased Property to the Authority and the Authority hereby leases the Leased Property from the City, on the terms and conditions hereinafter set forth.

SECTION 2. *Term; Possession.* The term of this Site Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 13.01 thereof, but under any circumstances not later than September 1, _____. The provisions of this Section 2 are subject in all respects to any other provisions of this Site Lease relating to the termination hereof.

SECTION 3. *Rental.* The Authority shall pay to the City as and for rental of the Leased Property hereunder, the sum of \$_____ (the "Site Lease Payment"). The Site Lease Payment is due and payable upon the issuance of the Bonds and the execution and delivery hereof, and will be paid from the proceeds of the Bonds. The Authority and the City hereby find and determine that the total amount of the Site Lease Payment does not exceed the fair market value of the leasehold interest in the Leased Property which is conveyed hereunder by the City to the Authority. No other amount of rental is due and payable by the Authority for the use and occupancy of the Leased Property under this Site Lease.

As provided in the Indenture, a portion of the proceeds of the Bonds will be applied to make the Site Lease Payment by depositing the full amount thereof into the Project Fund which is held and administered by the City under the Indenture. Amounts on deposit in the Project Fund shall be disbursed by the City from time to time for the purpose of paying Project Costs in accordance with the Indenture.

SECTION 4. *Leaseback to City.* The Authority shall lease the Leased Property back to the City under the Lease.

SECTION 5. *Assignments and Subleases.* Unless the City is in default under the Lease, the Authority may not assign its rights under this Site Lease or sublet all or any portion of the Leased Property, except as provided in the Assignment Agreement and in the Lease, without the prior written consent of the City.

SECTION 6. *Substitution or Release of Property.* If the City exercises its option under Section 3.3 of the Lease to substitute property for the Leased Property in whole or in part, such substitution shall also operate to substitute property for the Leased Property which is leased hereunder. If the City exercises its option under Section 3.4 of the Lease to release a portion of the Leased Property from the Lease, such substitution shall also operate to release such portion of the Leased Property hereunder. The description of the Leased Property which is leased under the Lease shall conform at all times to the description of the Leased Property which is leased hereunder.

SECTION 7. *Right of Entry.* The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property, or any portion thereof, at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

SECTION 8. *Termination.* The Authority agrees, upon the termination of this Site Lease, to quit and surrender the Leased Property in the same good order and condition as the Leased Property was in at the time of commencement of the term hereof, reasonable wear and tear excepted, and agrees that all buildings, improvements and structures then existing upon the Leased Property shall remain thereon and title thereto shall vest thereupon in the City for no additional consideration.

SECTION 9. *Default.* If the Authority defaults in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for 30 days following notice and demand for correction thereof to the Authority, the City may exercise any and all remedies granted by law, except that no merger of this Site Lease and of the Lease shall be deemed to occur as a result thereof and no such remedy may include termination hereof; *provided, however,* that so long as the Lease remains in effect, the Lease Payments payable by the City under the Lease shall continue to be paid to the Trustee.

SECTION 10. *Quiet Enjoyment.* The Authority at all times during the term of this Site Lease shall peaceably and quietly have, hold and enjoy all of the Leased Property, subject to the provisions of the Lease and subject only to Permitted Encumbrances (as that term is defined in the Lease).

SECTION 11. *Waiver of Personal Liability.* All liabilities under this Site Lease on the part of the Authority are solely corporate liabilities of the Authority as a public entity, and the City hereby releases each and every member and officer of the Authority of and from any personal or individual liability under this Site Lease. No member or officer of the Authority or its governing board shall at any time or under any circumstances be individually or personally liable under this Site Lease for anything done or omitted to be done by the Authority hereunder.

SECTION 12. *Taxes.* The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Leased Property and any improvements thereon.

SECTION 13. *Eminent Domain.* If the whole or any part of the Leased Property or any improvements thereon is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is hereby determined to be the amount of the then unpaid Lease Payments payable under the Lease and the balance of the award, if any, shall be paid to the City.

SECTION 14. *Partial Invalidity.* If any one or more of the terms, provisions, covenants or conditions of this Site Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Site Lease shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. *Notices.* Any notice, request, complaint, demand or other communication under this Site Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The City, the Authority and the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority or the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance
Fax: 916-691-2001

If to the Trustee: U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attention: Corporate Trust Administration
Fax: (206) 344-4630

SECTION 16. *Amendment of this Site Lease.* The Authority and the City may at any time amend or modify any of the provisions of this Site Lease, but only (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds; or (b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to make cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds;
- (ii) to amend any provision hereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Tax Code, in the opinion of Bond Counsel;
- (iii) to conform to any amendment of the Indenture which is made thereto in accordance with Section 9.01 of the Indenture; or

(iv) for the purpose of effectuating any substitution or release of property under Section 6.

SECTION 17. *Governing Law.* This Site Lease shall be construed in accordance with and governed by the laws of the State of California.

SECTION 18. *Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary under this Site Lease with all rights of a third party beneficiary.

SECTION 19. *Binding Effect.* This Site Lease inures to the benefit of and is binding upon the Authority, the City and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 20. *Section Headings.* All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Site Lease.

SECTION 21. *Execution in Counterparts.* This Site Lease may be executed in any number of counterparts, each of which shall be deemed to be an original but all together shall constitute but one and the same lease. It is also agreed that separate counterparts of this Site Lease may be separately executed by the Authority and the City, all with the same force and effect as though the same counterpart had been executed by both the Authority and the City.

SECTION 22. *Defined Terms.* All capitalized terms used herein and not otherwise defined have the respective meanings given those terms in the Indenture.

IN WITNESS WHEREOF, the City and the Authority have caused this Site Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY OF ELK GROVE, as lessor

By _____
Authorized Official

(S E A L)

Attest:

City Clerk

ELK GROVE FINANCE AUTHORITY, as lessee

By _____
Authorized Official

Attest:

Secretary

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, State of California, (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) which is more particularly described as follows:

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: David T. Fama, Esq.

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX UNDER SECTION 11922 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

LEASE AGREEMENT

Dated as of November 1, 2010

between the

ELK GROVE FINANCE AUTHORITY,
as lessor

and the

CITY OF ELK GROVE,
as lessee

Relating to

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)

TABLE OF CONTENTS

ARTICLE I

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APPENDIX A	DESCRIPTION OF THE LEASED PROPERTY
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LEASE AGREEMENT

This LEASE AGREEMENT (this "Lease"), dated for convenience as of November 1, 2010, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California, as lessor (the "Authority"), and the CITY OF ELK GROVE, a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "City").

BACKGROUND:

1. The City is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City (the "Project").

2. In order to provide funds to finance a portion of the cost of the Project, the City has leased the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting generally of the existing police facilities and City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property"), to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), in consideration of the payment by the Authority of an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of November 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under this Lease, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property hereunder.

5. The lease payments made by the City under this Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee, which has been recorded concurrently herewith.

6. The City and the Authority have found and determined that all acts and proceedings required by law necessary to make this Lease, when executed by the City and the Authority, the valid, binding and legal obligations of the City and the Authority, and to constitute this Lease a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Lease have been in all respects duly authorized.

AGREEMENT:

In consideration of the material covenants contained in this Lease, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS; RULES OF INTERPRETATION

SECTION 1.1. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Lease have the respective meanings given them in the Indenture.

SECTION 1.2. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular includes the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and includes the neuter, masculine or feminine gender, as appropriate.

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

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

ARTICLE II

COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 2.1. *Covenants, Representations and Warranties of the City.* The City makes the following covenants, representations and warranties to the Authority and the Trustee as of the date of the execution and delivery of this Lease:

- (a) Due Organization and Existence. The City is a municipal corporation duly organized and validly existing under the laws of the State of California, has full legal right, power and authority under the laws of the State of California to enter into the Site Lease and this Lease and to carry out and consummate all transactions contemplated hereby, and by proper action the City has duly authorized the execution and delivery of the Site Lease and this Lease.
- (b) Due Execution. The representatives of the City executing the Site Lease and this Lease have been fully authorized to execute the same under a resolution duly adopted by the City Council of the City.

- (c) Valid, Binding and Enforceable Obligations. The Site Lease and this Lease have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of the Site Lease and this Lease, the consummation of the transactions therein and herein contemplated and the fulfillment of or compliance with the terms and conditions thereof and hereof, do not and will not conflict with or constitute a violation or Elk Grovech of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, Elk Grovech, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease or the financial condition, assets, properties or operations of the City.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Site Lease and this Lease, or the consummation of any transaction therein and herein contemplated, except as have been obtained or made and as are in full force and effect.
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Site Lease and this Lease, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease or the financial conditions, assets, properties or operations of the City.

SECTION 2.2. *Covenants, Representations and Warranties of the Authority.* The Authority makes the following covenants, representations and warranties to the City and the Trustee as of the date of the execution and delivery of this Lease:

- (a) Due Organization and Existence. The Authority is a public body corporate and politic duly organized and existing under the Bond Law and under the

laws of the State of California; has power to enter into this Lease, the Site Lease, the Assignment Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms.

- (b) Due Execution. The representatives of the Authority executing this Lease, the Site Lease, the Assignment Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.
- (c) Valid, Binding and Enforceable Obligations. This Lease, the Site Lease, the Assignment Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.
- (d) No Conflicts. The execution and delivery of this Lease, the Site Lease, the Assignment Agreement and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, Elk Grovech, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.
- (e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease, the Site Lease, the Assignment Agreement or the Indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.
- (f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon

the consummation of the transactions contemplated by or the validity of this Lease, the Site Lease, the Assignment Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease, the Assignment Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority.

ARTICLE III

DEPOSIT AND APPLICATION OF FUNDS; SUBSTITUTION AND RELEASE OF PROPERTY

SECTION 3.1. *Deposit of Moneys.* On the Closing Date, the Authority will cause the proceeds of sale of the Bonds to be deposited with the Trustee. The Trustee shall deposit those proceeds in accordance with Section 3.01 of the Indenture.

SECTION 3.2. *Acquisition and Construction of Project.* As provided in Section 3.02 of the Indenture, a portion of the proceeds of sale of the Bonds will be applied to pay the Site Lease Payment to the City in accordance with Section 3 of the Site Lease. The Site Lease Payment shall be deposited into the Project Fund which is established under the Indenture, to be disbursed for the purpose of paying Project Costs. Upon the completion of the Project, the City shall file a Written Certificate of the City with the Trustee, which Written Certificate shall identify the amount (if any) to be retained in the Project Fund to pay remaining Project Costs.

SECTION 3.3. *Substitution of Property.* The City has the option at any time and from time to time, to substitute other real property (the "Substitute Property") for the Leased Property or any portion thereof (the "Former Property"), upon satisfaction of all of the following requirements which are hereby declared to be conditions precedent to such substitution:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment hereof which adds the legal description of the Substitute Property to Appendix A and deletes therefrom the legal description of the Former Property.
- (c) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate hereunder in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- (d) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of

the State of California, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.

- (e) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made herein.
- (f) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the estimated value of the Substitute Property is at least equal to the estimated value of the Former Property, and that the useful life of the Substitute Property at least extends to September 1, 2040.
- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of this Lease will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this Section. The Authority and the City will execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease and the Assignment Agreement of record against the Former Property and to cause the Substitute Property to become subject to all of the terms and conditions of the Site Lease, this Lease and the Assignment Agreement.

SECTION 3.4. *Release of Property.* The City has the option at any time and from time to time to release any portion of the Leased Property from this Lease (the "Released Property") provided that the City has satisfied all of the following requirements which are hereby declared to be conditions precedent to such release:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment hereof which removes the Released Property from the Site Lease and this Lease.
- (c) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to this Lease following such release is at least equal to the aggregate original principal amount of the Bonds, and the fair rental value of the property which remains subject to this Lease following such release is at least equal to the Lease Payments thereafter coming due and payable hereunder.
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of this Lease will thereupon end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a

result of such release. The Authority and the City shall execute, deliver and cause to be recorded all documents required to discharge the Site Lease, this Lease and the Assignment Agreement of record against the Released Property.

ARTICLE IV

LEASE OF LEASED PROPERTY; TERM OF THIS LEASE; LEASE PAYMENTS

SECTION 4.1. *Lease of Leased Property.* The Authority hereby leases the Leased Property to the City and the City hereby leases the Leased Property from the Authority, upon the terms and conditions set forth in this Lease.

SECTION 4.2. *Term.* The Term of this Lease commences on the Closing Date and ends on the date on which the Indenture is discharged in accordance with Section 10.01 thereof, but under any circumstances not later than September 1, 20___. The provisions of this Section are subject to the provisions of Section 6.2 relating to abatement and the taking in eminent domain of the Leased Property in whole or in part.

SECTION 4.3. *Lease Payments.*

(a) Obligation to Pay. Subject to the provisions of Sections 6.2 and 6.3 and the provisions of Article IX, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in Appendix B attached to this Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in Appendix B, and to be deposited by the City with the Trustee on each of the Lease Payment Dates specified in Appendix B. The Authority shall take all actions required to designate the Bonds as Recovery Zone Economic Development Bonds and to elect to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code. The Authority shall irrevocably assign the Refundable Credits to the Trustee for deposit in the Bond Fund and credit towards the payment of the Lease Payments as they become due hereunder and all Refundable Credits which are held by the Trustee on deposit in the Bond Fund as of any Lease Payment Date will be credited towards the Lease Payment then due.

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts on deposit in the Reserve Account, amounts resulting from the prepayment of the Lease Payments in part but not in whole under Article IX, and amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid hereunder. The City is not required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee. The Lease Payments payable in any Rental Period are for the use of the Leased Property during that Rental Period.

(b) Effect of Prepayment. If the City prepays all Lease Payments in full under Section 9.2, the City's obligations under this Section will thereupon cease and terminate. If the City prepays the Lease Payments in part but not in whole under Section 9.2, the

principal components of the remaining Lease Payments will be reduced in integral multiples of \$5,000 among Lease Payment Dates on a basis which corresponds to the principal maturities of the Bonds which are redeemed thereby; and the interest component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed under Section 4.01 of the Indenture.

(c) Rate on Overdue Payments. If the City fails to make any of the payments required in this Section, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding Bond.

(d) Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under this Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

(e) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, under the Assignment Agreement, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees to pay to the Trustee at its Office, all payments payable by the City under this Section and all amounts payable by the City under Article IX.

SECTION 4.4. *Source of Payments; Covenant to Budget and Appropriate.* The Lease Payments are payable from any source of available funds of the City, subject to the provisions of Section 6.3. The City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of this Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. The foregoing covenant of the City contained constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease agreed to be carried out and performed by the City.

SECTION 4.5. *Additional Rental Payments.* In addition to the Lease Payments, the City shall pay when due the following amounts of Additional Rental Payments in consideration of the lease of the Leased Property by the City from the Authority hereunder:

- (a) All fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due;

- (b) All reasonable compensation to the Trustee for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;
- (c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Lease or the Indenture;
- (d) Amounts coming due and payable as Excess Investment Earnings in accordance with Section 7.6(e); and
- (e) The reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of this Lease or the Indenture, or in connection with the issuance of the Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving this Lease, the Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of this Lease.

SECTION 4.6. *Quiet Enjoyment.* Throughout the Term of this Lease, the Authority shall provide the City with quiet use and enjoyment of the Leased Property and the City will peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Authority, except as expressly set forth in this Lease. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority has the right to inspect the Leased Property as provided in Section 7.2.

SECTION 4.7. *Title.* Upon the termination of this Lease (other than under Section 8.2(b) hereof), all right, title and interest of the Authority in and to the Leased Property transfers to and vests in the City. The Authority shall take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer of title.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

SECTION 5.1. *Maintenance, Utilities, Taxes and Assessments.* Throughout the Term of this Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Property. The City waives the benefits of subsections 1 and 2 of Section 1932, Section 1933(4) and Sections 1941 and 1942 of the California Civil Code, but such waiver does not limit any of the rights of the City under the terms of this Lease.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall pay only such installments as are required to be paid during the Term of this Lease as and when the same become due.

The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

SECTION 5.2. *Modification of Leased Property.* The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of this Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this Section, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under this Section; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against

the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

SECTION 5.3. *Liability and Property Damage Insurance.* The City shall maintain or cause to be maintained throughout the Term of this Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of Section 5.7, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

SECTION 5.4. *Casualty Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds. Such insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and must include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance must be applied as provided in Section 6.1.

SECTION 5.5. *Rental Interruption Insurance.* The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the insurance required by Section 5.4, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such

insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

SECTION 5.6. *Recordation Hereof; Title Insurance.* On or before the Closing Date the City shall, at its expense, (a) cause the Site Lease, the Assignment Agreement and this Lease, or a memorandum hereof or thereof in form and substance approved by Bond Counsel, to be recorded in the office of the Sacramento County Recorder, and (b) obtain a CLTA title insurance policy insuring the City's leasehold estate hereunder in the Leased Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under any such title insurance policy must be deposited with the Trustee in the Bond Fund to be credited towards the prepayment of the remaining Lease Payments under Section 9.4.

SECTION 5.7. *Insurance Net Proceeds; Form of Policies.* Each policy of insurance maintained under Sections 5.4, 5.5 and 5.6 must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a certificate of the City stating that all policies of insurance required hereunder are then in full force and effect. The Trustee has no responsibility for the sufficiency, adequacy or amount of any insurance or self-insurance herein required and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

If any insurance maintained under Section 5.3 is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

SECTION 5.8. *Installation of City's Personal Property.* The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee has any interest, and may be modified or removed by the City at any time, provided that the City must repair all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Lease prevents the City from purchasing or leasing items to be installed under this Section under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, so long as no such lien or security interest attaches to any part of the Leased Property.

SECTION 5.9. *Liens.* The City may not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than as herein contemplated and except for such encumbrances as the City certifies in writing to the Trustee do not materially and

adversely affect the leasehold estate of the City in the Leased Property hereunder. If any such mortgage, pledge, lien, charge, encumbrance or claim does materially and adversely affect the leasehold estate of the City in the Leased Property hereunder, the City will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible; provided that the City is not required to do so prior to the time when such mortgage, pledge, lien, charge, encumbrance or claim actually causes such material adverse effect. The City will reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

SECTION 5.10. *Advances.* If the City fails to perform any of its obligations under this Article V, the Authority may (but is not required to) take such action as it deems necessary to cure such failure, including the advancement of money, and the City shall repay all such advances as Additional Rental Payments hereunder, with interest at the rate set forth in Section 4.3(c).

ARTICLE VI

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

SECTION 6.1. *Application of Net Proceeds.* The Trustee, as assignee of the Authority under the Assignment Agreement, has the right to receive all Net Proceeds. As provided in the Indenture, the Trustee will deposit all Net Proceeds in the Insurance and Condemnation Fund to be applied as set forth in Section 5.07 of the Indenture.

SECTION 6.2. *Termination or Abatement Due to Eminent Domain.* If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of this Lease thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

- (a) this Lease continues in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary, and
- (b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under this Section, it being hereby declared that such amounts constitute special funds for the payment of the Lease Payments.

SECTION 6.3. *Abatement Due to Damage or Destruction.* The Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the City of the Leased Property or any

portion thereof. The Lease Payments are subject to abatement in an amount determined by the City, such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease continues in full force and effect and the City waives any right to terminate this Lease by virtue of any such damage and destruction. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account or the proceeds of rental interruption insurance are available to pay Lease Payments which would otherwise be abated under this Section, it being hereby declared that such amounts constitute special funds for the payment of the Lease Payments.

Notwithstanding the foregoing, the Lease Payments will not be subject to abatement to the extent the Refundable Credits, the amounts in the Reserve Account or proceeds from rental interruption insurance are available to pay the portion of the Lease Payments which would otherwise be abated.

ARTICLE VII

OTHER COVENANTS OF THE CITY

SECTION 7.1. *Disclaimer of Warranties.* THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE LEASED PROPERTY OR ANY PORTION THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY OR ANY PORTION THEREOF. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. The Authority has no liability for incidental, indirect, special or consequential damages, in connection with or arising out of this Lease for the existence, furnishing, functioning or use of the Leased Property by the City.

SECTION 7.2. *Access to the Leased Property.* The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, have the right at all reasonable times to enter upon and to examine and inspect the Leased Property or any part thereof. The City further agrees that the Authority, any Board Representative and the Authority's successors or assigns may have such rights of access to the Leased Property or any component thereof as reasonably necessary to cause the proper maintenance of the Leased Property if the City fails to perform its obligations hereunder; *provided, however,* that neither the Authority nor any of its assigns has any obligation to cause such proper maintenance.

SECTION 7.3. *Release and Indemnification Covenants.* The City agrees to indemnify the Authority, the Trustee and their respective officers, agents, successors

and assigns, against all claims, losses and damages, including legal fees and expenses, arising out of any of the following:

- (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the City,
- (b) any Elk Grovech or default on the part of the City in the performance of any of its obligations under this Lease,
- (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property,
- (d) any intentional misconduct or negligence of any sublessee of the City with respect to the Leased Property,
- (e) the acquisition, construction, improvement and equipping of the Leased Property, or the authorization of payment of the costs thereof, or
- (f) the acceptance and performance of the duties of the Trustee under the Indenture and under this Lease.

No indemnification is made under this Section or elsewhere in this Lease for willful misconduct or negligence under this Lease by the Authority, the Trustee or their respective officers, agents, employees, successors or assigns.

SECTION 7.4. *Assignment and Subleasing by the City.* This Lease may not be assigned by the City, other than to an entity which succeeds to the interests of the City as a municipal corporation. The City may sublease the Leased Property, or any portion thereof, subject to all of the following conditions:

- (a) This Lease and the obligation of the City to make Lease Payments hereunder must remain obligations of the City.
- (b) The City must, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease.
- (c) No such sublease by the City may cause the Leased Property to be used for a purpose which is not authorized under the provisions of the laws of the State of California.
- (d) The City must furnish to the Authority and the Trustee a written opinion of Bond Counsel stating that such sublease does not cause the interest components of the Lease Payments to become included in gross income for purposes of federal income taxation or to become subject to personal income taxation by the State of California.

SECTION 7.5. *Amendment Hereof.* The Authority and the City may at any time amend or modify any of the provisions of this Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the Outstanding

Bonds; or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in this Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement this Lease in such manner as to assure that the Bond remain Recovery Zone Economic Development Bonds and that the Authority remains entitled to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property under Sections 3.3 or 3.4;
- (v) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has obtained and filed with the Trustee an M.A.I. appraisal showing that the appraised value of the Leased Property is at least equal to the aggregate principal amount of the Outstanding Bonds and all such other bonds, notes, leases or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause (v) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds;
- (vi) to incorporate provisions securing the obligations of the City under any Qualified Reserve Account Credit Instrument, or to incorporate provisions for the security of the Bonds relating to a Qualified Reserve Account Credit Instrument;
- (vii) in any respect whatsoever as the Authority and the City deem necessary or desirable to facilitate the issuance of Additional Bonds as permitted under the Indenture; or
- (viii) in any other respect whatsoever as the Authority and the City deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

No such modification or amendment may (a) extend or have the effect of extending any Lease Payment Date or reducing any Lease Payment or any premium payable upon the prepayment thereof, without the express consent of the Owners of the

affected Bonds, or (b) modify any of the rights or obligations of the Trustee without its written assent thereto.

SECTION 7.6. *Tax Covenants.*

(a) Private Activity Limitation. The City shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The City may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The City shall calculate or cause to be calculated the Excess Investment Earnings in all respects at the times and in the manner required under the Tax Code. The City shall pay the full amount of Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code. Such payments shall be made by the City from any source of legally available funds of the City, and shall constitute Additional Rental Payments hereunder.

The City must keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e). In order to provide for the administration of this subsection (e), the City may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the City may deem appropriate. The Trustee has no duty or obligation to monitor or enforce compliance by the City of any of the requirements under this subsection (e).

(f) Small Issuer Exemption from Bank Nondeductibility Restriction. The City hereby designates the Bonds for purposes of paragraph (3) of Section 265(b) of the Tax Code and represents that not more than \$30,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Tax Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Tax Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Tax Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including Bonds, has been or will be issued by the Authority,

including the City and all other subordinate entities of the Authority, during the calendar year 2010.

(g) Financing Capital Expenditures, No Working Capital. All amounts in excess of Available Project Proceeds of the Bonds less Available Project Proceeds of the Bonds deposited in the Reserve Account will be spent on capital expenditures with a reasonably expected economic life of one year or more.

(i) Qualified Economic Development Purpose. All Available Project Proceeds, other than amounts deposited into the Reserve Account, will be spent on a Qualified Economic Development Purpose.

(h) Limitation on Issuance Costs. No proceeds of the Bonds and investment earnings thereon, in an amount in excess of 2% of the proceeds of the sale of the Bonds, will be used to pay Costs of Issuance of the Bonds. If the fees of the Original Purchaser are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

(i) Expenditure of Proceeds to Assure Bonds Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Bonds are expended and all federal tax requirements are met so as to cause the Bonds to be treated as recovery zone economic development bonds and qualified bonds and therefore be eligible for the Refundable Credits within the meaning of Section 6431 of the Code.

(j) Limitation on Original Issue Premium. The City will assure that all Bonds of each maturity of the issue will be offered to the ultimate purchasers thereof (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the price of par and, at least 10% of the first Bonds sold in each maturity of the issue will be actually sold at a price not excess of the par amount thereof x .0025 x the number of complete years to maturity from the date of issue of the Bonds to the date of said maturity.

SECTION 7.7. *Continuing Disclosure.* The City shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed by the City as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with its terms. Notwithstanding any other provision of this Lease, failure of the City to comply with such Continuing Disclosure Certificate will not constitute an Event of Default, although any Participating Underwriter (as that term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under this Section, including seeking mandate or specific performance by court order.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.1. *Events of Default Defined.* Any one or more of the following events constitute an Event of Default hereunder:

- (a) Failure by the City to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein.
- (b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee. If in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30 day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

SECTION 8.2. *Remedies on Default.* Whenever any Event of Default has happened and is continuing, the Authority may exercise any and all remedies available under law or granted under this Lease. Notwithstanding anything herein or in the Indenture to the contrary, neither the Authority nor the Trustee may accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each covenant hereof to be kept and performed by the City is expressly made a condition and upon the Elk Grovech thereof the Authority may exercise any and all rights granted hereunder; except that no termination of this Lease may be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Authority may exercise each and every one of the following remedies, subject in all respects to the limitations set forth in Section 8.3.

- (a) Enforcement of Payments Without Termination. If the Authority does not elect to terminate this Lease in the manner hereinafter provided for in subparagraph (b) hereof, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, if the Authority is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same

manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority. The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property upon the occurrence and continuation of an Event of Default and to remove all personal property whatsoever situated upon the Leased Property, to place the Leased Property in storage or other suitable place in the County of Sacramento for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of the Leased Property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of this Lease, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of this Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Lease shall vest in the Authority to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for the purpose of enabling the Leased Property to be re-let under this paragraph, and the City further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Property.

- (b) Termination of Lease. If an Event of Default occurs and is continuing hereunder, the Authority at its option may terminate this Lease and re-lease all or any portion of the Leased Property. If the Authority terminates this Lease at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing of the Leased Property), the City nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments and Additional Rental Payments. Any surplus received by the Authority from such re-leasing shall be deposited in the Bond Fund. Neither notice to pay rent or to deliver up possession of the premises given under law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate this Lease, and no termination of this Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease. The City covenants and agrees that no surrender of the Leased Property, or of the remainder of the Term hereof or any

termination of this Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

- (c) Proceedings at Law or In Equity. If an Event of Default occurs and continues hereunder, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

SECTION 8.3. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy is cumulative and in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default impairs any such right or power or operates as a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article VIII it is not necessary to give any notice, other than as expressly required in this Article VIII or by law.

SECTION 8.4. *Agreement to Pay Attorneys' Fees and Expenses.* If the Authority or the City defaults under any of the provisions of this Lease and the nondefaulting party employs attorneys or incurs other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

SECTION 8.5. *No Additional Waiver Implied by One Waiver.* If the Authority or the City Elks Groves any agreement in this Lease and thereafter the other party waives the Elk Groves, such waiver is limited to the particular Elk Groves so waived and does not operate to waive any other Elk Groves hereunder.

SECTION 8.6. *Application of Proceeds.* All net proceeds received from the release of the Leased Property under this Article VIII, and all other amounts derived by the Authority or the Trustee as a result of the occurrence of an Event of Default, must be paid to and applied by the Trustee in accordance with Section 7.03 of the Indenture.

SECTION 8.7. *Trustee and Bond Owners to Exercise Rights.* Such rights and remedies as are given to the Authority under this Article VIII have been assigned by the Authority to the Trustee under the Assignment Agreement for the benefit of the Bond Owners, to which assignment the City hereby consents. The Trustee and the Bond Owners shall exercise such rights and remedies in accordance with the Indenture.

ARTICLE IX

PREPAYMENT OF LEASE PAYMENTS

SECTION 9.1. *Security Deposit.* Notwithstanding any other provision of this Lease, the City may on any date secure the payment of the Lease Payments allocable to the Leased Property in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts on deposit in the funds and accounts established under the Indenture, is either:

- (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Appendix B, or
- (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under Section 4.3(a), as the City instructs at the time of said deposit.

If the City makes a security deposit under this Section with respect to all unpaid Lease Payments, and notwithstanding the provisions of Section 4.2, (a) the Term of this Lease will continue, (b) all obligations of the City under this Lease, and all security provided by this Lease for said Lease Payments, will thereupon cease and terminate, excepting only the obligation of the City to make, or cause to be made all of said Lease Payments from such security deposit, and (c) under Section 4.7, title to the Leased Property will vest in the City on the date of said deposit automatically and without further action by the City or the Authority. Said security deposit constitutes a special fund for the payment of Lease Payments in accordance with the provisions of this Lease.

SECTION 9.2. *Optional Prepayment.* The City has the option to prepay the principal components of the Lease Payments in whole, or in part in any integral multiple of \$5,000, from any source of legally available funds, on any date on or after September 1, 20__, at a prepayment price equal to the aggregate principal components of the Lease Payments to be prepaid, together with the interest component of the Lease Payment required to be paid on such Interest Payment Date, and together with a prepayment premium equal to the premium (if any) required to be paid on the resulting redemption of Bonds under Section 4.01(a) of the Indenture. Such prepayment price shall be deposited by the Trustee in the Redemption Fund to be applied to the redemption of Bonds under Section 4.01(a) of the Indenture. The City shall give written notice to the Trustee of its intention to prepay the Lease Payments under this Section at least 45 days prior to the prepayment date, or such shorter period of time as may be acceptable to the Trustee in its sole discretion, such notice being solely for the convenience of the Trustee.

SECTION 9.3. *Credit for Amounts on Deposit.* If the principal components of the Lease Payments are prepaid in full under this Article IX, such that the Indenture is discharged by its terms as a result of such prepayment, at the written election of the City filed with the Trustee any or all amounts then on deposit in the Bond Fund (and the accounts therein) will be credited towards the amounts then required to be so prepaid.

ARTICLE X

MISCELLANEOUS

SECTION 10.1. *Notices.* Any notice, request, complaint, demand or other communication under this Lease shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by facsimile transmission or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, (b) 48 hours after deposit in the United States of America first class mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority or the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance
Fax: 916-691-2001

If to the Trustee: U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attention: Corporate Trust Administration
Fax: (206) 344-4630

SECTION 10.2. *Binding Effect.* This Lease inures to the benefit of and binds the Authority, the City and their respective successors and assigns.

SECTION 10.3. *Severability.* If any provision of this Lease is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

SECTION 10.4. *Net-net-net Lease.* This Lease is deemed and construed to be a "net-net-net lease" and the City hereby agrees that the Lease Payments are an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 10.5. *Third Party Beneficiary.* The Trustee is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary.

SECTION 10.6. *Further Assurances and Corrective Instruments.* The Authority and the City shall, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Lease.

SECTION 10.7. *Execution in Counterparts.* This Lease may be executed in several counterparts, each of which is an original and all of which constitute but one and the same instrument.

SECTION 10.8. *Applicable Law.* This Lease is governed by and construed in accordance with the laws of the State of California.

SECTION 10.9. *Board and City Representatives.* Whenever under the provisions of this Lease the approval of the Authority or the City is required, or the Authority or the City is required to take some action at the request of the other, such approval or such request shall be given for the Authority and for the City by an Authorized Representative thereof, and any party hereto may conclusively rely upon any such approval or request.

SECTION 10.10. *Captions.* The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Lease.

IN WITNESS WHEREOF, the Authority and the City have caused this Lease to be executed in their respective names by their duly authorized officers, all as of the date first above written.

ELK GROVE FINANCE AUTHORITY,
as lessor

By _____
Authorized Official

Attest:

Secretary

CITY OF ELK GROVE, as lessee

By _____
Authorized Official

Attest:

City Clerk

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, which is more particularly described as follows:

[to come]

APPENDIX B

SCHEDULE OF LEASE PAYMENTS

<u>Lease Payment Date*</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Aggregate Lease Payment**</u>
--------------------------------	--------------------------------	-------------------------------	--------------------------------------

<u>Lease Payment Date*</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Aggregate Lease Payment</u>
--------------------------------	--------------------------------	-------------------------------	------------------------------------

* Lease Payment Dates are the 5th Business Day immediately preceding each date listed in the schedule

** All Refundable Credits which are held on deposit in the Bond Fund as of any Lease Payment Date will be credited towards the Lease Payment then due.

TO BE RECORDED AND WHEN RECORDED

RETURN TO:

Jones Hall, A Professional Law Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Attention: David T. Fama, Esq.

THIS DOCUMENT IS EXEMPT FROM RECORDING FEES UNDER SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

ASSIGNMENT AGREEMENT

This ASSIGNMENT AGREEMENT (this "Agreement"), dated for convenience as of November 1, 2010, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

BACKGROUND:

1. 1. The City is proceeding to construct a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City (the "Project").

2. In order to provide funds to finance the portion of the costs of the Project, the City has proposed to lease the real property more particularly described in Appendix A attached hereto and by this reference incorporated herein, consisting generally of the existing police facilities and the City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property"), to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), in consideration of the payment by the Authority of an upfront rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$_____ (the "Bonds") under an Indenture of Trust dated as of November 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under the Lease Agreement dated as of November 1, 2010 (the "Lease Agreement"), which has been recorded concurrently herewith, under which the City agrees to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The Authority has requested the Trustee to enter into this Agreement for the purpose of assigning certain of its rights under the Lease to the Trustee for the benefit of the Bond owners.

A G R E E M E N T :

In consideration of the material covenants contained in this Agreement, the parties hereto hereby formally covenant, agree and bind themselves as follows:

SECTION 1. *Defined Terms.* All capitalized terms not otherwise defined herein have the respective meanings given those terms in the Indenture.

SECTION 2. *Assignment.* The Authority hereby assigns to the Trustee, for the benefit of the Owners of all Bonds which are issued and Outstanding under the Indenture, all of the Authority's rights under the Lease (excepting only the Authority's rights under Sections 4.5, 5.10, 7.3 and 8.4 of the Lease), including but not limited to:

- (a) the right to receive and collect all of the Lease Payments from the City under the Lease,
- (b) the right to receive and collect any proceeds of any insurance maintained thereunder with respect to the Leased Property, or any eminent domain award (or proceeds of sale under threat of eminent domain) paid with respect to the Leased Property, and
- (c) the right to exercise such rights and remedies conferred on the Authority under the Lease as may be necessary or convenient (i) to enforce payment of the Lease Payments and any amounts required to be deposited in the Insurance and Condemnation Fund established under Section 5.07 of the Indenture, or (ii) otherwise to protect the interests of the Bond Owners in the event of a default by the City under the Lease.

The Trustee shall administer all of the rights assigned to it by the Authority under this Agreement in accordance with the provisions of the Indenture, for the benefit of the Owners of Bonds. The assignment made under this Section 2 is absolute and irrevocable, and without recourse to the Authority.

SECTION 3. *Acceptance.* The Trustee hereby accepts the assignments made herein for the purpose of securing the payments due under the Lease and Indenture to, and the rights under the Lease and Indenture of, the Owners of the Bonds, all subject to the provisions of the Indenture. The recitals contained herein are those of the Authority and not of the Trustee, and the Trustee assumes no responsibility for the correctness thereof.

SECTION 4. *Conditions.* This Agreement confers no rights and imposes no duties upon the Trustee beyond those expressly provided in the Indenture. The assignment hereunder to the Trustee is solely in its capacity as Trustee under the Indenture.

SECTION 5. *Execution in Counterparts.* This Agreement may be executed in any number of counterparts, each of which is an original and all together constitute one and the same agreement. Separate counterparts of this Agreement may be separately executed by the Trustee and the Authority, both with the same force and effect as though the same counterpart had been executed by the Trustee and the Authority.

SECTION 6. *Binding Effect.* This Agreement inures to the benefit of and binds the Authority and the Trustee, and their respective successors and assigns, subject, however, to the limitations contained herein.

SECTION 7. *Governing Law.* This Agreement is governed by the laws of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officers as of the day and year first written above.

ELK GROVE FINANCE AUTHORITY

By _____
Authorized Official

Attest:

Secretary

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

By _____
Authorized Official

APPENDIX A

DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of that certain real property situated in the City of Elk Grove, County of Sacramento, which is more particularly described as follows:

INDENTURE OF TRUST

Dated as of November 1, 2010

between

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

and the

ELK GROVE FINANCE AUTHORITY

Authorizing the Issuance of

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)

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INDENTURE OF TRUST

This INDENTURE OF TRUST (this "Indenture"), dated for convenience as of November 1, 2010, is between the ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in San Francisco, California, being qualified to accept and administer the trusts hereby created (the "Trustee").

B A C K G R O U N D :

1. The City is proceeding to finance the costs of construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related to such facility and incidental expenses related thereto, a capital project of benefit to the City, (the "Project").

2. In order to provide funds to finance the portion of the costs of the Project, the City has agreed to lease the real property constituting the existing police facilities and City library (commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard) (the "Leased Property") to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), under which the Authority agrees to make an initial rental payment (the "Site Lease Payment") which is sufficient to provide funds for such purposes.

3. The Authority has authorized the issuance of its Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) in the aggregate principal amount of \$_____ (the "Bonds") under this Indenture and under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purpose of providing the funds to enable the Authority to pay the Site Lease Payment to the City in accordance with the Site Lease.

4. In order to provide revenues which are sufficient to enable the Authority to pay debt service on the Bonds, the Authority has agreed to lease the Leased Property back to the City under a Lease Agreement dated as of November 1, 2010 (the "Lease"), under which the City has agreed to pay semiannual Lease Payments as the rental for the Leased Property thereunder.

5. The lease payments made by the City under the Lease have been assigned by the Authority to Trustee for the security of the Bonds under an Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee.

6. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

7. The Authority has found and determines, and hereby affirms, that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding

and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized.

A G R E E M E N T :

In order to secure the payment of the principal of and the interest and redemption premium (if any) on all the Outstanding Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority and the Trustee do hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. *Definitions.* Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in that Appendix when used in this Indenture.

SECTION 1.02. *Authorization.* Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. *Interpretation.*

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

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

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

ARTICLE II

THE BONDS

SECTION 2.01. *Authorization of Bonds.* The Authority has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The Authority hereby authorizes the issuance of Bonds in the aggregate principal amount of \$_____ under the Bond Law for the purposes of providing funds to pay the Site Lease Payment to the City and thereby provide funds to finance the Project. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated the "Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility)."

SECTION 2.02. *Terms of the Bonds.*

(a) Payment Provisions. The Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Bonds shall mature on March 1 in each of the years and in the amounts, and bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
--	-----------------------------------	--------------------------------	--	-----------------------------------	--------------------------------

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

SECTION 2.03. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section 2.03. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The Authority shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

(c) Limitations. The Trustee may refuse to transfer or exchange, under the provisions of this Section 2.03, any Bonds selected by the Trustee for redemption under Article IV, or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

SECTION 2.04. *Book-Entry System*.

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the Authority and the Trustee has no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the Authority and the Trustee has no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the Authority elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the Authority to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the Authority of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the Authority shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Authority shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Authority or the Trustee any obligation

whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the Authority may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the Authority determines to terminate the Depository as such, then the Authority shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the Authority and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the Authority fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the Authority determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Authority may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the Authority shall cooperate with the Depository in taking appropriate action (y) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (z) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the Authority's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.05. *Registration Books.* The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

SECTION 2.06. *Form and Execution of Bonds.* The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth

in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The President of the Authority or other Authorized Representative with authority to do so shall execute, and the Secretary of the Authority shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of the execution of such Bond are the proper officers of the Authority, duly authorized to execute debt instruments on behalf of the Authority, although on the date of such Bond any such person was not an officer of the Authority.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.07. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond is mutilated, the Authority, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

Notwithstanding any other provision of this Section 2.07, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

SECTION 2.08. *Additional Bonds.* In addition to the 2010 Bonds authorized to be issued pursuant to Section 2.01 of this Indenture, the Authority may, by Supplemental Indenture, establish one or more other issues of Additional Bonds secured and payable on a parity with such Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of Sections 2.08 and 2.09, and subject to the following

specific conditions which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) Such Additional Bonds shall have been authorized to finance additional capital improvements for the City, or to refund bonds previously issued to finance such capital improvements, and the issuance thereof shall have been determined and declared by the Authority, in a Supplemental Indenture, to be necessary for that purpose.

(b) The Authority and the City shall be in compliance with all covenants and undertakings set forth in this Indenture and in the Lease and the Site Lease.

(c) The aggregate principal amount of Bonds issued and at any time Outstanding hereunder shall not exceed any limit imposed by law, by this Indenture or by any Supplemental Indenture.

(d) The Supplemental Indenture authorizing issuance of such Additional Bonds shall require that the balance on deposit in the Reserve Fund upon delivery of said Additional Bonds is a sum at least equal to the Reserve Requirement with respect to all Outstanding Bonds, including said Additional Bonds, and shall also establish such accounts and subaccounts within the various funds and accounts established hereby or the Authority shall deem necessary or advisable.

(e) Such Additional Bonds shall be equally and ratably secured by the Revenues with all other Bonds herein authorized, except that separate accounts may be established in the Reserve Account for one or more series of Bonds, and amounts in each such reserve account shall be available to pay debt service on the series of Bonds for which it was established.

(f) The Authority shall have entered into an amendment to the Lease, in and by which the City obligates itself in the manner provided in the Lease to make Lease Payments for the lease of the Leased Property at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease, and the City shall certify in writing, that such Lease Payments, as amended, in any year shall not exceed the then fair rental value of the Leased Property.

(g) If necessary to ensure that the Lease Payments payable after the issuance of Additional Bonds does not exceed the fair rental value of the Leased Property in any year, the Authority and the City shall have amended the Lease pursuant to Section 7.5 thereof to add additional property to the Leased Property.

(h) In the event that the Additional Bonds are being issued to finance the construction of a to-be-built project, and such project is to be part of the Leased Property prior to its completion, the Supplemental Indenture authorizing the issuance of such Additional Bonds shall require the deposit into a capitalized interest account in the Project Fund, or a subaccount therein, an amount sufficient to pay interest on such Additional Bonds through a date which is not less than six months after the anticipated completion date of the project, but only

if such Additional Bonds are issued prior to the substantial completion of such project.

SECTION 2.09. Proceedings for the Issuance of Additional Bonds. Whenever the Authority shall have determined to issue Additional Bonds pursuant to Section 2.08, the Authority shall enter into a Supplemental Indenture determining that the issuance of such Additional Bonds is necessary for the purposes specified in Section 2.08, specifying the principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds and the funds to be established for the security and payment thereof. Before such Additional Bonds shall be issued and delivered, the Authority shall file the following documents with the Trustee:

(a) An executed copy of the Supplemental Indenture authorizing such Additional Bonds, together with a certified copy of the resolution of the Authority authorizing the issuance of such Additional Bonds and the execution of such Supplemental Indenture.

(b) An Opinion of Bond Counsel stating: (i) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Authority; (ii) that the issuance of the Additional Bonds is authorized by the Bond Law and this Indenture; (iii) that the Additional Bonds when duly executed and delivered, will be valid and binding obligations of the Authority, payable from Revenues in accordance with the terms of this Indenture and the Supplemental Indenture authorizing the issuance of such Additional Bonds; (iv) that upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Authority, if any; (v) if the Additional Bonds are to be tax-exempt, that the interest on the Additional Bonds will be excluded from the gross income of the Owners thereof for federal income tax purposes; and (vi) that the issuance of such Additional Bonds will not, of itself, cause interest on the outstanding Bonds that are tax exempt to become includable in gross income for federal income tax purposes or cause the outstanding Bonds that are Build America bonds to lost their designation as Recovery Zone Economic Development Bonds.

(c) A Certificate of the Authority certifying that the requirements set forth in Section 2.08 have been either met or provided for, together with a copy of the amendment to the Lease required by Section 2.08, together with a certified copy of the resolutions of the Authority and the City authorizing the execution of such amendment to the Lease.

SECTION 2.09. Applicability to Additional Bonds. Unless otherwise specified in the Supplemental Indenture pursuant to which an issue of Additional Bonds are issued, the provisions of Sections 2.04 through 2.07 shall apply to such issue of Additional Bonds.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. *Issuance of the Bonds.* At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon the Written Request of the Authority, deliver the Bonds to the Original Purchaser.

SECTION 3.02. *Application of Proceeds of Sale of Bonds.* Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall deposit the proceeds thereof into a temporary account, which shall be disbursed in full on the Closing Date (whereupon said temporary account shall be closed) as follows:

- (a) The Trustee shall deposit the amount of \$_____ into the Costs of Issuance Fund.
- (b) The Trustee shall deposit the amount of \$_____ into the Lease Payment Fund, constituting capitalized interest on the Bonds.
- (c) The Trustee shall deposit the amount of \$_____, constituting the full amount of the Reserve Requirement, in the Reserve Account.
- (d) The Trustee shall transfer the amount of \$_____, constituting the remainder of such proceeds and representing the full amount of the Site Lease Payment, to the City for deposit in the Lease Revenue Bond Proceeds Account within the Project Fund.

SECTION 3.03. *Establishment and Application of Costs of Issuance Fund.* The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds under Section 3.02(a). The Trustee shall disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on such Written Requisitions and shall be fully protected in relying thereon. On February 1, 2011, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Interest Account and shall thereupon close the Costs of Issuance Fund.

SECTION 3.04. *Project Fund; Lease Revenue Bond Proceeds Account.* The City will establish and maintain a separate fund to be known as the "Project Fund". Within the Project Fund, the City will establish and maintain a separate account to be known as the "Lease Revenue Bond Proceeds Account". The City will disburse moneys in the Lease Revenue Bond Proceeds Account to pay Project Costs. The City shall maintain accurate records showing each disbursement from the Lease Revenue Bond Proceeds Account, including information showing the amount of each disbursement, the purpose thereof and the party to whom payment is made.

Upon the determination by the City that the Project have been completed and that no further amounts are required to disbursed from the Lease Revenue Bond Proceeds Account to pay Project Costs, the City will withdraw all amounts remaining on deposit in the Lease Revenue Bond Proceeds Account and transfer such amounts to the Trustee for deposit in the Interest Account, to be applied as a credit towards the Lease Payments next coming due and payable.

SECTION 3.05. *Validity of Bonds.* The recital contained in the Bonds that the same are issued under the laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. *Terms of Redemption.*

(a) Optional Redemption. (i) *Optional Redemption with Make-Whole Payment.* The Bonds are subject to redemption prior to maturity at the option of the Authority, as a whole or in part (and, if in part, pro-rata among maturities), on any Business Day, at the “Make-Whole Redemption Price” which is the greater of (1) the principal amount of the Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” plus 50 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption for a particular Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond:

- (i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of four firms, specified by the Authority from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

(ii) *Extraordinary Optional Redemption.* The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, pro-rata among maturities), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to section 54AA or section 6431 of the Tax Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 45% cash subsidy payments from the United States Treasury with respect to the Bonds, pursuant to which the 45% cash subsidy payments from the United States Treasury with respect to the Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Bonds, the greater of (i) the principal amount of the Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds of such maturity to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Bonds of such maturity to be redeemed to the redemption date.

(b) Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on March 1 in the respective years as set forth in the following table; *provided, however*, that if some but not all of the Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Authority to the Trustee).

Sinking Fund Redemption Date (<u>March 1</u>)	<u>Principal Amount To Be Redeemed</u>
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SECTION 4.02. *Selection of Bonds for Redemption.* Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of a single maturity, the Bonds shall be selected for redemption on a pro-rata basis among outstanding maturities. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

SECTION 4.03. *Notice of Redemption; Rescission.* The Trustee shall mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

The Authority has the right to rescind any notice of the redemption of Bonds under Section 4.01(a) by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Authority and the Trustee have no liability to the Bond Owners or

any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

SECTION 4.04. *Partial Redemption of Bonds.* Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

SECTION 4.05. *Effect of Redemption.* Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed under the provisions of this Article shall be canceled by the Trustee upon surrender thereof and destroyed in accordance with the retention policy of the Trustee then in effect.

ARTICLE V

REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

SECTION 5.01. *Security for the Bonds; Bond Fund.*

(a) Pledge of Revenues, Refundable Credits and Other Amounts. Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and all amounts (including proceeds of the sale of the Bonds) held in any fund or account established under this Indenture are hereby pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of this Indenture. In addition, all of the Refundable Credits are hereby pledged to secure the payment of the principal of and interest on the Bonds. Said pledges constitute a lien on and security interest in the Revenues, the Refundable Credits and such amounts and shall attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

(b) Assignment to Trustee. Under the Assignment Agreement, the Authority has transferred to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under Sections 4.5, 5.10, 7.3 and 8.4 thereof). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the

Authority to the Trustee. The Trustee is also entitled to and shall, subject to the provisions of Article VIII, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

The Authority further hereby irrevocably transfers, assigns and sets over to the Trustee, without recourse to the Authority, all of the Refundable Credits and all rights of the Authority to receive the Refundable Credits. The Authority shall submit (or cause to be submitted) all documentation, and take all actions, as may be required to receive and collect the Refundable Credits when due, as provided in Section 6.07(g).

The Authority shall cause the payment of the Refundable Credits be made directly by the federal government to the Trustee for the benefit of the Bonds. In connection therewith, the Authority shall submit (or cause to be submitted by the City) the Filing Agent Agreement and any other documentation, and take all actions, as may be required by the Trustee to enable the Trustee to receive and collect the Refundable Credits when due. Notwithstanding the foregoing, the Authority may elect to receive and collect the Refundable Credits itself or to have the City so receive and collect, provided however, in any event any Refundable Credits collected or received by the Authority or the City shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

(c) Deposit of Revenues and Refundable Credits in Bond Fund. All Revenues and all Refundable Credits shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Lease Agreement to be deposited in the Redemption Fund shall be promptly deposited in such funds. All Revenues and Refundable Credits deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under Article X, and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

SECTION 5.02. *Allocation of Revenues.* On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority:

- (a) Deposit to Interest Account. The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.
- (b) Deposit to Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of Term Bonds (if

any) which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

- (c) Deposit to Reserve Account. The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

SECTION 5.03. *Application of Interest Account.* All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

SECTION 5.04. *Application of Principal Account.* All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates, and the principal amount of Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date under Section 4.01(b).

SECTION 5.05. *Application of Reserve Account.* All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under Section 4.01(b), to the extent that moneys deposited in the Interest Account or the Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under Section 4.01(b), the Trustee shall apply such amounts first, to the payment of interest and second, to the payment of principal (including principal payable upon mandatory sinking fund redemption).

If at any time the amounts on deposit in the Reserve Account are sufficient to enable the Authority to pay or redeem all of the Outstanding Bonds and the interest thereon, the Trustee shall apply the amounts in the Reserve Account for that purpose at the Written Request of the Authority. On the date on which all Bonds are retired hereunder or provision is made therefor under Article X, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Lease Payments.

If the amount held in the Reserve Account on any Interest Payment Date is excess of the Reserve Requirement, the Trustee shall transfer such amount to the Bond Fund to be applied in accordance with Section 5.02.

SECTION 5.06. *Application of Redemption Fund.* Upon the determination by the Authority to redeem any Bonds under Section 4.01(a), the Trustee shall establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues and Refundable Credits received, in accordance with a Written Request of the Authority, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds to be redeemed under Section 4.01(a). At any time prior to the selection of Bonds for redemption, the Trustee may apply such

amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds. The Trustee is entitled to conclusively rely on any Written Request of the Authority received under this Section 5.06, and is fully protected in relying thereon.

SECTION 5.07. *Insurance and Condemnation Fund.*

(a) Establishment of Fund. Upon the receipt of proceeds of insurance or eminent domain with respect to the Leased Property, the Trustee shall establish and maintain an Insurance and Condemnation Fund, to be held and applied as hereinafter set forth in this Section 5.07.

(b) Deposit of Proceeds. Any Net Proceeds of insurance against accident to or destruction of the Leased Property collected by the City or the Authority in the event of any such accident or destruction shall be paid to the Trustee under Section 6.3 of the Lease and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Authority shall deposit or cause to be deposited with the Trustee the Net Proceeds therefrom, which the Trustee shall deposit in the Insurance and Condemnation Fund under Section 6.2(b) of the Lease.

(c) Application of Proceeds. All proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, or to replace any Leased Property taken in eminent domain proceedings, upon receipt of a Written Request of the City which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund and has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Any balance of the proceeds remaining after such work has been completed as certified by the City under a Written Certificate to the Trustee shall be paid to the City. The Trustee shall be entitled to conclusively rely on any Written Request or Written Certificate received under this subsection (c) of this Section 5.07 and in each case, shall be fully protected in relying thereon.

SECTION 5.08. *Investments.* All moneys in any of the funds or accounts established with the Trustee under this Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority in a Written Request of the Authority filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments which constitute money market funds. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All amounts in any of the funds or accounts established with the City under this Indenture shall be invested by the City solely in investments which are authorized for the investment of such funds under the applicable laws of the State of California and under the adopted investment policy of the City.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, *provided, however*, that earnings on the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and otherwise shall be transferred to the Bond Fund. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under this Section 5.08.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority a periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

SECTION 5.09. *Valuation and Disposition of Investments.*

(a) Except as otherwise provided in subsection (b) of this Section, the Authority covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued at the Fair Market Value thereof as such term is defined in subsection (d) below. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Authority in any Written Request of the Authority.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and investments in the Reserve Account shall be valued at cost thereof, (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the Authority shall inform the Trustee which funds (other than the Reserve Account) are subject to a yield restriction.

(c) Except for the Reserve Account and any other funds or accounts described in subsection (b), for the purpose of determining the amount in any fund or account

established hereunder, the value of Permitted Investments credited to such fund shall be valued by the Trustee at least annually on or before January 1. The Trustee may sell or present for redemption, any Permitted Investment so purchased by the Trustee whenever it is necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

(d) For purposes of this Section 5.09, the term “Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

(e) To the extent of any valuations made by the Trustee hereunder, the Trustee may utilize and rely upon computerized securities pricing services that may be available to it, including those available through its regular accounting system.

ARTICLE VI

COVENANTS OF THE AUTHORITY COVENANTS OF THE BOARD

SECTION 6.01. *Punctual Payment.* The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of the Revenues, the Refundable Credits and other amounts pledged for such payment as provided in this Indenture.

SECTION 6.02. *Extension of Payment of Bonds.* The Authority 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 hereunder, to the benefits of this 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 have not been so extended. Nothing in this Section 6.02 limits the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

SECTION 6.03. *Against Encumbrances.* The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues, the Refundable Credits and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

SECTION 6.04. *Power to Issue Bonds and Make Pledge and Assignment.* The Authority is duly authorized under law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues, the Refundable Credits and other amounts purported to be pledged and assigned, respectively, under this Indenture and under the Assignment Agreement in the manner and to the extent provided in this Indenture and the Assignment Agreement. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues, the Refundable Credits and other assets and all the rights of the Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

SECTION 6.05. *Accounting Records.* The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established under this Indenture. The Trustee shall make such books of record and account available for inspection by the Authority and the City, during business hours, upon reasonable notice, and under reasonable circumstances.

SECTION 6.06. *Limitation on Additional Obligations.* The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues or Refundable Credits in whole or in part.

SECTION 6.07. *Tax Covenants.*

(a) Application of Section 1400U-2 of the Tax Code. The City hereby irrevocably elects to apply the provisions of Section 1400U-2 of the Tax Code to the Bonds and intends that the Bonds be treated as recovery zone economic development bonds (RZEDBS"). In addition, the City hereby irrevocably elects to treat the Bonds as "Qualified Bonds" within the meaning of Section 54AA(g)(2) and Section 6431 of the Tax Code such that the Bonds will be eligible for direct payment by the Refundable Credits equal to forty-five percent (45%) of interest payable on the Bonds.

(b) Private Activity Limitation. The Authority shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the

Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code. The Refundable Credits shall not be treated as a federal guaranty.

(c) No Arbitrage. The Authority may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(d) Expenditure of Proceeds to Assure RZEDBS Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Bonds are expended and all federal tax requirements are met so as to cause the Bonds to be treated as RZEDBS and Qualified Bonds and therefore be eligible for the Refundable Credits within the meaning of Section 6431 of the Code.

(e) Rebate of Excess Investment Earnings to United States. The Authority shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The Authority shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from amounts paid by the City for that purpose under Section 4.5(d) of the Lease. The Authority shall keep or cause to be kept, and retain or cause to be retained for a period of 6 years following the retirement of the Bonds, records of the determinations made under this subsection (e).

(g) Filing of Forms To Receive Refundable Credits. The Authority will, within the 45-day period beginning on the date that is 90 days before the next Interest Payment Date, file Form 8038-CP or any successor form designated by the federal government, requesting payment of the Refundable Credits with respect to the next interest payment on the Bonds. If the Authority selects the Trustee to file such forms, the Trustee shall perform such service in accordance with a separate agreement to be entered into between the Authority and the Trustee relating to the provision of such service.

(h) Financing Capital Expenditures, No Working Capital. All Available Project Proceeds (other than Available Project Proceeds deposited in the Reserve Account) will be spent on capital expenditures with a reasonably expected economic life of one year or more.

(i) Qualified Economic Development Purpose. All Available Project Proceeds, other than amounts deposited into the Reserve Account, will be spent on a Qualified Economic Development Purpose.

(i) Limitation on Issuance Costs. No proceeds of the Bonds and investment earnings thereon, in an amount in excess of 2% of the proceeds of the sale of the Bonds, will be used to pay Costs of Issuance of the Bonds. If the fees of the Original Purchaser of the Bonds are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

(j) Expenditure of Proceeds to Assure Bonds Are Eligible For Refundable Credits. The Authority shall take all actions necessary to assure that the proceeds of the Bonds are expended and all federal tax requirements are met so as to cause the Bonds to be treated as Recovery Zone Economic Development Bonds and Qualified Bonds and therefore be eligible for the Refundable Credits.

(k) Limitation on Original Issue Premium. All Bonds of each maturity of the issue shall be offered to the ultimate purchasers thereof (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the price of par and, at least 10% of the first Bonds sold in each maturity of the issue will be actually sold at a price not excess of the par amount thereof x .0025 x the number of complete years to maturity from the date of issue of the Bonds to the date of said maturity.

SECTION 6.08. *Enforcement of Lease.* The Trustee shall promptly collect all amounts (to the extent any such amounts are available for collection) due from the City under the Lease. Subject to the provisions of Article VIII, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Lease.

SECTION 6.09. *Waiver of laws.* The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.10. *Further Assurances.* The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. *Events of Default.* The following events constitute Events of Default hereunder:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period

of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee; provided, however, if in the reasonable opinion of the Authority 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 the Authority institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.

- (d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in the Lease.

SECTION 7.02. *Remedies Upon Event of Default.* If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority deposits with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its legal counsel, including the allocated costs of internal attorneys) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

SECTION 7.03. *Application of Revenues and Other Funds After Default.* If an Event of Default occurs and is continuing, all Revenues, Refundable Credits and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee in the following order of priority:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal

attorneys) incurred in and about the performance of its powers and duties under this Indenture;

- (b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of this 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;

Second: 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 acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), 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; and

SECTION 7.04. *Trustee to Represent Bond Owners.* The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture and applicable provisions of any law. All rights of action under this 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 all the Owners of such Bonds, subject to the provisions of this Indenture.

SECTION 7.05. *Limitation on Bond Owners' Right to Sue.* Notwithstanding any other provision hereof, no Owner of any Bonds has 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 this Indenture, the Lease or any other applicable law with respect to such Bonds, unless (a) such Owner has 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 have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written

request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

SECTION 7.06. *Absolute Obligation of Board.* Nothing herein or in the Bonds contained affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as herein provided, but only out of the Revenues, the Refundable Credits and other assets herein 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.

SECTION 7.07. *Termination of Proceedings.* In case any proceedings taken by the Trustee or by any one or more Bond Owners on account of any Event of Default have been discontinued or abandoned for any reason or have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

SECTION 7.08. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds 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 hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. *No Waiver of Default.* No delay or omission of the Trustee or any Owner of the Bonds 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 this Indenture to the Trustee or the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or the Bond Owners.

SECTION 7.10. *Notice to the Bond Owners of Default.* Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall promptly

give written notice thereof by first class mail, postage prepaid, to the Owner of each Outstanding Bond, unless such Event of Default has been cured before the giving of such notice; *provided, however* that except in the case of an Event of Default described in Sections 7.01(a) or 7.01(b), the Trustee may elect not to give such notice to the Bond Owners if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. *Appointment of Trustee.* U.S. Bank National Association is hereby appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The Authority will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this Article VIII so long as any Bonds are Outstanding.

SECTION 8.02. *Acceptance of Trusts; Removal and Resignation of Trustee.* The Trustee hereby accepts the express trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

- (a) 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 this Indenture and no implied duties or covenants shall be read into this Indenture against the Trustee.
- (b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and shall remove the Trustee (a) if at any time requested to do so by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (b) if at any time the Trustee ceases to be eligible in accordance with Section 8.02, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. Any such removal shall be made upon at least 30 days' prior written notice to the Trustee.
- (c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books.
- (d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. In the event of the removal

or resignation of the Trustee under subsections (b) or (d), respectively, the Authority shall promptly appoint a successor Trustee.

If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee 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 this Indenture, must signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and after payment by the Authority of all unpaid fees and expenses of the predecessor Trustee, 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 herein; but, nevertheless at the Written Request of the Authority or the request of 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 the Leased Property held by such predecessor Trustee under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall promptly mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

- (e) Any Trustee appointed under this Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, shall be authorized under such laws to exercise corporate trust powers, shall have (or, in the case of a corporation or association that is a member of a bank holding company system, the related bank holding company has) a combined capital and surplus of at least \$50,000,000, and shall be subject to supervision or examination by a federal or state agency, so long as any Bonds are

Outstanding. If such corporation or association publishes a report of condition at least annually under law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection (e), the combined capital and surplus of such corporation or association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If the Trustee at any time ceases to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.03. *Merger or Consolidation.* Any bank, federal savings association, or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, federal savings association, or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, federal savings association, or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, federal savings association, or trust company shall be eligible under subsection (e) of Section 8.02 shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.04. *Liability of Trustee.*

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture, the Bonds or the Lease (including any right to receive moneys thereunder or the value of or title to the premises upon which the Leased Property is located), nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations of Trustee herein 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 shall not be liable in connection with the performance of its duties hereunder, except for its own negligence. 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 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made by a responsible officer, unless it is proved that the Trustee was grossly negligent in ascertaining the pertinent facts.

(c) The Trustee is not liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of 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 this Indenture or assigned to it under the Assignment Agreement.

(d) The Trustee is not liable for any action taken by it and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until it shall have actual knowledge thereof, or a corporate trust officer shall have received written notice thereof at its Office from the City, the Authority or the Owners of at least 25% in aggregate principal amount of the Outstanding Bonds. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions, covenants or agreements herein, under the Lease or the Bonds or of any of the documents executed in connection with the Bonds, or as to the existence of a default or an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City or the Authority of the terms, conditions, covenants or agreements set forth in the Lease, other than the covenants of the City to make Lease Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee thereunder.

(f) No provision of this Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents, receivers or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, receiver or attorney appointed with due care by it hereunder.

(h) The Trustee has no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of the Bond Owners under this Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including but not limited to fees and expenses of its attorneys) which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(i) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of Section 8.02(a), this Section 8.04 and Section 8.05, and shall be applicable to the assignment of any rights under the Lease to the Trustee under the Assignment Agreement.

(j) The Trustee is not accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions hereof.

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality,

durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease or this Indenture for the existence, furnishing or use of the Leased Property.

(l) The Trustee has 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.

(m) The Trustee is authorized and directed to execute the Assignment Agreement in its capacity as Trustee hereunder.

SECTION 8.05. *Right to Rely on Documents.* The Trustee shall be protected and shall incur no liability in acting or refraining from acting in reliance upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee is under no duty to make any investigation or inquiry as to any statements contained or matter referred to in any paper or document but may accept and conclusively rely upon the same as conclusive evidence of the truth and accuracy of any such statement or matter and shall be fully protected in relying thereon. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

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

SECTION 8.06. *Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of this Indenture shall be retained in its respective possession and in accordance with its retention policy then in effect and shall, upon reasonable notice to Trustee, be subject to the inspection of the Authority, the City and any Bond Owner, and their agents and representatives duly authorized in writing, during business hours and under reasonable conditions as agreed to by the Trustee.

SECTION 8.07. *Compensation and Indemnification.* The Authority shall pay to the Trustee from time to time, on demand, the compensation for all services rendered under this Indenture and also all reasonable expenses, advances (including any interest

on advances), charges, legal (including outside counsel and the allocated costs of internal attorneys) and consulting fees and other disbursements, incurred in and about the performance of its powers and duties under this Indenture.

The Authority shall indemnify the Trustee, its officers, directors, employees and agents against any cost, loss, liability or expense whatsoever (including but not limited to fees and expenses of its attorneys) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust and this Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder or under the Assignment Agreement or the Lease. As security for the performance of the obligations of the Authority under this Section 8.07 and the obligation of the Authority to make Additional Rental Payments to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such. The rights of the Trustee and the obligations of the Authority under this Section 8.07 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture and the Lease.

ARTICLE IX

MODIFICATION OR AMENDMENT HEREOF

SECTION 9.01. Amendments Permitted.

(a) Amendments With Bond Owner Consent. This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee. No such modification or amendment may (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues, the Refundable Credits and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by this Indenture on such Revenues, Refundable Credits and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

(b) Amendments Without Owner Consent. This Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the

Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in this Indenture contained, 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 herein reserved to or conferred upon the Authority;
 - (ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;
 - (iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
 - (iv) to modify, amend or supplement this Indenture in such manner as to assure that the Bonds remain Recovery Zone Economic Development Bonds and that the Authority remains entitled to collect the Refundable Credits under the Tax Code;
 - (v) to incorporate provisions relating to a Qualified Reserve Account Surety Bond; or
 - (v) to modify, amend or supplement this Indenture in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code.
- (c) Limitation. The Trustee is not obligated to enter into any Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.
- (d) Bond Counsel Opinion Requirement. Prior to the Trustee entering into any Supplemental Indenture hereunder, the Authority shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.
- (e) Notice of Amendments. The Authority shall deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 9.01.

SECTION 9.02. *Effect of Supplemental Indenture.* Upon the execution of any Supplemental Indenture under this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. *Endorsement of Bonds; Preparation of New Bonds.* Bonds delivered after the execution of any Supplemental Indenture under this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, 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 Authority, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

SECTION 9.04. *Amendment of Particular Bonds.* The provisions of this Article IX do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

ARTICLE X

DEFEASANCE

SECTION 10.01. *Discharge of Indenture.* Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or
- (c) by delivering all of such Bonds to the Trustee for cancellation.

If the Authority also pays or causes to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the

Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues, Refundable Credits and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to Section 10.02. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it under this Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption. The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

SECTION 10.02. *Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

The Authority may at any time surrender to the Trustee, for cancellation by Trustee, any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 10.03. *Deposit of Money or Securities with Trustee.* Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under this Indenture and shall be:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or
- (b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if

any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above). The Trustee shall be entitled to conclusively rely on such Written Request or opinion and shall be fully protected, in each case, in relying thereon.

SECTION 10.04. *Unclaimed Funds.* Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for 2 years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall (at the cost of the Authority) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. *Liability of Authority Limited to Revenues and Refundable Credits.* Notwithstanding anything in this Indenture or in the Bonds contained, the Authority is not required to advance any moneys derived from any source other than the Revenues, the Refundable Credits and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

SECTION 11.02. *Limitation of Rights to Parties and Bond Owners.* Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such

covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

SECTION 11.03. *Funds and Accounts.* Any fund or account required by this 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 industry standards to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under this Indenture.

SECTION 11.04. *Waiver of Notice; Requirement of Mailed Notice.* Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice is required to be given by mail, such requirement may be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

SECTION 11.05. *Destruction of Bonds.* Whenever in this Indenture provision is made for the cancellation by the Trustee, and the delivery to the Authority, of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and at the written request of the Authority the Trustee shall deliver a certificate of such destruction to the Authority.

SECTION 11.06. *Severability of Invalid Provisions.* If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 11.07. *Notices.* All notices or communications to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by telephone, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority or the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance
Fax: 916-691-2001

If to the Trustee: U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attention: Corporate Trust Administration
Fax: (206) 344-4630

SECTION 11.08. *Evidence of Rights of Bond Owners.* Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond 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 this Indenture and shall be conclusive in favor of the Trustee and the Authority if made in the manner provided in this Section 11.08.

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 Authority in accordance therewith or reliance thereon.

SECTION 11.09. *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 this Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or 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 Authority or 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 Section 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 Authority or the City or any other obligor on the Bonds. In case of a dispute as to such right, the Trustee shall be entitled to rely upon the advice of counsel in any decision by Trustee and shall be fully protected in relying thereon.

Upon request, the Authority shall specify to the Trustee those Bonds disqualified under this Section 11.09.

SECTION 11.10. *Money Held for Particular Bonds.* The money held by the Trustee for the payment of the interest, premium, if any, or principal 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 of the Bonds entitled thereto, *subject, however,* to the provisions of Section 10.04 but without any liability for interest thereon.

SECTION 11.11. *Waiver of Personal Liability.* No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.12. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Indenture either the Authority, the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority, the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.13. *Execution in Several Counterparts.* This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.14. *Payment on Non-Business Day.* In the event any payment is required to be made hereunder on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and with the same effect as if made on such preceding non-Business Day.

SECTION 11.15. *Governing Law.* This Indenture shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the ELK GROVE FINANCE AUTHORITY has caused this Indenture to be signed in its name by its Administrator and attested to by its Secretary, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

ELK GROVE FINANCE AUTHORITY

By _____
Administrator

Attest:

Secretary

**U.S. BANK NATIONAL ASSOCIATION, as
Trustee**

By _____
Authorized Officer

APPENDIX A

DEFINITIONS

“Additional Bonds” means Additional Bonds issued in accordance with Section 2.08 hereof.

“Additional Rental Payments” means the amounts of additional rental which are payable by the City under Section 4.5 of the Lease or which are otherwise identified as Additional Rental Payments under the Lease.

“Assignment Agreement” means the Assignment Agreement dated as of November 1, 2010, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended.

“Authority” means the Elk Grove Finance Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of July 13, 2005, by and between the City of Elk Grove and the Parking Authority of the City of Elk Grove, and under the laws of the State of California.

“Authorized Representative” means: (a) with respect to the Authority, its President, Administrator, Chair, Vice Chair, Executive Director, Treasurer, Assistant Treasurer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Administrator, Chair, Vice Chair, Executive Director, Treasurer or Assistant Treasurer and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, City Manager, Finance Director or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its Mayor, City Manager or Finance Director and filed with the Trustee.

“Available Project Proceeds” means (i) the proceeds from the sale of the Bonds, (ii) less Costs of Issuance of the Bonds paid from proceeds of the sale of the Bonds (not exceeding 2% of the proceeds of the sale of the Bonds), plus (iii) investment earnings on the difference between (i) - (ii).

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee under Section 5.01.

“Bond Law” means the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bond Year” means each twelve-month period extending from March 2 in one calendar year to March 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including March 1, 2011.

“Bonds” means the \$_____ aggregate principal amount of Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) authorized by and at any time Outstanding under the Bond Law and this Indenture.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the City in which the Office of the Trustee is located.

“City” means the City of Elk Grove, a municipal corporation organized and existing under the laws of the State of California.

“Closing Date” means _____, 2010, being the date of delivery of the Bonds to the Original Purchaser.

“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 their respective 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; 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 under Section 3.03.

“Depository” means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository under Section 2.04.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any of the events specified in Section 7.01.

“Excess Investment Earnings” means an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Bonds at a yield in excess of the yield on the Bonds.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“Filing Agent Agreement” the Filing Agent Agreement dated as of _____, 2010, between the Authority and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof, providing for the collection of the Refundable Credits by the Trustee.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Indenture” means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

“Independent Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“Information Services” means Financial Information, Inc.’s Financial Daily Called Bond Service; Standard & Poor’s J.J. Kenny Information Services; Moody’s Municipal and Government; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Insurance and Condemnation Fund” means the fund by that name established and held by the Trustee under Section 5.07.

“Interest Account” means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2011, so long as any Bonds remain unpaid.

“Lease” means the Lease Agreement dated as of November 1, 2010, between the Authority as lessor and the City as lessee of the Leased Property, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Indenture.

“Lease Payment Date” means, with respect to any Interest Payment Date, the 5th Business Day immediately preceding such Interest Payment Date.

“Lease Payments” means the amounts payable by the City under Section 4.3(a) of the Lease, including any prepayment thereof and including any amounts payable upon a delinquency in the payment thereof.

“Leased Property” means the real property described in Appendix A to the Lease, together with all improvements and facilities at any time situated thereon, consisting generally of the land and improvements constituting the existing police facilities, council chambers and City library (real property commonly known as 8380 and 8400 Laguna Palms Way and 8900 Elk Grove Boulevard).

“Lease Revenue Bond Proceeds Account” means the account by that name established and held by the City within the Project Fund under Section 3.04.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Proceeds” means amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Property, or the proceeds of any taking of the Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.04(a).

“Office” means the corporate trust office of the Trustee in San Francisco, California or Seattle, Washington, or such other or additional offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust business is conducted.

“Original Purchaser” means _____, as original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding”, when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this 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 Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under this Indenture.

“Owner”, whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Permitted Encumbrances” means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease; (b) the Site Lease, the Lease and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, material man, supplier or vendor not filed or perfected in the manner prescribed by law; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Lawyer’s Title Company; and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any federal agencies whose obligations are backed by the full faith and credit of the United States of America.
- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and which are rated in the highest short-term rating category by S&P (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (d) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize under federal law, which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1 or better by S&P.
- (e) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee or its affiliates) in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation, including the Bank Insurance Fund and the Savings Association Insurance Fund.
- (f) Investment agreements with a financial institution the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor or the institution is rated AA or better from S&P, by the terms of which the Trustee is permitted to withdraw the invested funds if the rating from S&P falls below AA. For purpose of this clause, the rating category “AA” includes all gradations within such rating category.
- (g) Bonds, notes or other obligations issued by any corporation or public agency, which as of the date of purchase are rated AA or better from S&P. For purpose of this clause, the rating category “AA” includes all gradations within such rating category.
- (h) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

“Principal Account” means the account by that name established and held by the Trustee in the Bond Fund under Section 5.02.

“Project” means the undertaking by the City for the construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related to such facility and incidental expenses related thereto.

“Project Costs” means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for the purchase of the Project or otherwise relating to the acquisition, construction and installation of the Project;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) preliminary costs of the Project, including but not limited to design, environmental, engineering and architectural services, costs for testing, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and costs for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- (e) costs of equipping and furnishing the Project, and costs of taking occupancy of the Project including costs incurred in connection with the relocation of City administrative functions and personnel into the Project;
- (f) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (g) all financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- (h) the Lease Payments coming due during the period of construction of the Project and for not more than six months thereafter.

“Project Fund” means the fund by that name established and held by the City under Section 3.04.

“Qualified Economic Development Purpose” means expenditures for purposes of promoting development or other economic activity in a recovery zone including (i) capital

expenditures paid or incurred with respect to property located in the recovery zone, (ii) expenditures for public infrastructure and construction of public facilities, and (iii) expenditures for job training and educational programs.

“Record Date” means, with respect to 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.

“Recovery Zone” means a recovery zone within the meaning of Section 1400U-1(b) of the Tax Code consisting of (i) any area designated by the Authority as having significant poverty, unemployment, rate of home foreclosures, or general distress, (ii) any area designated by the Authority as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990, and (iii) any are for which a designation as an empowerment zone or renewal community is in effect.

“Redemption Fund” means the fund by that name established and held by the Trustee under Section 5.06.

“Refundable Credits” means, with respect to the Series B Bonds, the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code.

“Registration Books” means the records maintained by the Trustee under Section 2.05 for the registration and transfer of ownership of the Bonds.

“Reserve Account” means the account by that name established and held by the Trustee in the Bond Fund established under Section 5.02.

“Reserve Requirement” means, as of any date of calculation, the lesser of (a) 10% of the original principal amount of the Bonds, or (b) the maximum annual debt service on the Bonds coming due and payable in the current or any future Bond Year, or (c) 125% of average annual debt service on the Bonds.

“Revenues” means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts described in Section 7.5(b)(v) of the Lease, and (ii) any Additional Rental Payments; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

“Securities Depositories” means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority designates in written notice filed with the Trustee.

“Site Lease” means the Site Lease dated as of November 1, 2010, between the City as lessor and the Authority as lessee, as amended from time to time in accordance with its terms.

“Site Lease Payment” means the amount of \$_____ which is payable by the Authority to the City on the Closing Date under Section 3 of the Site Lease.

“S&P” means Standard & Poor’s, a division of the McGraw Hill Companies, of New York, New York, its successors and assigns.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Term” means, with reference to the Lease, the time during which the Lease is in effect, as provided in Section 4.2 thereof.

“Term Bonds” means the Bonds maturing on March 1, 20__.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of United States of America, or its successor or successors, as Trustee hereunder as provided in Article VIII.

“Written Certificate,” “Written Request” and “Written Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, 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.

APPENDIX B

BOND FORM

NO. R- _____

***\$ _____ ***

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

ELK GROVE FINANCE AUTHORITY

**2010 LEASE REVENUE BONDS
(Capital Facility)**

INTEREST RATE: _____ % MATURITY DATE: March 1, _____ ORIGINAL ISSUE DATE: _____, 2010 CUSIP: _____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: *** _____ ***

SPECIMEN

The ELK GROVE FINANCE AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California, and under the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th day of the month preceding such interest payment date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before _____ 15, 2010, in which event it shall bear interest from the Original Issue Date specified above; *provided, however*, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, at the Interest Rate per annum specified above, payable semiannually on March 1 and September 1 in each year, commencing March 1, 2011 (the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal hereof and premium, if any, upon early redemption hereof are payable upon presentation and surrender hereof at the corporate trust office of U.S. Bank National Association, in Seattle, Washington (the "Trust Office"), as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee mailed to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books

of the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee as of such Record Date by a registered owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States designated by such registered owner in such written request.

This Bond is not a debt of the City of Elk Grove (the "City"), the County of Orange, the State of California, or any of its political subdivisions, and neither the City, said County, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Bond be payable out of any funds or properties of the Authority other than the Revenues.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) (the "Bonds"), in an aggregate principal amount of \$ _____, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued under the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code, and under an Indenture of Trust dated as of November 1, 2010, between the Authority and the Trustee (the "Indenture") and a resolution of the Authority adopted on _____, 2010, authorizing the issuance of the Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the Authority) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Authority thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Authority to finance the acquisition and construction of capital improvements of the City. This Bond and the interest and premium, if any, hereon are special obligations of the Authority, payable from the Revenues, and secured by a charge and lien on the Revenues as defined in the Indenture, consisting principally of lease payments made by the City under a Lease Agreement dated as of November 1, 2010, between the Authority as lessor and the City as lessee (the "Lease"). As and to the extent set forth in the Indenture, all of the Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

The rights and obligations of the Authority and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

The Bonds are subject to redemption prior to maturity at the option of the Authority, as a whole or in part (and, if in part, pro-rata among maturities), on any Business Day, at the "Make-Whole Redemption Price" which is the greater of (1) the

principal amount of the Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” plus 50 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption for a particular Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond:

(i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of four firms, specified by the Authority from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, pro-rata among maturities), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to section 54AA or section 6431 of the Tax Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 45% cash subsidy payments from the United States Treasury with respect to the Bonds, pursuant to which the 45% cash subsidy payments from the United States Treasury with respect to the Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Bonds, the greater of (i) the principal amount of the Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds of such maturity to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Bonds of such maturity to be redeemed to the redemption date.

As provided in the Indenture, notice of redemption will be mailed by the Trustee by first class mail not less than 30 nor more than 60 days prior to the redemption date to the respective owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption. Notice of any optional redemption of the Bonds may be rescinded under the circumstances set forth in the Indenture, upon notice to the owners of such Bonds.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. This Bond may be exchanged at the Trust Office for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Authority or the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified by the Authority that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Bond Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the Elk Grove Finance Authority has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its President and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

ELK GROVE FINANCE AUTHORITY

By _____
President

Attest:

Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____ whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby _____ irrevocably constitute(s) _____ and _____ appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor institution.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

EXHIBIT E

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

BOND PURCHASE AGREEMENT

_____, 2010

Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

_____. (the "Underwriter") hereby offers to enter into this agreement with the Elk Grove Finance Authority (the "Issuer") and the City of Elk Grove (the "City"), California. Upon the acceptance hereof by the Issuer and the City, this offer will be binding upon the Issuer, the City and the Underwriter. This offer is made subject to (i) the written acceptance hereof by the Issuer and the City and (ii) withdrawal by the Underwriter upon written notice (by facsimile or otherwise) delivered to the Issuer and the City at any time prior to the acceptance hereof by the Issuer and the City.

1. **Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Issuer at the Closing Time on the Closing Date (both as defined herein), and the Issuer hereby agrees to sell and deliver to the Underwriter \$ _____ aggregate principal amount of its 2010 Lease Revenue Bonds (Capital Facility) (the "Bonds"). The Bonds shall be dated their date of delivery, shall mature on the dates and shall bear interest at the rates set forth in Schedule I attached hereto, and shall be subject to redemption and have such other terms as are provided in the Indenture of Trust (the "Indenture"), dated as of November 1, 2010, by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The aggregate purchase price for the Bonds shall be \$ _____ (representing the aggregate principal amount thereof, [minus a net original issue discount of \$ _____], less an Underwriter's discount of \$ _____). (The date of such payment and delivery is referred to herein as the "Closing Date," the hour and date of such delivery and payment is referred to herein as the "Closing Time," and the other actions contemplated hereby to take place at the time of such payment and delivery being herein

sometimes called the “Closing”).

2. **The Bonds.** The Bonds shall be described in, and shall be issued and secured pursuant to, the provisions of the Constitution and the laws of the State of California (the “State”) including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 (commencing with Section 6584), Division 7, Title 1 of the Government Code of the State (the “Bond Law”) and the Indenture. The Bonds are being issued to (i) finance a portion of the costs of construction of a household hazardous waste facility and acquisition of land, furnishings and equipment related thereto, (ii) fund capitalized interest on the Bonds through _____, (iii) fund a deposit to the Reserve Fund in an amount equal to the Reserve Requirement, and (iv) pay costs of issuance of the Bonds.

The Bonds are payable from Revenues (as defined in the Indenture) pledged to the Bonds under the Indenture. Revenues primarily consist of certain amounts received by the Authority or the Trustee under or with respect to the Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and between the Authority and the City, including Lease Payments to be made by the City to the Authority under the Lease; (ii) any proceeds of Bonds originally deposited with the Trustee and all moneys on deposit in the funds and accounts (other than the Rebate Fund) established under the Indenture; (iii) investment income with respect to such moneys held by the Trustee and (iv) any insurance proceeds or condemnation awards received by or payable to the Trustee relating to the Lease Payments, including interest or profits. The Issuer will assign to the Trustee substantially all of its rights under the Lease to the Trustee pursuant to an Assignment Agreement, dated as of November 1, 2010 (the “Assignment Agreement”), by and between the Issuer and the Trustee.

The Bonds will be issued as Recovery Zone Economic Development Bonds under the American Recovery and Reinvestment Act (the “Recovery Act”). Pursuant to Section 1400U-1 of the Internal Revenue Code of 1986, as amended (the “Tax Code”), the Authority has received an allocation in the amount of \$_____, and pursuant to Section 1400U-2 has elected to treat the Bonds as Recovery Zone Economic Development Bonds for which it has received such allocation. The Authority intends that the Bonds be “qualified bonds” (“Qualified Bonds”) under Section 54AA(g)(2) and Section 6431 of the Tax Code which make the Authority eligible for a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Bonds. Such cash subsidy payments received by the Authority are herein referred to as “Refundable Credits.” Refundable Credits are expected to be received contemporaneously with each Interest Payment Date.

The Indenture, the Lease, the Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the City and the Issuer relating to the Bonds, the Assignment Agreement and this Bond Purchase Agreement are referred to collectively herein as the “Issuer Documents.” The Site Lease, the Lease, the Continuing Disclosure Agreement, dated as of November 1, 2010 (the “Continuing Disclosure Agreement”), by and between the City and U.S. Bank National Association, as dissemination agent, and this Bond Purchase Agreement are referred to collectively herein as the “City Documents.”

3. **Offering by the Underwriter.** It shall be a condition to the Issuer’s obligations to sell and to deliver the Bonds to the Underwriter and to the Underwriter’s

obligation to purchase, to accept delivery of and to pay for the Bonds that the entire principal amount of the Bonds shall be issued, sold and delivered by the Issuer and purchased, accepted and paid for by the Underwriter at the Closing. It is understood that the Underwriter proposes to offer the Bonds for sale to the public (which may include selected dealers) at prices or yields as set forth on the inside pages of the Official Statement. Concessions from the public offering price may be allowed to selected dealers. It is understood that the initial public offering price and concessions set forth in the Official Statement may vary after the initial public offering. It is further understood that the Bonds may be offered to the public at prices other than the par value thereof. The net premium on the sale of the Bonds to the public, if any, shall accrue to the benefit of the Underwriter.

4. Official Statement, Delivery of Other Documents, Use of Documents.

The Issuer and the City hereby authorize the use by the Underwriter of the Preliminary Official Statement, dated November ____, 2010 (the "Preliminary Official Statement") and the Official Statement of the Issuer (including any supplements or amendments to the Official Statement) and the Indenture and the information therein contained, in connection with the public offering and sale of the Bonds. Such Official Statement, including the cover page, the appendices thereto relating to the Bonds, with such changes and amendments thereto as may be mutually agreed to by the Issuer, the City and the Underwriter, is hereinafter referred to as the "Official Statement."

(a) The Issuer shall deliver to the Underwriter, within seven business days from the date hereof, such number of copies of the final Official Statement executed on behalf of and approved for distribution by the Issuer as the Underwriter may reasonably request in order for the Underwriter to comply with the rules of the Municipal Securities Rulemaking Board (the "MSRB") and Rule 15c2-12(b)(4) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule").

(b) As soon as practicable following receipt thereof, the Underwriter shall deliver the Official Statement, and any supplements or amendments thereto, to the MSRB.

5. Representations, Warranties and Agreements of the Issuer. The Issuer represents, warrants and agrees as follows:

(a) The Issuer is a joint exercise of powers authority duly organized and validly existing under the laws of the State.

(b) The Issuer has full legal right, power and authority (i) to enter into the Issuer Documents, to sell, issue and deliver the Bonds to the Underwriter as provided herein; and (ii) to carry out and consummate the transactions on its part contemplated by the Issuer Documents.

(c) By all necessary official action, the Issuer has duly authorized and approved the Issuer Documents, has duly authorized and approved the Preliminary Official Statement and the Official Statement, has duly authorized and approved the execution and delivery of, and the performance by the Issuer of the obligations in connection with the issuance of the Bonds on its part contained in the Bonds and the Issuer Documents and the consummation

by it of all other transactions contemplated by the Issuer Documents in connection with the issuance of the Bonds.

(d) The Issuer is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation of any state or of the United States, or any agency or instrumentality of either, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Indenture) or other instrument to which the Issuer is a party which breach or default has or may have an adverse effect on the ability of the Issuer to perform its obligations under the Issuer Documents, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the authentication and delivery of the Bonds, or the execution and delivery of the Issuer Documents, and compliance with the provisions on the Issuer's part contained therein, will not conflict in any material way with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Issuer is a party nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Issuer or under the terms of any such law, regulation or instrument, except as provided by the Bonds and the Indenture.

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Issuer of its obligations in connection with the issuance of the Bonds under this Bond Purchase Agreement or the Indenture have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds; except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Issuer of its obligations under the Indenture have been duly obtained.

(f) The Bonds when issued will conform to the descriptions thereof contained in the Official Statement under the caption "DESCRIPTION OF THE BONDS"; and the Indenture when executed and delivered by the Issuer will conform to the descriptions thereof contained in the Official Statement under the captions "THE BONDS," "SECURITY FOR THE BONDS," and in APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

(g) The Bonds, when issued, authenticated and delivered in accordance with the Indenture, and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the Issuer, entitled to the benefits of the Indenture, and upon such issuance and delivery, the Indenture will provide, for the benefit of the owners from time to time of the Bonds, the legally valid and binding pledge of and lien and security interest it purports to create.

(h) There is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court, government agency, public board or body pending or, to the actual knowledge of the Issuer, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Revenues pursuant to the Indenture, or contesting or affecting as to the Issuer the validity or enforceability of the Bond Law, the Bonds, or the Issuer Documents or contesting the designation of the Bonds as Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the Issuer for the issuance of the Bonds, or the execution and delivery or adoption by the Issuer of the Issuer Documents, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby; nor, to the best knowledge of the Issuer, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity of the Bond Law, as to the Issuer, or the authorization, execution, delivery or performance by the Issuer of the Bonds, or the Issuer Documents.

(i) The Issuer will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Issuer shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction, provided, that the Underwriter shall bear all costs in connection with the Issuer's action under (i) and (ii) herein, and (iii) assure or maintain the exemption of interest on the Bonds from personal income taxes of the State.

(j) As of the date thereof, the Preliminary Official Statement did not, except for the omission of certain information permitted to be omitted in accordance with the Rule, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) As of its date, and (unless an event occurs of the nature described in paragraph (l) of this Section 5) at all times subsequent thereto up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the Issuer shall apply only to the information contained in the Official Statement relating to the Issuer.

(l) If the Official Statement is supplemented or amended pursuant to paragraph (m) of this Section 5, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times

subsequent thereto up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the Issuer shall apply only to the information contained in the Official Statement relating to the Issuer.

(m) If between the date of this Bond Purchase Agreement and that date which is 25 days after the end of the underwriting period (as determined in accordance with Section 14 hereof) any event known to the Issuer shall occur affecting the Issuer which might adversely affect the marketability of the Bonds or the market prices thereof, or which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Issuer shall notify the Underwriter thereof, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Issuer will at its expense prepare and furnish to the Underwriter a reasonable number of copies of such supplement to, or amendment of, the Official Statement in a form and in a manner approved by the Underwriter.

(n) The Issuer will refrain from taking any action, or permitting any action to be taken, with regard to which the Issuer may exercise control, that results in the loss of the designation of the Bonds as Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State.

(o) Any certificate signed by any officer of the Issuer and delivered to the Underwriter pursuant to the Issuer Documents or any document contemplated thereby, shall be deemed a representation and warranty by the Issuer to the Underwriter as to the statements made therein.

(p) The Issuer will cause the proceeds from the sale of the Bonds to be paid to the Trustee for the purposes specified in the Indenture and the Official Statement. So long as any of the Bonds are outstanding and except as may be authorized by the Indenture, the Issuer will not issue or sell any bonds or other obligations, other than the Bonds sold thereby, the interest on and premium, if any, or principal of which will be payable from the Revenues and funds and accounts pledged under the Indenture.

(q) The Issuer shall honor all other covenants on its part contained in the Issuer Documents which are incorporated herein and made a part of this Bond Purchase Agreement.

6. **Representations, Warranties and Agreements of the City.** The City represents, warrants and agrees as follows:

(a) The City is duly organized and existing under the laws of the State.

(b) The City has full legal right, power and authority to enter into and to carry out the transactions on its part contemplated by the City Documents.

(c) By all necessary official action, the City has duly authorized and approved the City Documents, has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations in connection with the issuance of the Bonds on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the City Documents in connection with the issuance of the Bonds.

(d) The City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation of any state or of the United States of America, or any agency or instrumentality of either, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party which breach or default has or may have an adverse effect on the ability of the City to perform its obligations under the City Documents, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the City Documents, and compliance with the provisions on the City's part contained therein, will not conflict in any material way with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations in connection with the City Documents have been duly obtained; except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations under the City Documents have been duly obtained.

(f) The City Documents when executed and delivered by the City will conform to the descriptions thereof contained in the Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS" and in APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court, government agency, public board or body pending, or to the actual knowledge of the City, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Revenues pursuant to the Indenture, or contesting or affecting as to the City the validity or enforceability of the Bond Law, the Bonds, or the City Documents or contesting the designation of the Bonds as

Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or the execution and delivery or adoption by the City of the City Documents, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby; nor, to the best knowledge of the City, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the City Documents.

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction, provided, that the Underwriter shall bear all costs in connection with the City's action under (i) and (ii) herein, and (iii) assure or maintain the designation of the Bonds as Qualified Bonds and the exemption of interest on the Bonds from personal income taxes of the State.

(i) As of the date thereof, the Preliminary Official Statement did not, except for the omission of certain information permitted to be omitted in accordance with the Rule, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(j) As of the date thereof, and (unless an event occurs of the nature described in paragraph (k) of this Section 6) at all times subsequent thereto up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(k) If the Official Statement is supplemented or amended pursuant to paragraph (k) of this Section 6, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(l) If between the date of this Bond Purchase Agreement and that date which is 25 days after the end of the underwriting period (as determined in accordance with Section 14 hereof) any event known to the City shall occur affecting the City which might adversely affect the marketability of the Bonds or the market prices thereof, or which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the City shall notify the Underwriter thereof, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will, in conjunction with and at the expense of the Issuer, prepare and furnish to the Underwriter a reasonable number of copies of such supplement to, or amendment of, the Official Statement in a form and in a manner approved by the Underwriter.

(m) The City will refrain from taking any action, or permitting any action to be taken, with regard to which the City may exercise control, that results in the loss of the designation of the Bonds as Qualified Bonds or the exemption of interest on the Bonds from personal income taxes of the State.

(n) Any certificate signed by any officer of the City and delivered to the Underwriter pursuant to the City Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(o) There has been no material adverse change in the financial condition of the City since June 30, 2009, except as disclosed in the Official Statement.

7. **Closing.** At 8:00 a.m., Los Angeles time, on _____, 2010, or on such earlier date or as soon thereafter as practicable, as may be mutually agreed upon by the Issuer, the City and the Underwriter, the Issuer will, subject to the terms and conditions hereof, cause The Depository Trust Company, New York, New York (“DTC”) to release the Bonds for the beneficial ownership of the Underwriter, and will deliver to the Underwriter the other documents hereinafter mentioned; and the Underwriter will accept such delivery at the offices of Jones Hall, A Professional Corporation, San Francisco, California and will pay the purchase price of the Bonds as set forth in Paragraph 1(a) hereof by delivering federal or other immediately available funds in the amount of such purchase price to the Trustee. The Bonds shall be prepared in fully registered form without coupons in authorized denominations and registered in the name of Cede & Co. as nominee of DTC.

8. **Closing Conditions.** The Underwriter has entered into this Bond Purchase Agreement in reliance upon the representations and warranties of the Issuer and the City contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer and the City of its respective obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter’s obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Issuer and the City of their obligations to be performed hereunder and

under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The representations and warranties of the Issuer and the City contained herein shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date;

(b) At the time of the Closing, the Issuer Documents and the City Documents shall be in full force and effect in accordance with their terms and shall not have been amended, modified or supplemented and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Underwriter;

(c) At the time of the Closing, all necessary official action of the Issuer, the City and of the other parties thereto relating to the Issuer Documents and the City Documents, respectively, shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect;

(d) Subsequent to the date hereof, there shall not have occurred any change in or affecting particularly the Issuer, the City or the Bonds, as the foregoing matters are described in the Official Statement, which in the reasonable opinion of the Underwriter materially impairs the investment quality of the Bonds;

(e) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(1) The Official Statement and each supplement or amendment, if any, thereto, executed by a designated officer of the Issuer and the City;

(2) A copy of the Indenture, executed by the Issuer and the Trustee;

(3) A copy of the Lease, executed by the Issuer and the City along with evidence of recordation;

(4) A copy of the Site Lease, executed by the Issuer and the City along with evidence of recordation;

(5) A copy of the Assignment Agreement, executed by the Issuer and the Trustee, along with evidence of recordation;

(6) A copy of the Continuing Disclosure Agreement, executed by the City and the Trustee, as Dissemination Agent thereunder;

(7) Certificates of the Issuer and the City, respectively, with respect to the matters described in Sections 5 and 6 and in paragraphs (a), (b), (c) and (d) of this Section 8;

(8) An opinion (the “Final Approving Legal Opinion”), dated the Closing Date and addressed to the Issuer, of Jones Hall, A Professional Corporation, Bond Counsel to the Issuer, in substantially the form set forth in the Official Statement as Appendix B, accompanied by a reliance letter from Bond Counsel to the effect that such opinion may be relied upon by the Underwriter, with the same effect as if such opinion were addressed to them;

(9) An opinion, dated the Closing Date and addressed to the Underwriter and the Trustee of Jones Hall, A Professional Corporation, Bond Counsel, in substantially the form attached hereto as Exhibit A;

(10) An opinion, dated the Closing Date and addressed to the Issuer and the Underwriter, of counsel for the Issuer, in substantially the form attached hereto as Exhibit B;

(11) An opinion, dated the Closing Date and addressed to the Underwriter, of counsel for the City, in substantially the form attached hereto as Exhibit C;

(12) An opinion, dated the Closing Date and addressed to the Issuer, the Underwriter and the City, of Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel for the Issuer, in substantially the form attached hereto as Exhibit D;

(13) A certificate of the Trustee in form and substance acceptable to Bond Counsel and the Underwriter:

(14) An opinion of counsel to the Trustee to the effect that:

(i) Due Organization and Existence - the Trustee has been duly organized and is validly existing and in good standing as a national banking association under the laws of the United States of America with full corporate power to enter into and perform its duties under the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreement, to authenticate and deliver the Bonds to the Underwriter pursuant to the terms of the Indenture, and to undertake the trusts of the Indenture;

(ii) Corporate Action - the Trustee has duly authorized, executed and delivered the Indenture and the Assignment Agreement, and by all proper corporate action has authorized the acceptance and performance of the duties and obligations of the Trustee under the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreement, and to authorize in such capacity as Trustee the authentication and delivery of the Bonds;

(iii) Due Authorization, Execution and Delivery - assuming due authorization, execution and delivery by the Issuer, each of the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreement is the valid, legal and binding agreement of the Trustee, enforceable in accordance

with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights in general and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(iv) Consents - exclusive of federal or state securities laws and regulations, to the best of such counsel's knowledge after reasonable inquiry and investigation, other than routine filings required to be made with governmental agencies in order to preserve the Trustee's authority to perform a trust business (all of which routine filings such counsel believes, after reasonable inquiry and investigation, to have been made), no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Indenture, the Continuing Disclosure Agreement, and the Assignment Agreements or the authentication and delivery of the Bonds; and

(v) No Litigation - to the best of such counsel's knowledge, there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Bonds, the Indenture, the Continuing Disclosure Agreement, or the Assignment Agreements.

(15) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of the Indenture and the Assignment Agreements, and the authentication and delivery of the Bonds by the Trustee.

(16) A Tax Certificate;

(17) Certified copies of the Authority Resolution and the City Resolution;

(18) Evidence that Standard & Poor's Ratings Service has assigned its rating of "___" to the Bonds;

(19) Transcripts of all proceedings relating to the authorization and issuance of the Bonds; and

(20) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the Issuer's and the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Issuer and the City on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by each of the Issuer and the City.

All the opinions, letters, certificates, instruments and other documents mentioned

above or elsewhere in this Bond Purchase Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to Bond Counsel, Counsel for the Underwriter, and the Underwriter. The opinions and certificates referred to in this paragraph (e) shall be deemed satisfactory provided they are substantially in the forms set forth in this Bond Purchase Agreement.

If the Issuer and the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Bond Purchase Agreement, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the Issuer nor the City shall be under any further obligation hereunder.

9. **Termination.** The Underwriter shall have the right to terminate the Underwriter's obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds by notifying the Issuer and the City, in writing or by telegram, of their election to do so, if, after the execution hereof and prior to the Closing: (a) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency which in the reasonable opinion of the Underwriter has a material adverse effect on the market for the Bonds; (b) there shall have occurred the declaration of a general banking moratorium by any authority of the United States or the States of New York or California; (c) an event shall have occurred or been discovered as described in paragraph (m) of Section 5 or paragraph (l) of Section 6 hereof which in the opinion of the Underwriter requires the preparation and publication of disclosure material or a supplement or amendment to the Official Statement; (d) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency in the State, or on behalf of the Treasury Department of the United States or the Internal Revenue Service or a decision by any court of competent jurisdiction under Article III of the Constitution of the United States or under the Constitution of the State or by the Tax Court of the United States shall be rendered which, in the Underwriter's reasonable opinion, materially adversely affects the market price of the Bonds; (e) legislation shall be introduced, by amendment or otherwise, or be enacted by the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby or by the Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of obligations of the general character of the Bonds or the Bonds, as contemplated hereby or by the Official Statement; (f) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; (g) the New York Stock Exchange, or other national securities exchange or association or any governmental authority, shall impose as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by or the charge to

the net capital requirements of broker-dealers; (h) trading in securities on the New York Stock Exchange or the American Stock Exchange shall have been suspended or limited or minimum prices have been established on either such exchange; (i) any action shall have been taken by any government in respect of its monetary affairs which, in the reasonable opinion of the Underwriter, has a material adverse effect on the market for the Bonds; or (j) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (provided that for this purpose the Preliminary Official Statement shall be deemed to be the Official Statement until a final Official Statement has been printed and delivered to the Underwriter).

If this Bond Purchase Agreement shall be terminated pursuant to Section 8 or this Section 9, or if the purchase provided for herein is not consummated because any condition to the Underwriter's obligation hereunder is not satisfied or because of any refusal, inability or failure on the part of the Issuer or the City to comply with any of the terms or to fulfill any of the conditions of this Bond Purchase Agreement, or if for any reason the Issuer or the City shall be unable to perform all of their respective obligations under this Bond Purchase Agreement, the Issuer and the City shall not be liable to the Underwriter for damages on account of loss of anticipated profits arising out of the transactions covered by this Bond Purchase Agreement.

10. Payment of Costs and Expenses. (a) The Issuer shall pay or reimburse all costs and expenses incident to the sale and delivery of the Bonds to the Underwriter, including, but not limited to: (i) the fees and expenses of the Issuer and its Counsel; (ii) the fees and expenses of the City and its Counsel; (iii) the fees and expenses of Bond Counsel and Disclosure Counsel; (iv) all costs and expenses incurred in connection with the preparation, printing and delivery of the Bonds; (v) all expenses in connection with the preparation, printing, distribution and delivery of the Preliminary Official Statement, the Official Statement and any amendment or supplement thereto; (vi) the fees and expenses of the Trustee and Trustee's Counsel; (vii) rating fees; (viii) CUSIP Bureau fees; and (ix) CDIAC, DTC, MSRB, California Municipal Statistics, California Public Securities Association and Public Securities Association fees, and all other fees and expenses of the Underwriter except as provided in paragraph (b) below.

(b) The Underwriter shall pay all advertising expenses in connection with the public offering of the Bonds.

11. Representations, Warranties and Agreements to Survive Delivery. The representations, warranties, indemnities, agreements and other statements of the Issuer, the City and the Underwriter or their officers or partners set forth in, or made pursuant to, this Bond Purchase Agreement will remain operative and in full force and effect regardless of any investigation made by or on behalf of the Issuer, the City or the Underwriter or any controlling person and will survive delivery of and payment for the Bonds.

12. **Notices.** Any notice or other communication to be given under this Bond Purchase Agreement may be given by delivering the same in writing:

To the Issuer: Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: [Administrator /Treasurer]

To the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: City Manager

To the Underwriter: _____

Attention: _____

13. **Parties in Interest.** This Bond Purchase Agreement is made solely for the benefit of the Issuer, the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Issuer's and the City's representations, warranties and agreements contained in this Bond Purchase Agreement shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Bonds pursuant to this Bond Purchase Agreement; and (iii) any termination of this Bond Purchase Agreement.

14. **Determination of End of the Underwriting Period.** For purposes of this Bond Purchase Agreement, the End of the Underwriting Period for the Bonds shall mean the earlier of (a) the day of the Closing unless the Issuer and the City have been notified in writing by the Underwriter, on or prior to the day of the Closing, that the "end of the underwriting period" for the Bonds for all purposes of the Rule will not occur on the day of the Closing, or (b) the date on which notice is given to the Issuer and the City by the Underwriter in accordance with the following sentence. If the Underwriter has given notice to the Issuer and the City pursuant to clause (a) above that the "end of the underwriting period" for the Bonds will not occur on the day of the Closing, the Underwriter agrees to notify the Issuer and the City in writing as soon as practicable following the "end of the underwriting period" for the Bonds for all purposes of the Rule.

15. **Effectiveness.** This Bond Purchase Agreement shall become effective upon the execution of the acceptance by the designee of the Issuer and the City and shall be valid and enforceable at the time of such acceptance.

16. **Headings.** The headings of the sections of this Bond Purchase Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

17. **Governing Law.** This Bond Purchase Agreement shall be construed in accordance with the laws of the State.

18. **Counterparts.** This Bond Purchase Agreement may be executed in any number of counterparts.

If the foregoing is in accordance with your understanding of the Bond Purchase Agreement please sign and return to us the enclosed duplicate copies hereof, whereupon it will become a binding agreement among the Issuer, the City and the Underwriter in accordance with its terms.

Very truly yours,

as the Underwriter

By: _____
Authorized Representative

Accepted as of the date first above written:

ELK GROVE FINANCE AUTHORITY

By: _____
Executive Director/Treasurer

CITY OF ELK GROVE

By: _____
City Manager

Schedule I

MATURITY SCHEDULE

\$ _____

**ELK GROVE FINANCE AUTHORITY
2010 LEASE REVENUE BONDS
(CAPITAL FACILITY)**

(FEDERALLY TAXABLE - RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>[†]
---------------------------------	------------------------------------	---------------------------------	---------------------	---------------------------------

Exhibit A

Supplemental Opinion of Jones Hall, A Professional Corporation
Bond Counsel

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[from Jones Hall]

[Closing Date]

U.S. Bank National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101

Ladies and Gentlemen:

Respectfully submitted,

Exhibit B

Opinion of Counsel for the Issuer
Addressed to the Issuer and the Underwriter

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[to be revised to Jones Hall form]

[Closing Date]

Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

We are counsel to the Elk Grove Finance Authority (the “Issuer”) in connection with the issuance of the above-referenced bonds (the “Bonds”) and in such capacity, we have examined the original, certified copies, or copies otherwise identified to our satisfaction as being true copies of such resolutions, documents, certificates, and records as we have deemed relevant and necessary (except as we have specifically limited the scope of our investigation herein) as the basis for the opinions set forth herein relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth, we are of the opinion that:

The Issuer is a duly organized and validly existing public body, corporate and politic, organized under the laws of the State of California acting pursuant to the Bond Law (as defined in the Official Statement respecting the Bonds) with full legal right, power and authority to perform all of its obligations under the Bond Purchase Agreement, dated _____, 2010 (the “Bond Purchase Agreement”), by and among the Issuer, the City of Elk Grove (the “City”) and _____ (the “Underwriter”), the Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Issuer and U.S. Bank National Association (the “Trustee”), the Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the Issuer and the City, the Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and

between the Issuer and the City, the Assignment Agreement, dated as of November 1, 2010, by and between the Issuer and the Trustee (the "Assignment Agreement" and, together with the Bond Purchase Agreement, the Indenture, the Site Lease and the Lease, the "Legal Documents"). The Issuer has duly authorized the Legal Documents and assuming due authorization, execution and delivery by the other parties thereto, the Legal Documents constitute the legal, valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, moratorium, insolvency, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

1. To my actual knowledge, without independent investigation, there is no action, suit or proceeding before or by any court, public board or body pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the Issuer or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Legal Documents, or (c) find illegal, invalid or unenforceable the Bond Purchase Agreement or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds to which the Issuer is a party.

2. To my actual knowledge, without independent investigation, the execution and delivery of the Legal Documents and the other instruments contemplated by any of such documents to which the Issuer is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Issuer is a party or is otherwise subject or bound in a manner which would materially adversely affect the Issuer's performance under the Legal Documents.

3. All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the Issuer of its obligations under the Legal Documents have been obtained and are in full force and effect.

5. No facts have come to my attention which cause me to believe that the Official Statement as of its date (excluding financial, demographic, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; The Depository Trust Company, New York, New York and its book-entry only system; statements relating to the treatment of the Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "CONCLUDING INFORMATION – Tax Matters;" as to all of which I express no opinion) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We are furnishing this letter to the addressees hereof with respect to the Bonds at

the request of the Issuer, and this letter may not be relied upon for any purpose other than in connection with the issuance of the Bonds. This letter shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

Exhibit C

Opinion of Counsel for the City
Addressed to the City and the Underwriter

§ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[Closing Date]

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

We are counsel to the City of Elk Grove (the “City”) in connection with the issuance of the above-referenced bonds (the “Bonds”) and in such capacity, we have examined the original, certified copies, or copies otherwise identified to our satisfaction as being true copies of such resolutions, documents, certificates, and records as we have deemed relevant and necessary (except as we have specifically limited the scope of our investigation herein) as the basis for the opinions set forth herein relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth, we are of the opinion that:

The City is a duly organized and validly existing public body, corporate and politic, organized under the laws of the State of California with full legal right, power and authority to perform all of its obligations under the Bond Purchase Agreement, dated _____, 2010 (the “Bond Purchase Agreement”), by and among the Elk Grove Finance Authority (the “Issuer” or “Authority”), the City and _____ (the “Underwriter”), the Continuing Disclosure Agreement, dated as of November 1, 2010, by and between the City and U.S. Bank National Association, as dissemination agent (the “Continuing Disclosure Agreement”), the Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the City and the Authority, the Lease Agreement, dated as of November 1, 2010, by and between the Authority and the City (the “Lease” and, together with the Bond Purchase Agreement, the Continuing Disclosure Agreement, the Site Lease and the Lease, the “Legal Documents”). The City has duly authorized the Legal Documents and assuming due authorization, execution and delivery by the other parties thereto, the Legal Documents constitute legal, valid and binding obligations of the City enforceable against the City in

accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, moratorium, insolvency, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

4. To my actual knowledge, without independent investigation, there is no action, suit or proceeding before or by any court, public board or body pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the City or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Legal Documents, or (c) find illegal, invalid or unenforceable the Bond Purchase Agreement or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds to which the City is a party.

5. To my actual knowledge, without independent investigation, the execution and delivery of the Legal Documents and the other instruments contemplated by any of such documents to which the City is a party, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States or any department, division, agency or instrumentality of either thereof, or any applicable court or administrative decree or order or any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound in a manner which would materially adversely affect the City's performance under the Legal Documents.

6. All approvals, consents, authorizations, elections and orders of or filings or registrations with any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the City of its obligations under the Legal Documents have been obtained and are in full force and effect.

7. No facts have come to my attention which cause me to believe that the Official Statement as of its date (excluding financial, demographic, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; The Depository Trust Company, New York, New York and its book-entry only system; statements relating to the treatment of the Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "CONCLUDING INFORMATION – Tax Matters;" as to all of which I express no opinion) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We are furnishing this letter to the addressees hereof with respect to the Bonds at the request of the City, and this letter may not be relied upon for any purpose other than in connection with the issuance of the Bonds. This letter shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

Exhibit D

Opinion of Fulbright & Jaworski L.L.P., Disclosure Counsel
Addressed to the Underwriter, the Issuer and the City

\$ _____
Elk Grove Finance Authority
2010 Lease Revenue Bonds
(Capital Facility)
(Federally Taxable - Recovery Zone Economic Development Bonds)

[Closing Date]

Elk Grove Finance Authority
8401 Laguna Palms Way
Elk Grove, California 95758

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758

Ladies and Gentlemen:

We have acted as Disclosure Counsel to the Elk Grove Finance Authority (the “Issuer”) with respect to the above-referenced bonds (the “Bonds”). This opinion is rendered to the Issuer and the Underwriter named in the Bond Purchase Agreement, dated _____, 2010 (the “Bond Purchase Agreement”), by and among the Underwriter, the City of Elk Grove (the “City”) and the Issuer, pursuant to which the Underwriter has agreed to purchase the Bonds. The Bonds are being issued pursuant to the provisions of the Constitution and the laws of the State of California including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 (commencing with Section 6584), Division 7, Title 1 of the Government Code of the State of California. The Bonds shall be issued and secured pursuant to an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee, authorizing the issuance of the Bonds. The Bonds are more fully described in the final Official Statement of the Issuer, dated November __, 2010 (the “Official Statement”).

In rendering this opinion, we have reviewed such records, documents, certificates and opinions, and made such other investigations of law and fact as we have deemed necessary or appropriate.

With respect to the matters covered by the approving opinions rendered by us as Bond Counsel to the Issuer (“Bond Counsel”), dated the date hereof, the Underwriter has received a letter from Bond Counsel allowing the Underwriter to rely on such opinion.

This letter is limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

In our capacity as Disclosure Counsel, we have rendered certain legal advice and assistance to the Issuer in connection with the preparation of the Official Statement. Rendering such legal advice and assistance involved, among other things, discussions and inquiries concerning various legal matters, review of certain records, documents and proceedings, and participation in conferences with, among others, the Underwriter, representatives of the Issuer and the City, and counsel to the Issuer and the City, at which conferences the contents of the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance to you in connection with the preparation of the Official Statement which cause us to believe that the Official Statement as of its date (excluding therefrom financial, demographic, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; The Depository Trust Company, New York, New York and its book-entry only system; statements relating to the treatment of the Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption “CONCLUDING INFORMATION — Tax Matters;” as to all of which we express no opinion) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Official Statement.

We are furnishing this opinion to you, as Disclosure Counsel to the Issuer, pursuant to the Bond Purchase Agreement, solely for your benefit. This opinion is rendered in connection with the transaction described herein, and may not be relied upon by you for any other purpose. No attorney-client relationship by virtue of this opinion exists between our firm and the addressees hereto other than the Issuer and the City. This opinion shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent. Our engagement with respect to this matter terminates upon the delivery of this opinion to you at the time of the closing relating to the Bonds, and we have no obligation to update this opinion.

Respectfully submitted,

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER ___, 2010**NEW ISSUE – BOOK ENTRY ONLY****RATING: S&P: “A+”****(See “CONCLUDING INFORMATION - Rating” herein.)**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, interest on the Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “CONCLUDING INFORMATION – Tax Matters.”

\$10,495,000*

ELK GROVE FINANCE AUTHORITY

(Sacramento County, California)

2010 LEASE REVENUE BONDS**(CAPITAL FACILITY)****(FEDERALLY TAXABLE – RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS)**

[SEAL]

Dated: Date of Delivery

Due: September 1, as shown on the inside front cover

The Elk Grove Finance Authority (the “Authority”) will issue its 2010 Lease Revenue Bonds (Capital Facility) (the “Bonds”) under an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as Trustee. Proceeds of the Bonds will be used to (i) finance a portion of the costs of construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related thereto, (ii) fund capitalized interest on the Bonds through September 1, 2011, (iii) fund a deposit to the Reserve Fund in an amount equal to the Reserve Requirement, and (iv) pay costs of issuance of the Bonds.

The Bonds will be payable solely from, and secured by, Revenues, Refundable Credits and certain funds and accounts held under the Indenture. Revenues consist primarily of lease payments (“Lease Payments”) to be made by the City pursuant to a Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and between the Authority and the City, for the leasing of certain real property. Under the Lease, the City covenants to take such action as necessary to include the Lease Payments in its annual budgets and to make all necessary appropriations for such Lease Payments (subject to abatement under certain circumstances as described in this Official Statement). The term “Refundable Credits” is defined in the Indenture to mean the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code. *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.*

The Bonds are subject to make-whole and extraordinary event optional redemption and mandatory sinking account redemption prior to their stated maturity as described in this Official Statement.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of, and interest on, the Bonds will be paid directly to DTC by the Trustee. Principal of the Bonds is payable on their maturity dates set forth on the inside cover. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2011. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM, AND SECURED BY, A PLEDGE OF REVENUES, REFUNDABLE CREDITS AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE CITY, THE COUNTY OF SACRAMENTO, THE STATE OF CALIFORNIA, NOR ANY OF ITS POLITICAL SUBDIVISIONS (INCLUDING ANY MEMBER OF THE AUTHORITY). THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of some of the risk factors that should be considered, in addition to other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds. This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and 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 November ___, 2010.

Dated: November ___, 2010

\$10,495,000*
ELK GROVE FINANCE AUTHORITY
2010 LEASE REVENUE BONDS
(Capital Facility)
(Federally Taxable – Recovery Zone Economic Development Bonds)

MATURITY SCHEDULE

\$ _____ Serial Bonds

Payment Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] Number
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\$ _____ % Term Bonds due September 1, 20__ – Yield: ____% CUSIP[†] No. _____
 \$ _____ % Term Bonds due September 1, 20__ – Yield: ____% CUSIP[†] No. _____

[†] CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2010 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau and are for convenience of reference only. Neither the City, the Authority nor the Underwriter assumes responsibility for the accuracy of such numbers.

* Preliminary, subject to change.

**ELK GROVE FINANCE AUTHORITY
CITY OF ELK GROVE
SACRAMENTO COUNTY, CALIFORNIA**

AUTHORITY BOARD / CITY COUNCIL

Sophia Scherman, *Chair / Mayor*
Steven M. Detrick, *Vice Chair / Vice-Mayor*
James Cooper, *Boardmember / City Council Member*
Gary Davis, *Boardmember / City Council Member*
Patrick Hume, *Boardmember / City Council Member*

AUTHORITY / CITY OFFICIALS AND STAFF

Laura S. Gill, *Administrator / City Manager*
Rebecca L. Craig, *Assistant City Manager*
Rebecca Carr, *Authority Treasurer / Director of Finance and Administration*
Jason Lingren, *Interim Secretary / Interim City Clerk*
Cedar Kehoe, *Integrated Waste Program Manager*
Susan Burns Cochran, *Authority Counsel / City Attorney*

SPECIAL SERVICES

Bond Counsel

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

Disclosure Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Trustee

U.S. Bank National Association
Seattle, Washington

Financial Advisor

KNN Public Finance, A Division of Zions Bank
Oakland, California

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any Bonds by any person in any jurisdiction in which such offer of solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful 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 matter of opinion, whether or not expressly so described, are intended solely as such and are not to be construed as a representation of fact.

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 other similar words and include, but are not limited to, statements under the captions “PLAN OF FINANCING,” “THE CITY,” “CITY FINANCIAL INFORMATION” and “STATE OF CALIFORNIA BUDGET.” The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the City has agreed to provide certain on-going financial and other data (see “CONCLUDING INFORMATION – Continuing Disclosure”), neither the Authority nor the City plans to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based change.

The information set forth in this Official Statement has been obtained from the Authority, the City and other sources that are believed to be reliable, but it is not guaranteed as to its accuracy or completeness. The information and expressions of opinions in this Official Statement are subject to change without notice, and neither delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date of this Official Statement. All summaries of the resolutions, the Indenture, laws and statutes or other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exception from the registration requirements contained in such acts. The Bonds have not been registered or qualified under the securities laws of any state.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER MAY OFFER AND SELL BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE OFFERING PRICE. THE OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE ORIGINAL PURCHASERS.

[insert map]

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\$10,495,000*
ELK GROVE FINANCE AUTHORITY
2010 LEASE REVENUE BONDS
(Capital Facility)
(Federally Taxable – Recovery Zone Economic Development Bonds)

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement.

General

This Official Statement, including the cover page, the inside cover page and appendices, is provided to furnish information in connection with the sale by the Elk Grove Finance Authority (the “Authority”) of its \$10,495,000* aggregate principal amount 2010 Lease Revenue Bonds (Capital Facility) (the “Bonds”). The Bonds are being issued pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the California Government Code, including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 thereof (the “Bond Law”), and an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as the trustee for the Bonds (the “Trustee”). Proceeds from the sale of the Bonds will be used to (i) finance a portion of the costs of construction of a household hazardous waste collection facility and acquisition of land, furnishings and equipment related thereto, (ii) fund capitalized interest on the Bonds through September 1, 2011, (iii) fund a deposit to the Reserve Fund in an amount equal to the Reserve Requirement, and (iv) pay costs of issuance of the Bonds.

The Bonds are payable solely from and secured by a pledge of Revenues, Refundable Credits (each defined below) and moneys in certain funds and accounts held under the Indenture. Revenues consist primarily of lease payments (“Lease Payments”) to be made by the City pursuant to a Lease Agreement, dated as of November 1, 2010 (the “Lease”), by and between the Authority and the City as rental for the right to use and occupy certain real property (the “Leased Property”). See “Security for the Bonds” below.

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2011. The Bonds will mature in the amounts and on the dates and bear interest at rates shown on the inside cover of this Official Statement. The Bonds will be issued in fully registered form only and, when issued and 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 the depository for the Bonds and all payments due on the Bonds will be made to Cede & Co. Ownership interests in the Bonds may be purchased only in book-entry form. See “THE BONDS – Book-Entry Only System” and “APPENDIX D – DTC’S BOOK-ENTRY ONLY SYSTEM.”

Recovery Zone Economic Development Bonds

The Bonds will be issued as Recovery Zone Economic Development Bonds under the American Recovery and Reinvestment Act (the “Recovery Act”), which was signed into law by President Obama on

* Preliminary, subject to change.

February 17, 2009, and added Section 1400U, Section 54AA and Section 6431 to the Internal Revenue Code of 1986, as amended (the “Tax Code”). Pursuant to Section 1400U-1 of the Tax Code, the City received \$1,372,000 in Recovery Zone Economic Development Bond allocation on its own, plus approximately \$10.5 million of County allocation which was transferred to the City from the County. Pursuant to Section 1400U-2 the City will elect to treat the Bonds as Recovery Zone Economic Development Bonds for which it has received such allocations. The Authority intends that the Bonds be “qualified bonds” under Section 54AA(g)(2) and Section 6431 of the Tax Code which make the Authority eligible for a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Bonds. Such cash subsidy payments received by the Authority are referred to in the Indenture as “Refundable Credits,” and are pledged to the payment of the Bonds. Refundable Credits is defined in the Indenture to mean the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code. Refundable Credits are expected to be received contemporaneously with each Interest Payment Date, upon timely receipt by the Internal Revenue Service of IRS Form 8038-CP, which is due at least 45 days (but not more than 90 days) before each Interest Payment Date.

Security for the Bonds

The Bonds will be payable solely from and secured by Revenues, Refundable Credits and certain funds and accounts held under the Indenture. Revenues consist primarily of Lease Payments to be made by the City pursuant to the Lease. Pursuant to the Indenture, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, all of the Refundable Credits and all rights of the Authority to receive the Refundable Credits. Pursuant to an Assignment Agreement, dated as of November 1, 2010 (the “Assignment Agreement”), by and between the Authority and the Trustee, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, certain of the Authority’s rights under the Lease, including its rights to receive Lease Payments for the purpose of securing the payment of debt service on the Bonds. Under the Lease, the City covenants to take such action as necessary to include the Lease Payments in its annual budgets and to make all necessary appropriations for such Lease Payments (subject to abatement under certain circumstances described in the Lease). *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.* See “SECURITY FOR THE BONDS.”

A Reserve Account will be established and maintained by the Trustee pursuant to the Indenture. Upon issuance of the Bonds, the Trustee will deposit \$ _____* from the sale proceeds into the Reserve Account, which amount is equal to the initial Reserve Requirement for the Bonds (defined below, see “SECURITY FOR THE BONDS – Reserve Account”). Pursuant to the Indenture, money in the Reserve Account will be used by the Trustee to replenish the Interest Account and/or the Principal Account in the event of deficiency in such accounts for payment of interest and/or principal of the Bonds. Lease Payments payable by the City under the Lease are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. However, under certain circumstances, Lease Payments may be abated under the Lease without constituting a default. See “SECURITY FOR THE BONDS – Reserve Account,” “ – Abatement” and “BONDOWNERS’ RISKS – Abatement.”

The City

The City is located approximately four (4) miles south of the City of Sacramento along Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,300 to a January 1, 2010 population of approximately a little less than

* Preliminary, subject to change.

143,900, according to State of California Department of Finance estimates. The City is a general law city and operates under a Council-Manager form of government. The five members of the City Council are elected bi-annually at large to four-year alternating terms. The Mayor is selected by the City Council from among its members. See “THE CITY” and “CITY FINANCIAL INFORMATION.”

Continuing Disclosure

The City has covenanted in a Continuing Disclosure Agreement to prepare and deliver an annual report to certain repositories and to provide certain other information. See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Summaries of Documents

This Official Statement contains descriptions of the Bonds, the Indenture, the Lease, the Site Lease, the Assignment Agreement, the Authority, the City and various other agreements and documents. The descriptions and summaries of documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Capitalized terms which are not defined in this Official Statement have the meanings set forth in the Indenture. Copies of the Indenture and the Lease are available for inspection during business hours at the corporate trust office of the Trustee in Seattle, Washington.

Professionals Involved in the Offering

U.S. Bank National Association, Seattle, Washington, will act as Trustee with respect to the Bonds. All proceedings in connection with the issuance of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Certain legal matters will also be passed on for the Authority and the City by the City Attorney. The fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement speaks only as of its date as set forth on the cover, and the information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the City since the date of this Official Statement.

Unless otherwise expressly noted, all references to internet websites in this Official Statement are shown for reference and convenience only, and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the Authority or the City and neither the Authority nor the City makes no representation regarding the information therein.

PLAN OF FINANCING

The Project

The Bonds are being sold to finance a portion of the costs to construct of a household hazardous waste collection facility and acquire land, furnishings and equipment related to such facility and incidental expenses related thereto (the "Project"). Specifically, the City plans to acquire a 5-acre portion of a 20.37-acre site located at 10401 Grant Line Road and intends to construct, furnish and equip on the 5-acre site a household hazardous waste collection facility consisting of a [30,000] square foot building and related parking area.

The 5-acre land acquisition is a part of the 20.37 acre site purchase pursuant to a Purchase and Sale Agreement, dated July 14, 2010, entered into by the City with the owner of the land. The purchase price for the land is approximately \$4.5 million, of which approximately \$1.1 million is attributable to the 5-acre site which is part of the Project. The land is currently undergoing remediation for toxics. Escrow is scheduled to close on the entire 21.37 acre site in December 2010. The current estimate for construction of the remainder of the Project is an additional \$8 million, which includes costs for demolition, building and site construction, soft costs and contingency for the facility. At the household hazardous waste collection facility, attendants will receive, inspect, sort, package and ship residential hazardous waste such as batteries, oil, paint, antifreeze, solvents and household cleaning products. The City certified the final EIR for the Project on November 1, 2009.

The City has agreed to lease certain property, specifically two City Police Facilities and the Elk Grove Library (the "Leased Property") to the Authority under a Site Lease dated as of November 1, 2010 (the "Site Lease"), pursuant to which the Authority agrees to make an upfront rental payment (the "Site Lease Payment") to the City that is sufficient to provide the funds to finance the Project, to be provided from the proceeds of the Bonds.

The site of the Project is separate and distinct from the Leased Property, and is not subject to the Site Lease or the Lease and does not in any way provide security for the Bonds, unless substituted as provided in the Site Lease and the Project Lease.

Leased Property

The Leased Property consists of the City's Police Facilities and the Elk Grove Library. The Police Facilities are located at 8380 and 8400 Laguna Palms Way in the Civic Center Complex and consist of two single story wood frame buildings constructed in 2001, containing 24,607 square feet and 24,100 square feet, respectively. An additional 2,111 square feet of building space was added to the latter building in 2005.

The Elk Grove Library, which was recently moved to its new location at 8900 Elk Grove Boulevard, near Old Town Elk Grove, opened December 6, 2008. The 13,785-square-foot, City-owned, two-story building built in 2006 includes a group study room, a teen space, a community meeting room with an 80-seat capacity, 52 public-access computers, and a collection of thousands of books, periodicals, DVDs, CDs, and other materials. The City purchased the shell building to replace the current leased facility for the Elk Grove Library in late 2006. In November 2007, the Elk Grove City Council approved a ten-year lease agreement with the Sacramento Public Library Authority to staff and operate the library.

The City, based primarily on an estimate of the replacement cost derived for the purpose of its property insurance coverage, will certify at closing that the estimated value of the Leased Property is in excess of the principal amount of the Bonds.

Sources and Uses of Funds

The table below shows the estimated sources and uses of the proceeds from the sale of the Bonds:

Sources:

Par amount of the Bonds	\$
Plus: Cash Contribution ⁽¹⁾	
Less: Underwriter's discount	
Total Sources	<u>\$_____.</u>

Uses:

Lease Revenue Bond Proceeds Account	\$
Lease Payment Fund ⁽²⁾	
Reserve Account ⁽³⁾	
Costs of issuance ⁽⁴⁾	-
Total Uses	<u>\$_____.</u>

- (1) Cash contribution from the City to fund the costs of issuance in excess of 2% of the par amount of Bonds. The remaining \$_____ of the costs of issuance will be funded from the proceeds of the Bonds.
- (2) Represents capitalized interest on the Bonds through September 1, 2011.
- (3) Deposit equal to the initial Reserve Requirement with respect to the Bonds. See "SECURITY FOR THE BONDS—Reserve Account".
- (4) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor and Trustee, rating costs, printing expenses and other costs.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates per annum as set forth on the inside front cover of this Official Statement. The Bonds will be issued in authorized denominations of \$5,000 and will be dated their date of delivery. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and payable on March 1 and September 1 of each year, commencing March 1, 2011 (each an "Interest Payment Date"), until maturity or earlier redemption.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless: (i) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date (*i.e.*, the 15th day of the month preceding the Interest Payment Date), in which event it will bear interest from such Interest Payment Date, (ii) a Bond is authenticated on or before February 15, 2011, in which event interest will be payable from the Closing Date, or (iii) interest on any Bond is in default as of the date of its authentication, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

The Bonds will be initially delivered as one fully registered certificate for each maturity and will be delivered by means of the book-entry system of DTC. See "Book-Entry Only System" below.

Recovery Zone Economic Development Bonds

Section 1531 (pertaining to “Build America Bonds”) and Section 1401 (pertaining to Recovery Zone Economic Development Bonds) of the American Recovery and Reinvestment Act, which was signed into law by President Obama on February 17, 2009, added Section 54AA, Section 6431 and Section 1400U to the Tax Code. The Authority intends to elect to treat the Bonds as “Recovery Zone Economic Development Bonds” under Section 1400U-2, and intends that the Bonds be “qualified bonds” under Section 54AA(g)(2) and Section 6431 of the Tax Code which make the Authority eligible for a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Bonds. Such cash subsidy payments received by the Authority are referred to in the Indenture as “Refundable Credits,” and are pledged to the payment of the Bonds. Refundable Credits is defined in the Indenture to mean the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority has elected to receive under Section 54AA(g)(1) of the Tax Code. Refundable Credits are expected to be received contemporaneously with each Interest Payment Date, upon timely receipt by the Internal Revenue Service of IRS Form 8038-CP, which is due at least 45 days (but not more than 90 days) before each Interest Payment Date. *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.*

Redemption

Optional Redemption with Make-Whole Payment. The Bonds will be subject to redemption prior to maturity at the option of the Authority, as a whole or in part, on any Business Day, at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price” is the greater of (1) the issue price of the Bonds of such maturity as determined in accordance with the Internal Revenue Code of 1986 (the “Code”) or (2) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” plus 30 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption for a particular Bond, the rate per annum truncated to the fifth decimal, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond:

(i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or

if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Authority.

“Reference Treasury Dealer” means each of four firms, specified by the Authority from time to time, that are primary United States Government securities dealers (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

“Valuation Date” means a day at least two Business Days and no more than forty-five calendar days preceding the redemption date.

Extraordinary Optional Redemption. The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Authority, upon the occurrence of an Extraordinary Event, from any source of available funds, as a whole or in part (and, if in part, in such order of maturity as the Authority shall direct), at any time, at the Extraordinary Optional Redemption Price.

An “Extraordinary Event” will have occurred if the Authority determines that a material adverse change has occurred to section 54AA or section 6431 of the Code or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of an act or omission by the Authority to satisfy the requirements to receive the 45% cash subsidy payments from the United States Treasury with respect to the Bonds, pursuant to which the 45% cash subsidy payments from the United States Treasury with respect to the Bonds are reduced or eliminated.

“Extraordinary Optional Redemption Price” means, for each maturity of the Bonds, the greater of (i) the issue price of the Bonds of such maturity as determined in accordance with the Code or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Bonds of such maturity to be redeemed to the maturity date of such Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds of such maturity are to be redeemed, discounted to the date on which the Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (as defined above) plus one hundred (100) basis points, plus accrued interest on the Bonds of such maturity to be redeemed to the redemption date.

Mandatory Sinking Account Redemption. The Term Bonds maturing September 1, 20__ and September 1, 20__ are subject to mandatory redemption in part by lot, a redemption price equal to the principal amount of the Bonds to be redeemed, together with interest accrued thereon to the redemption date, without premium, as set forth in the following tables. If some but not all of the Term Bonds have been redeemed pursuant to an optional redemption as described above, the total amount of sinking account payments to be made after such redemption will be reduced pro rata as described in the Indenture.

Term Bonds Maturing on September 1, 20

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
--	-------------------------

† maturity.

Term Bonds Maturing on September 1, 20

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
--	-------------------------

† maturity.

Notice of Redemption. Notice of redemption will be mailed by the Trustee, first class, postage prepaid, not more than 60 and not less than 30 days before any redemption date, to the respective registered Owners of any Bonds designated for redemption at their addresses appearing on the registration books maintained by the Trustee and to one or more Securities Depositories and the Municipal Securities Rulemaking Board. Neither the failure to receive any notice nor any defect therein will affect the proceedings for such redemption.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee will select the Bonds to be redeemed from all Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, Bonds will be deemed to be comprised of \$5,000 portions and each portion will be subject to redemption as if such portion were a separate Bond.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption has been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date specified in such notice.

Book-Entry Only System

The Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in multiples of \$5,000. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See "APPENDIX D – DTC'S BOOK-ENTRY ONLY SYSTEM."

In the event that such book-entry system is discontinued with respect to the Bonds, the Authority will execute and deliver replacements in the form of registered certificates and, thereafter, the Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture. In addition, the following provisions would then apply: the principal of, and redemption premium, if any, on the Bonds will be payable on the surrender thereof at maturity or the redemption date, as applicable, at the corporate trust office of the Trustee in Los Angeles, California (or such other location as designated by the Trustee). The interest on the Bonds will be payable by check mailed on each Interest Payment Date to the registered bondowners as shown on the registration books of the Trustee as of the close of business on the Record Date before such the Interest Payment Date; provided, that a registered owner of \$1,000,000 or more in aggregate principal amount of Bonds may specify in writing prior to the Record Date that the interest payment payable on each succeeding Interest Payment Date be made by wire transfer.

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Annual Debt Service

The following table shows the scheduled annual debt service for the Bonds:

Bond Year Ending September 1	Principal*	Interest*	Annual Debt Service*
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			

* Preliminary, subject to change.

SECURITY FOR THE BONDS

Pledge of Revenues and Refundable Credits

The Bonds are payable from and secured by a pledge of Revenues, Refundable Credits and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, mean (a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding (i) any amounts described in the provisions of the Lease relating to permitted amendments that provide for additional rental to be pledged or assigned for the payment of bonds issued to finance or refinance projects for which the City is authorized to expend its funds, and (ii) any Additional Rental Payments (consisting of certain administrative costs due to the Authority and the Trustee under the

Lease), and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Pursuant to the Assignment Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, certain of its rights under the Lease, including its right to receive Lease Payments for the purpose of securing the payment of debt service on the Bonds.

In addition, pursuant to the Indenture, the Authority has irrevocably transferred, assigned and set over to the Trustee, without recourse to the Authority, all of the Refundable Credits and all rights of the Authority to receive the Refundable Credits. Any Refundable Credits collected or received by the Authority are deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will be paid by the Authority to the Trustee for deposit in the Bond Fund.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES, REFUNDABLE CREDITS AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS (INCLUDING ANY MEMBER OF THE AUTHORITY) IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Lease Payments; Covenant to Appropriate

The City covenants, under the Lease, to make Lease Payments as rental for the right to use and occupy the Leased Property. Amounts of the scheduled Lease Payments are calculated to be sufficient to pay debt service on the Bonds when due. Lease Payments will be paid by the City semiannually to the Trustee on or before the fifth Business Day immediately preceding each Interest Payment Date. Upon receipt, the Trustee will deposit the Lease Payments in the Bond Fund for the purposes of paying principal of and interest on the Bonds and replenishing the Reserve Account, if required.

All Refundable Credits which are held on deposit in the Bond Fund as of any Lease Payment Date will be credited towards the Lease Payment then due. *Failure by the Authority to receive the Refundable Credits does not relieve the City of its obligation to make full Lease Payments.*

The City covenants under the Lease to take such action as may be necessary to include all Lease Payments and Additional Rental Payments in its annual budgets and to make the necessary annual appropriations for all such rental payments. Under certain circumstances described in the Lease, however, Lease Payments are subject to abatement during periods of substantial interference with the City's use and occupancy of all or a portion of the Leased Property, as described below.

Abatement

The Lease provides that the obligation of the City to pay Lease Payments will be abated by reason of (i) any damage or destruction such that there is substantial interference with the use and occupancy of all or any portion of the Leased Property, or (ii) a temporarily taking of the Leased Property or a permanent taking of a portion of the Leased Property. Such abatement will be in an amount determined by the City, such that the resulting unabated portion of the Lease Payments will represent fair

consideration for the use and occupancy of the remaining usable portions of the Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. The City has waived its right to terminate the Lease by virtue of such damage, destruction or condemnation of the Leased Property, except in the case of a permanent taking of all of the Leased Property, see “Insurance; Condemnation” below.

Notwithstanding the foregoing, under the Lease, the Lease Payments will not be subject to abatement to the extent that Refundable Credits, the amounts in the Reserve Account or proceeds from rental interruption insurance are available to pay the portion of the Lease Payments which would otherwise be abated.

Insurance; Condemnation

In the event of an abatement of Lease Payments, debt service on the Bonds may, to a certain extent, be covered by insurance proceeds. The City is required to procure and maintain rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of certain hazards pursuant to the Lease. Such insurance will be in an amount at least equal to the maximum amount of Lease Payments coming due and payable during any consecutive two Fiscal Years. The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Bond Fund, for application as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

The Lease also requires the City to maintain title insurance, standard commercial general liability insurance and casualty insurance with respect to the Leased Property. The City is not required to maintain earthquake or flood insurance. Any Net Proceeds under such title insurance policy will be deposited with the Trustee in the Bond Fund, to be credited towards the prepayment of the remaining Lease Payments under the Lease. The required casualty insurance will have a coverage amount at least equal to the lesser of (a) the replacement value of the insured buildings, or (b) the aggregate principal amount of the Outstanding Bonds, and may be subject to such deductibles as the City deems adequate and prudent.

If all or a portion of the Leased Property is damaged or destroyed, or taken under the power of eminent domain, proceeds from the casualty insurance or the condemnation award will be deposited in the Insurance and Condemnation Fund maintained by the Trustee. The City must apply all proceeds deposited in the Insurance and Condemnation Fund to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property or to replace any Leased Property taken in eminent domain proceedings.

In the event that the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease will cease as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, the (a) the Lease continues in full force and effect with respect to the Leased Property and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary, and (b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration of the use and occupancy of the remaining usable portions of the Leased Property. Notwithstanding the foregoing, the Lease Payments are not subject to abatement to the extent that amounts in the Reserve Account are available to pay Lease Payments which would otherwise be abated under the Lease.

See “BONDOWNERS’ RISKS – Abatement,” “– Application of Net Proceeds” and “– Risk of Uninsured Loss.”

Reserve Account

Pursuant to the Indenture, the Trustee will establish and maintain a Reserve Account in the Bond Fund. On or before each Interest Payment Date, after the required deposits to the Interest Account and the Principal Account have been made, the Trustee will deposit Revenues in the Reserve Account; provided, that no such deposit need to be made so long as the balance therein is equal to the Reserve Requirement. The Reserve Requirement, as defined in the Indenture, means as of any date of calculation, the lesser of (a) \$ _____* or (b) the maximum amount of principal of and interest on the Bonds coming due in the current or any future Bond Year, such amount to be computed net of any Refundable Credits received in such Bond Year. Money on deposit in the Reserve Account will be used solely for the purpose of (i) paying principal of, or interest on, the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, the Trustee will apply such amounts first, to the payment of interest and second, to the payment of principal.

Substitution of Property

Pursuant to the Lease, the City may substitute other land, facilities or improvements (the “Substitute Property”) for the Leased Property or portion thereof (the “Former Property”) subject to the following conditions:

- (a) No Event of Default has occurred and is continuing under and as defined in the Lease.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of the Lease which adds the legal description of the Substitute Property to the Lease and Site Lease and deletes the legal description of the Former Property.
- (d) The City has obtained a CLTA policy of title insurance insuring the City’s leasehold estate in the Substitute Property in an amount at least equal to the estimated value of the Leased Property.
- (e) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State, and has been determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City.
- (f) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made in the Lease.
- (g) The City has filed with the Authority and the Trustee a written certificate of the City or other written evidencing stating that the estimated value of the Substitute Property is at least equal to the estimated value of the Former Property, and that the useful life of the Substitute Property at least extends to September 1, 2040.
- (h) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

* Preliminary, subject to change.

Release of Property

Pursuant to the Lease, the City release any portion of the Leased Property from the Lease (the “Released Property”) subject to the following conditions:

- (a) No Event of Default has occurred and is continuing under and as defined in the Lease.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Sacramento County Recorder sufficient memorialization of, an amendment of the Lease which removes the Released Property from the Site Lease and the Lease.
- (c) The City has certified in writing to the Authority and the Trustee that the value of the property which remains subject to the Lease following such release is at least equal to the aggregate original principal amount of the Bonds, and the fair rental value of the property which remains subject to the Lease following such release is at least equal to the Lease Payments thereafter coming due and payable.
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Amendment of Lease

Pursuant to the Lease, the Authority and the City may amend or modify any of the provisions of the Lease, but only: (a) with the prior written consents of the Owners of a majority in aggregate principal amount of the outstanding Bonds; or (b) without the consent of any of the Bond Owners for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the City contained in the Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the City;
- (ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease, to conform to the original intention of the City and the Authority;
- (iii) to modify, amend or supplement the Lease in such manner as to assure that the Bonds remain Recovery Zone Economic Development Bonds and that the Authority remains entitled to receive the Refundable Credits under Section 54AA(g)(1) of the Tax Code;
- (iv) to amend the description of the Leased Property to reflect accurately the property originally intended to be included therein;
- (v) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has obtained and filed with the Trustee documentation showing that the appraised value of the Leased Property is at least equal to the aggregate original principal amount of the outstanding Bonds and all such other bonds, notes, leases or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds;

(vi) in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

Additional Bonds

In addition to the Bonds, the Authority and the Trustee may without the consent of the Owners, provide for the issuance and delivery of Additional Bonds in one or more Series. The Trustee may authenticate and deliver to or upon the Request of the Authority, such Additional Bonds, in an aggregate principal amount authorized by a Supplemental Indenture. The proceeds of such Additional Bonds may be used for additional capital improvements, including for the purpose of refunding outstanding Bonds.

Such Additional Bonds may only be issued upon compliance by the Authority with the provisions of the Indenture and certain conditions precedent as provided in the Indenture, including that an amount will be deposited into the Reserve Account to maintain the amount therein at least equal to the Reserve Requirement, and the Lease will be amended so as to increase the Lease Payments payable by the City thereunder by an aggregate amount equal to the principal and interest due and payable on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest on such Additional Bonds.

Any Additional Bonds will be on a parity with, and each Owner thereof shall have the same rights upon an Event of Default as the Owner of, any other Bonds issued and delivered under the Indenture, except as otherwise provided in the Supplemental Indenture under which Additional Bonds are issued. Such Supplemental Indenture will prescribe the form or forms of such Additional Bonds, and subject to the provisions of the Indenture, will provide for the distinctive designation, denominations, dates, principal payment dates, interest payment dates, interest rates, provisions for redemption, and places of payment for principal and interest.

Remedies

If the City defaults in performance of its obligations under the Lease, the Authority or the Trustee, as assignee of the Authority, may either terminate the Lease and re-enter and re-let all or a portion of the Leased Property or may retain the Lease and hold the City liable for all payments on an annual basis and still have the right to re-enter and re-let the Leased Property without effecting a surrender of the Lease. Additionally, the Trustee may pursue remedies at law or in equity to enforce the Lease.

Although the Lease and the Indenture provide that the Trustee, as assignee of the Authority, may take possession of the Leased Property if there is a default by the City, and the Lease provides that the Trustee may have such rights of access to the Leased Property as may be necessary to exercise any remedies, portions of the Leased Property may not be easily recoverable and, even if recovered, could be of little value to others. There can be no assurance that the Leased Property can be re-let for an amount equal to all outstanding Lease Payments. Due to the essential nature of the governmental functions of the Leased Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. In addition, the remedy of repossession and re-letting may prove to be unavailable or not economically viable with respect to all or portions of the Leased Property because the Authority has only a leasehold or other possessory right to some of the Lease Property. Therefore, repossession of the Leased Property in such instances may not be an available remedy. In addition, assuming the Leased Property could be repossessed, it may prove functionally impossible to release.

THE AUTHORITY

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of July 13, 2005 (the “Joint Powers Agreement”), by and between the City and the City of Elk Grove Parking Authority. The Joint Powers Agreement was entered into pursuant to the provisions of Article 1 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”). The governing body of the Authority consists of the same individuals who comprise the City Council of the City. The Authority was created for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. Pursuant to Article 1 of the Act, the Authority is qualified to assist in financing projects and certain public improvements and to issue bonds under Article 4 of the Act (being the Marks-Roos Local Bond Pooling Act of 1985).

The Authority has no taxing power. The Authority and the City are separate legal entities, and the debts and obligations of one such entity are not debts or obligations of the other entity.

THE CITY

General

The City is located approximately 4 miles south of the City of Sacramento along Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,750 to a January 1, 2010 population of 143,885 according to the State Department of Finance.

Despite its close proximity to California’s capital city, Elk Grove remained quietly independent of Sacramento’s growth and development as it expanded into adjoining countryside areas until the 1980’s. Elk Grove had its start in agriculture and it is still a big part of the area’s economy today, with vineyards, dairy and cattle and row crops; but, now, there are also high technology, professional service, commercial and retail enterprises. The City is located in the southern portion of Sacramento County and is halfway between Sacramento and Stockton, straddling Highway 99 and Interstate 5. It is within easy driving distance from both the Bay Area and Sierra Mountain resorts.

The City has experienced substantial growth, particularly since its incorporation in 2000. Housing developments in the City represent a transition from previous land use for agricultural or grazing purposes toward a mixture of urban land uses, which transition has also occurred in other areas of the City. The City provides a variety of services to its residents which include public safety, highways and streets, public improvements, planning and zoning, general administration, transit, solid waste, and drainage.

Elk Grove’s climate varies from low temperatures of 24 to 44 degrees to highs of 80 to 110 degrees. Average annual rainfall is 22 inches per year falling primarily from October through April. Elevation is 45 feet.

City Government

The City has a Council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of city business and the coordination of all City departments. The City Council is composed of five members elected bi-annually at large to four-year alternating terms. The Mayor is selected by the City Council from among its members. The City budgeted for 270 full-time positions in fiscal year 2010-11. The City contracts for certain services within the public works, planning, building, trash hauling and transit departments. The City established its own police department in October 2006, following the expiration of its contract with the County Sheriff. The Elk Grove Police Officers’ Association is the City’s only labor organization, with 166 employees.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Sophia Scherman, <i>Mayor</i>	December 2012
Steven M. Detrick, <i>Vice-Mayor</i>	December 2012
James Cooper, <i>Council Member</i>	December 2012
Gary Davis, <i>Council Member</i>	December 2010
Patrick Hume, <i>Council Member</i>	December 2010

The City Manager is appointed by the City Council. Below are brief biographies of the City Manager and certain members of the City's professional staff:

Laura S. Gill, City Manager. Ms. Gill was appointed City Manager of the City in May 2008. Prior to such appointment, she served as the County of El Dorado's Chief Administrative Officer for 5 years. Prior to her work in El Dorado County Laura served the City of Durham, North Carolina for more than 15 years. She began her career there as a Budget and Management Analyst, rising through the ranks to Budget and Management Services Director. She also served as an Interim Assistant City Manager, Interim Property and Facilities Management Director, and Senior Assistant to the City Manager.

Laura obtained her Masters Degree in Public Administration from the University of North Carolina at Chapel Hill and her Bachelor's Degree from Wake Forest University in Winston-Salem, North Carolina.

Rebecca Craig, Assistant City Manager. In April 2010, Ms. Craig was appointed Assistant City Manager. Since 2007, Rebecca has served as the City's Finance Director and most recently the Interim Assistant City Manager. Ms. Craig is responsible for overseeing the operations of Development Services, including the Public Works, Planning and Building Departments. She will coordinate execution of policies and programs across departments to ensure effective service delivery. She will also be the city's management liaison for interagency projects region-wide.

Ms. Craig has more than 15 years of experience in local government, serving as Finance Director for the City of O'Fallon, Missouri and County of St. Charles, Missouri. Ms. Craig holds a Bachelor's Degree from the University of Missouri in Columbia and is a certified public accountant (CPA).

Rebecca Carr, Director of Finance and Administration. Ms. Carr joined the City in August 2010 as the Director of Finance and Administrative Services. She came from the County of Tulare where she served for 11 years, most recently as the Assistant Auditor-Controller. Rebecca is responsible for overseeing the activities and operations of the Finance Department including accounting, financial planning, cash and asset management, debt management, revenue administration and collection, purchasing, accounts payable, grant administration, and payroll. She also plans, directs, manages and oversees the activities and operation of Facilities & Fleet Division, GIS and Information Technology. Ms. Carr has a Bachelors degree from California State University, Fresno.

Cedar Kehoe, Integrated Waste Program Manager. In her six years with the City, Cedar Kehoe brings more than 20 years of expertise implementing a variety of integrated waste programs for public agencies and private companies. She was instrumental in the development of the first permanent household hazardous waste collection facility in the nation, and was the General Manager for San

Francisco's Transfer Station. As General Manager, she managed all operations for the disposal, transportation, and recycling activities at the San Francisco Solid Waste Transfer and Recycling Center.

Cedar is involved in a number of organizations, including the Solid Waste Association of North America, California Resource Recovery Association, and the North American Hazardous Materials Management Association. Several programs that she managed have received numerous recognitions and awards, including the Bronze Award for Integrated System Excellence in 1998, the Meritorious Achievement Award for the Household Hazardous Waste programs in 1992 from the Solid Waste Association of North America, and the Business Arts Advocate Award in 1995 from the San Francisco Chamber of Commerce.

Population

The City's population was approximately 143,885 on January 1, 2010, according to the California State Department of Finance's estimates. The following table shows the estimated population growth for the City, the County and the State of California for calendar years 2000 through 2010.

TABLE 1
City of Elk Grove
City, County and State Population Growth⁽¹⁾
Calendar Years 2000 through 2010

Calendar Year	City of Elk Grove	% Change from Prior Period	County of Sacramento	% Change from Prior Period	State of California	% Change from Prior Year
2000	--	--	1,223,499	2.4%	33,873,086	1.6%
2001	75,762	7.6%	1,252,850	2.8	34,430,970	1.8
2002	81,519	6.3	1,287,833	2.2	35,063,959	1.7
2003	86,634	27.3	1,318,352	2.1	35,652,700	1.5
2004	110,246	10.5	1,345,990	1.7	36,199,342	1.3
2005	121,803	7.8	1,368,649	1.3	36,676,931	1.1
2006	131,266	3.8	1,386,480	1.2	37,087,005	1.0
2007	136,211	2.2	1,402,501	1.1	37,463,609	1.1
2008	139,259	1.6	1,418,344	1.0	37,871,509	1.0
2009	141,512	1.7	1,432,168	1.0	38,255,508	1.1
2010	143,885	1.7	1,445,327	0.9	38,648,090	1.0

(1) As of January 1 of each year.

Source: State of California Department of Finance.

Employment

The following table shows certain employment statistics for the City of Elk Grove Census Designated Place (CDP) and the County for calendar years 2000 through 2009.

TABLE 2
City of Elk Grove
City and County Employment Statistics
Calendar Years 2000 through 2009⁽¹⁾

<u>Year</u>	<u>City (Census Designated Place)</u>			<u>County</u>
	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2000	32,000	30,800	3.5%	4.3%
2001	32,800	31,600	3.6	4.5
2002	33,800	32,300	4.5	5.7
2003	34,400	32,800	4.7	5.9
2004	34,700	33,100	4.5	5.6
2005	34,900	33,500	4.0	5.0
2006	35,300	34,000	3.8	4.8
2007	35,600	34,100	4.3	5.4
2008	35,700	33,600	5.8	7.2
2009	35,600	32,300	9.2	11.3

(1) Not seasonally adjusted. Figures represent the 12-month average for each such year.

Source: State of California, Employment Development Department.

The following table summarizes the civilian labor force in the County of Sacramento – Arden Arcade – Roseville MSA for the calendar years 2005 through 2009. These figures are metropolitan statistical area statistics including Sacramento, El Dorado, Placer and Yolo Counties, and may not necessarily accurately reflect employment trends in the City.

TABLE 3
Sacramento County
Annual Average Employment by Industry
Calendar Years 2005 through 2009

Industry	2005	2006	2007	2008	2009
Private, non-farm					
<i>Goods producing:</i>					
Mining and natural resources	700	700	700	700	500
Construction	73,400	70,700	66,900	56,200	43,000
Manufacturing – durable goods	29,800	29,700	28,100	26,400	22,700
Manufacturing – non-durable goods	13,300	13,100	12,700	12,400	11,700
<i>Service Providing:</i>					
Wholesale trade	26,900	28,400	27,900	26,500	24,100
Retail trade	98,700	100,700	99,800	95,100	87,100
Transport., warehousing and utilities	23,400	24,500	25,400	25,100	23,300
Information	19,900	20,000	20,100	19,200	18,300
Financial activities	63,500	64,600	61,800	57,500	53,600
Professional and business services	108,600	112,500	112,100	110,100	100,700
Educational and health services	88,200	92,100	96,800	99,400	99,400
Leisure and hospitality	82,100	85,300	86,600	85,900	81,900
Other services	<u>28,500</u>	<u>28,300</u>	<u>29,000</u>	<u>29,600</u>	<u>28,700</u>
Subtotal	<u>656,900</u>	<u>670,700</u>	<u>668,100</u>	<u>643,800</u>	<u>594,900</u>
Government	224,000	228,400	235,000	238,200	238,500
Farm	7,400	7,500	7,900	8,200	8,700
Total	<u>888,300</u>	<u>906,600</u>	<u>911,000</u>	<u>890,200</u>	<u>842,100</u>

(1) Employment reported by place of work; does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add due to rounding. Based on March 2008 benchmark. Not seasonally adjusted.

Source: State of California, Employment Development Department.

The following table shows the top ten employers within the City:

TABLE 4
City of Elk Grove
Top Ten Employers (2008-09)

<u>Company</u>	<u>Product or service</u>	<u>No. of Employees</u>	<u>% of Total City Employment</u>
Elk Grove Unified School District	Education	5,000	14.02%
Kaiser Permanente.	Healthcare	1,468	4.12
Apple Computer, Inc.	Technology	1,100	3.09
California State Automobile Assoc. ¹	Insurance	750	2.10
Methodist Hospital of Sacramento	Healthcare	550	1.54
Cosumnes River College District	Education	330	0.93
AllData	Technology	282	0.79
Wal-Mart	Retail	273	0.77
Bimbo Bakeries	Food Products	265	0.74
City of Elk Grove	Government	<u>250</u>	<u>0.70</u>
		10,268	28.80%

1. California State Automobile Association (AAA) has since closed its offices located in the City and is no longer a major employer within the City.

Source: City of Elk Grove audited financial statements for fiscal year 2009-10.

Per Capita Personal Income

The following table shows the annual per capita personal income for the Sacramento-Arden-Arcade-Roseville MSA, the State of California and the United States from 2004 through 2008.

TABLE 5
Sacramento-Arden-Arcade-Roseville MSA, California and the United States
Per Capita Personal Income
Calendar Years 2004 through 2008

<u>Year</u>	<u>County MSA</u>	<u>State</u>	<u>U.S.</u>
2004	\$35,396	\$36,904	\$33,881
2005	36,989	38,767	35,424
2006	38,996	41,567	37,698
2007	40,572	43,402	39,392
2008	41,119	43,852	40,166

(1) Per capita personal income is the total personal income divided by the total midyear population estimates of the U.S. Bureau of the Census. Estimates reflect county population estimates available as of April 2010.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Construction Activity

The following table summarizes the number of construction permits issued from fiscal years 2004-05 through 2008-09:

TABLE 6
City of Elk Grove
Number of Construction Permits
Fiscal Years 2004-05 through 2008-09

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Type of Permit:					
Residential	3,603	1,137	675	427	346
Commercial	95	71	54	40	40
Total	3,689	1,208	729	467	386

Source: City of Elk Grove.

The fluctuation in building permits issued reflects, in part, large-scale tract development that is cyclical. In addition, the real estate market in Northern California, particularly with respect to residential units, has been weak in recent years. See also "CITY FINANCIAL INFORMATION – Property Taxes."

Community

Education. The City is served by the Elk Grove Unified School District (EGUSD), one of the fastest growing school districts in the country and the 5th largest in California in fiscal year 2008-09. EGUSD includes 320 square miles, or about one third of Sacramento County. Notably, Elk Grove is projected to experience a greater growth in its student population over the next 25 years than any other city in Sacramento County. Cosumnes River Community College is near the City's northern boundary, and California State University, Sacramento is just a short drive away in the City of Sacramento.

Transportation. The City has convenient access to two major highways—Interstate 5 and Highway 99, providing easy access to highway transportation routes. Rail transportation is also available in Sacramento, 15 miles north of the City. Public transportation is provided by e-tran, the City’s first in the nation 100% hybrid electric commuter bus fleet. The Sacramento International Airport is located approximately 26 miles north of the City off Interstate 5 and provides the major carrier airlines.

Recreation. Elk Grove has close to 50 parks, totaling more than 140 acres of lush landscaping and recreational amenities, including picnic areas, softball fields, a skate park and swim center. Emerald Lakes Golf Center and Valley Hi Country Club and a number of driving ranges provide area golfers with facilities to meet their needs. Additional local attractions in or near the City include Laguna Creek Parkway, a 13-mile waterway featuring wetlands, open space, walking and riding trails, fishing and bird watching; Stone Lakes Refuge, on the western edge of the City, consisting of a narrow stretch of floodplain which was recently dedicated as a National Wildlife Refuge comprised of 3,000 acres along the Pacific Flyway; and Cosumnes River Preserve, on the southern edge of the City, a riparian habitat running along the Cosumnes River.

Community Facilities. More than 50 churches in the greater Elk Grove area provide worship services for many faiths. The City is serviced locally by four medical facilities and systems, including Kaiser Permanente Hospital, Methodist Hospital/Mercy Healthcare, Sutter Health Systems and UC Davis Medical Center. The Elk Grove Senior Center provides classes, trips, game night, yoga, bingo, estate planning, AARP classes and tax preparation assistance. There are three health clubs that serve the Elk Grove area offering full facilities for swimming, indoor basketball court, weight training, racquetball, tennis and aerobics.

CITY FINANCIAL INFORMATION

Budgetary Process and Administration

The City Council adopts a budget annually for all governmental fund types. The City adheres to particular procedures in the budgeting process. In May, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. The operating budget includes proposed expenditures and the means of financing them. Public meetings are conducted to obtain taxpayer comments. Budgets are adopted by City Council resolution for the General Fund, Special Revenue Funds and Capital Project Funds. Budget adjustments from reserves and between funds are approved by the City Council and budget transfers within fund or department are approved by the City Manager. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds without the City Council’s approval. Budgets are adopted on a basis consistent with generally accepted accounting principles for all funds, except capital projects reported in the Capital Project Funds, which are budgeted on a project length basis.

Mid-year reviews of an adopted budget are conducted annually and adjustments and amendments are made thereto and approved by the City Council.

City Budgets for Fiscal Years 2008-09 through 2010-11

The City’s budget for fiscal year 2010-11 was adopted by the City Council on June 9, 2010. A complete copy of the City’s adopted fiscal year 2010-11 budget can be obtained from the City’s Finance Department or the City’s website at www.elkgrovecity.org.

The table below shows the City's budget and actual results for General Fund revenues and expenditures for fiscal years 2008-09 and 2009-10 and the adopted budget for fiscal year 2010-11. Actual results for fiscal year 2010-11 could vary significantly from the adopted budget for such year.

TABLE 7
City of Elk Grove
General Fund Budget Summary
Fiscal Years 2008-09 through 2010-11

	2008-09 Actual	2009-10 Revised Budget	2009-10 Unaudited	2010-11 Adopted Budget	Variance with 2009-10 Unaudited
Revenues					
Taxes	\$33,713,594	\$30,325,500	\$30,022,000	\$31,020,000	\$694,000
Intergovernmental	11,509,877	10,140,000	10,195,000	10,350,000	210,000
Fines and forfeitures	1,772,013	2,222,500	1,401,628	1,452,500	(770,000)
Licenses, fees and permits	618,650	443,000	532,393	464,650	21,650
Interest	618,234	300,000	300,300	300,000	-
Other Revenue	579,066	265,500	387,133	443,091	177,591
Cost Allocation	1,688,686	2,075,000	2,075,774	2,228,068	153,068
Transfers In	1,116,643	2,164,000	2,455,800	1,392,041	(771,959)
Total Revenues	\$51,616,763	\$47,935,000	\$47,370,028	\$47,650,350	\$(285,150)
Expenditures					
Compensation	\$29,992,988	\$29,657,000	\$27,804,008	\$28,707,419	\$(949,581)
Operating Expenses	17,643,529	13,487,000	10,894,450	11,701,361	(1,785,639)
Internal Services	--	4,791,500	4,791,500	3,967,466	(824,034)
Capital Outlay	902,198	725,000	9,800	--	(725,000)
Debt Service	57,330	---	--	--	--
Transfers Out:	2,453,679	1,200,000	3,623,388	4,949,104	3,749,104
Total Expenditures	\$51,049,724	\$49,860,500	\$47,123,146	\$49,325,350	\$(535,150)
Net Change In Fund Balances	567,039	(1,925,000)	246,882	(1,675,000)	250,000
Fund Balances at Beginning of Year	\$16,874,256	\$17,441,295	\$17,441,295	\$17,688,177	\$246,882
Fund Balances at End of Year	\$17,441,295	\$15,516,295	\$17,688,177	\$16,013,177	\$496,882

Source: City of Elk Grove. 2010-11 Budget.

The General Fund accounts for approximately 25% of all activities in fiscal year 2010-11 Budget. The City experienced significant population growth from 2003 through 2006 that resulted in an expanded residential and commercial assessed value base. The population growth also contributed to additional retail sales. Sales tax is a volatile revenue source, yet it is the City's largest single source for general operations. Although retail sales have weakened since fiscal year 2006-07, projections indicate the decline has reached bottom in fiscal year 2009-10 at approximately 15% decline. Sales tax revenues will stabilize and are projected to increase statewide by 6% in fiscal year 2010-11 as consumer confidence improves, fuel prices increase, and additional retailers enter the market.

Property taxes are considered a stable revenue source for long-term dependability; however, the market is correcting for multi-year over-inflated new home values. Although assessed values declined [17]% and [9.8]% in fiscal year 2008-09 and fiscal year 2009-10, respectively, recent sales activity indicates that assessed value growth will be flat or even experience marginal growth in fiscal year 2010-11.

One-fourth of the sales tax revenue and all Vehicle Licensing Fees (VLF) are distributed per State formulas (Triple Flip and VLF Swap agreements) semi-annually based upon assessed property values and are therefore projected to remain constant with fiscal year 2009-10 activity. Other taxes, including Utility User's, Transient Occupancy and Franchise fees, are remaining steady for now. The City accounted for the development processing and related permit fees in the General Fund as operating revenue until they were segregated to a special revenue fund in fiscal year 2008.

Operating expenditures decreased by nearly 8% from fiscal year 2008-09 to fiscal year 2009-10. Expenditures are projected to be \$2 million or more under budget for fiscal year 2009-10, which protects the General Fund's contingency reserve for future use.

The 2010-11 Budget calls for eight furlough days (equal to 3% of salary) for fiscal year 2010-11. The 2010-11 Budget also reduces the number of employees that can cash out a portion of their vacation and/or administrative leave from twice a year to once a year and reduces cash overtime compensation to members of the Elk Grove Police Association.

The City Council adopted a Fund Balance Reserve Policy in February 2009 that establishes a goal to retain 20% of current general fund expenditures and set such amount aside as designated fund balance. The City currently is meeting this established reserve fund goal. As of July 1, 2010, the contingency reserve as a percentage of adjusted general fund appropriation of \$49,860,500 equaled 20.66%.

Financial Statements

Set forth in the following tables are the City's General Fund balance sheets and statements of revenues, expenditures and changes in General Fund Balance for fiscal years 2004-05 through 2008-09, which are based on the City's audited financial statements. The balance sheets and statements presented in this Official Statement are subject to the various notes attached to the City's financial statements for the respective years. Excerpts of the City's Comprehensive Annual Financial Report ("CAFR") for fiscal year ended June 30, 2009, which includes the City's 2008-09 audited financial statements, is set forth in Appendix A. A complete copy of the City's CAFR for fiscal year 2008-09 is available on the City's website, at www.elkgrovecity.org and those for prior years can be obtained from the City's Finance Department.

The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board ("GASB") published its Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include a Management's Discussion and Analysis (introducing the basic financial statements and providing an analytical overview of the government's financial activities); basic financial statements including (i) government-wide financial statements prepared using the economic resources measurement focus and the accrual basis of accounting; (ii) fund financial statements, which may include (A) governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds),

prepared using the current financial resources measurement focus and the modified accrual method of accounting, (B) proprietary fund financial statements (including financial data for enterprise and internal service funds) prepared using the economic resources measurement focus and the accrual basis of accounting, and (C) fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) prepared using the economic resources measurement focus and the accrual basis of accounting; and (iii) notes to the financial statements; and required supplementary information.

The City implemented GASB Statement No. 34, beginning with its audited financial statements for fiscal year 2004-05.

TABLE 8
City of Elk Grove
General Fund Balance Sheets
Fiscal Years 2004-05 through 2008-09

	2004-05	2005-06	2006-07	2007-08 ⁽¹⁾	2008-09	2009-10 unaudited
Assets						
Cash and investments	\$11,299,588	\$9,451,349	\$9,801,702	\$6,175,433	\$13,044,613	\$16,978,107
Imprest cash	1,250	2,750	--	--	--	
Receivables						
Accounts	4,227,834	3,128,873	3,173,850	179,655	331,810	474,377
Taxes	867,205	3,828,814	478,522	3,368,748	2,608,917	2,527,467
Accrued interest	26,152	23,288	32,286	46,802	138,798	5,268
Prepaid Costs	--	193,260	287,812	154,450	30,315	30,315
Due from other governments	4,415,234	1,774,010	2,788,720	288,491	211,743	2,907,455
Due from other funds	5,059,435	7,356,218	4,930,949	8,242,464	2,731,880	3,833,324
Advances to other funds	256,015	200,419	137,040	71,236	--	--
Long term dev fees receivable	--	--	--	3,011,206	3,011,206	3,011,206
Total Assets	<u>\$26,152,713</u>	<u>\$25,958,981</u>	<u>\$21,630,881</u>	<u>\$21,538,485</u>	<u>\$22,109,282</u>	<u>\$29,767,519</u>
Liabilities						
Accounts payable	\$2,932,886	\$4,564,044	\$3,358,677	\$796,741	\$703,986	\$779,022
Accrued salaries and benefits	172,541	745,833	463,430	697,836	789,277	766,907
Compensated absences	--	269,972	--	--	--	
Deposits payable	16,364	99,851	469,857	7386	1,407	2,928
Advances from other funds	--	--	--	3,011,206	3,011,206	3,011,206
Deferred revenue	1,107,448	1,771,325	--	--	--	1,597,505
Total Liabilities	<u>\$4,229,239</u>	<u>\$7,451,025</u>	<u>\$4,291,964</u>	<u>\$4,513,169</u>	<u>\$4,505,876</u>	<u>\$6,157,568</u>
Fund Balances						
Reserved						
Advances to other funds	--	200,419	137,040	71,236	--	--
Prepaid Costs	--	193,260	287,812	32,165	30,315	30,315
Encumbrances	20,480	885,429	--	277,589	131,796	37,140
Imprest cash	1,250	2,750	--	--	--	--
Unreserved						
Designated	21,294,326	16,794,326	16,794,326	16,644,326	13,244,396	13,244,396
Undesignated	351,403	431,772	119,739	--	4,196,899	10,298,100
Total Fund Balance	<u>\$21,923,474</u>	<u>\$18,507,956</u>	<u>\$17,338,917</u>	<u>\$17,025,316</u>	<u>\$17,603,406</u>	<u>\$23,609,951</u>
Total Liabilities & Fund Balance	<u>\$26,152,713</u>	<u>\$25,958,981</u>	<u>\$21,630,881</u>	<u>\$21,538,485</u>	<u>\$22,109,282</u>	<u>\$29,767,519</u>

(1) City changed auditing firms after the 2006-07 fiscal year and different labeling of categories was employed.
Source: City of Elk Grove audited financial statements for fiscal years 2004-05 through 2008-09 (audited) and 2009-10 (unaudited).

TABLE 9
City of Elk Grove
Statements of Revenues, Expenditures and Changes in General Fund Balance
Fiscal Years 2005-06 through 2009-10

	2005-06	2006-07	2007-08 ⁽⁵⁾	2008-09	2009-10 (unaudited)
Revenues					
Taxes					
Property taxes ⁽¹⁾	\$21,204,595	\$22,970,289	\$12,057,091	\$11,430,115	\$ 8,315,364
Sales and use tax	19,882,694	19,688,838	14,430,375	11,411,206	10,942,740
In-lieu sales tax ⁽²⁾	--	--	4,688,688	4,869,854	2,965,668
Utility users' tax	2,837,630	3,116,938	3,416,503	3,487,428	3,123,597
Transient occupancy tax	863,062	876,238	970,170	1,037,160	997,006
Property transfer tax	--	--	596,255	607,262	548,827
Franchise tax	703,256	724,351	820,604	870,568	1,213,908
Licenses, fees & permits	3,814,802	3,616,520	531,900	485,126	462,185
Fines and forfeitures	534,493	952,018	1,205,108	1,820,664	1,643,163
Intergovernmental	1,024,675	1,677,360	11,979,515	11,520,646	10,233,642
Charges for services ⁽³⁾	9,571,626	9,130,893	351,547	338,953	226,108
Use of money/property	495,022	564,595	774,813	850,579	29,613
Miscellaneous	85,034	80,167	62,690	282,898	201,394
Total Revenues	<u>\$61,016,889</u>	<u>\$63,398,207</u>	<u>\$51,885,259</u>	<u>\$49,012,459</u>	<u>\$40,903,215</u>
Expenditures					
Current					
General government ⁽¹⁾	\$18,561,527	\$20,486,827	\$20,493,094	\$18,586,453	17,422,192
Public safety ⁽⁴⁾	27,793,432	29,890,408	28,078,781	28,074,990	25,101,293
Community development ⁽³⁾	9,522,884	8,709,382	1,733,185	1,530,537	1,261,200
Public ways & facilities	7,298,974	7,260,135	--	--	--
Capital outlay	--	--	764,613	--	210,419
Debt service					
Principal retirement	94,562	--	--	20,314	--
Interest & fiscal charges	314,716	--	--	--	--
Total expenditures	<u>\$63,586,095</u>	<u>\$66,382,239</u>	<u>\$51,069,673</u>	<u>\$48,731,282</u>	<u>\$43,995,104</u>
Excess (deficiency) of revenues over (under) expenditures	(2,569,206)	(2,984,032)	815,586	281,177	(3,091,889)
Other financing sources(uses)					
Transfers in	2,121,905	3,492,235	2,929,400	2,805,239	12,755,919
Transfers out	(3,051,671)	(1,597,044)	(4,058,587)	(2,508,416)	(3,657,485)
Capital leases	83,454	--	--	--	--
Total other fin. sources (uses)	<u>(846,312)</u>	<u>1,895,191</u>	<u>(1,129,187)</u>	<u>296,913</u>	<u>9,098,434</u>
Net change in fund balance	(3,415,518)	(1,088,841)	(313,601)	578,090	6,006,545
Fund balance – beginning	<u>\$21,923,474</u>	<u>\$18,507,956</u>	<u>\$17,338,917</u>	<u>\$17,025,316</u>	<u>17,603,406</u>
Prior period adjustment		(80,198)			
Fund balance – ending	<u>\$18,507,956</u>	<u>\$17,338,917</u>	<u>\$17,025,316</u>	<u>\$17,603,406</u>	<u>\$23,609,951</u>

(1) Under the Revenue Neutrality Agreement between the City and the County of Sacramento entered into at incorporation, the City receives reduced property tax receipts for 25 years, ending in fiscal year 2024-25, consisting of 85% reduction in fiscal years 2005-06 through 2009-

10, 80% reduction in 2010-11 through 2013-14, 75% reduction 2014-15 through 2017-18, 70% reduction in 2018-19, and a 10% less reduction each year until 2025-16 when the City retains 100%. The City records the property tax receipts at a gross amount and records the amount withheld by the County as a General Government expense.

- (2) In Lieu Sales Tax is the property tax reimbursement that the City receives as a result of the triple - flip (triple - flip is the shift enacted by the State in fiscal year 2004-05 whereby local governments shift ¼ - cent of their Sales and Use Tax to the State in exchange for an equivalent amount of property tax). These revenues were reported as sales and use tax in fiscal years 2005-06 and 2006-07.
- (3) The City segregated contracted Development Services to a special revenue fund beginning in fiscal year 2007-08.
- (4) The City initially procured police services through a contract with the County Sheriff and subsequently established its own force in fiscal year 2006-07.
- (5) City changed auditing firms after the 2006-07 fiscal year and different labeling of certain categories was employed.

Source: City of Elk Grove financial statements 2005-06 through 2008-09 (audited) and 2009-10 (unaudited).

Revenues Available for Lease Payments

The City will make Lease Payments on each Interest Payment Date from moneys held in the General Fund that are available for general government purposes. The following table shows such revenues received by the City for fiscal years 2007-08 through 2009-10 (unaudited):

TABLE 10
City of Elk Grove
General Fund Revenues Available for General Government Purposes
by Revenue Source
Fiscal Years 2007-08 (audited) through 2009-10 (unaudited)

Category	2007-08		2008-09		2009-10 (unaudited)	
	Revenues	Percent of Total	Revenues	Percent of Total	Revenues	Percent of Total
Property tax	\$12,057,091	23%	\$11,430,115	23%	\$ 8,315,364	20%
Sales tax	14,430,375	28	11,411,206	23	10,942,740	27
Sales tax in-lieu fees	4,688,688	9	4,869,854	10	2,965,668	7
Utility users' tax	3,416,503	7	3,487,428	7	3,123,597	8
Transient occupancy tax	970,170	2	1,037,160	2	997,006	2
Property transfer tax	596,255	1	607,262	1	548,827	1
Franchise tax and fees	820,604	2	870,568	2	1,213,908	3
Licenses, fees and permits	531,900	1	485,126	1	462,185	1
All other	14,373,673	28	14,813,740	30	12,334,910	30
Total ⁽¹⁾	\$51,885,259	100%	\$49,012,459	100%	\$40,903,215	100%

(1) Totals may not add due to rounding.
Source: City of Elk Grove Finance Department.

Sales Taxes

Sales and use taxes represent one of the largest source of tax revenue to the City (approximately 27% of General Fund revenues in fiscal year 2008-09). The City's sales tax revenue represents the City's one percent share of the sales and use tax imposed on taxable transactions occurring within the City's boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax (the "Sales Tax Law"). A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. Effective January 1, 2002, the aggregate tax rate in the State is 7.25%. An additional 0.5% is collected in Sacramento County for transportation purposes.

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City’s share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

TABLE 11
City of Elk Grove
Sales Tax Rates

State General Fund	6.00%
Local Rate	1.25
Sacramento Transportation Authority	<u>0.50</u>
Total	7.75%

The State’s actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis. Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax. Certain transactions are exempt from the State sales tax. A list can be found in the State Board of Equalization’s January 2007 publication entitled “Sales and Use Taxes: Exemptions and Exclusions,” which can be found on the State Board of Equalization’s website at <http://www.boe.ca.gov>. See also “RISK FACTORS - Sales Taxes.”

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year’s like quarterly tax allocation as a starting point, the Board first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter’s actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment. Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization’s quarterly

projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

History of Taxable Transactions. Summaries of historic sales tax revenues (including in lieu sales tax revenues) and a break out of sales by type of business within the City are shown in the following tables.

TABLE 12
City of Elk Grove
Sales Tax Revenues⁽¹⁾
Fiscal Years 2003-04 through 2009-10

<u>Fiscal Year</u>	<u>Sales Tax Revenues</u>	<u>Percent Change</u>
2005-06	\$19,655,388	n/a
2006-07	18,833,378	-4.18
2007-08	19,119,063	1.52
2008-09	16,281,060	-14.84
2009-10 ⁽²⁾	13,908,408	-14.57

(1) Excludes amounts that were earmarked for specific purposes.

(2) Unaudited amounts.

Source: City of Elk Grove Finance Department.

TABLE 13
City of Elk Grove
Taxable Transactions
(In Thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009⁽¹⁾</u>
Apparel stores	59,715	61,285	64,722	52,856	24,254
General merchandise stores	188,921	193,255	194,931	200,163	77,633
Food stores	94,877	98,073	96,863	85,488	40,643
Eating and drinking places	139,161	153,310	156,446	153,321	76,091
Home furnishings and appliances	59,633	64,162	55,637	70,250	36,673
Building Materials	115,866	98,121	77,909	64,211	30,733
Auto dealers and auto supplies	535,577	499,087	500,134	367,232	135,971
Service stations	115,254	138,189	148,730	167,778	60,156
Other retail stores	<u>223,128</u>	<u>231,847</u>	<u>213,664</u>	<u>168,507</u>	<u>62,567</u>
Retail Stores Totals	1,532,132	1,537,329	1,509,036	1,329,806	544,721
All Other Outlets	<u>206,369</u>	<u>180,442</u>	<u>196,341</u>	<u>199,072</u>	<u>76,962</u>
Total All Outlets	1,738,501	1,717,771	1,705,377	1,528,577	621,683

⁽¹⁾ Most current information available, through second quarter 2009.

Source: California State Board of Equalization Statistical Research and Consulting Division.

Triple Flip. On March 2, 2004, voters approved a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion of economic recovery bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the “Triple Flip.” Currently, the State has issued approximately \$14.07 billion of economic recovery bonds. Under the “Triple Flip,” one-quarter of local governments’ one percent share of the sales tax imposed on taxable transactions within their jurisdictions is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the economic recovery bonds are repaid, which is currently expected to occur in approximately 13 years. See “STATE OF CALIFORNIA BUDGET” and “LIMITATIONS ON REVENUES AND APPROPRIATIONS.”

Property Taxes

Property taxes represent the another major source of tax revenue to the City (approximately 23% of General Fund revenues in fiscal year 2009-10). However, after adjusting the City’s property tax revenue for payments owed to the County pursuant to the Revenue Neutrality Agreement, described below, net property taxes amounted to approximately 8% of the City’s General Fund Tax revenues.

Tax Sharing Agreement with County. Property taxes revenues to the City have been affected by the “Revenue Neutrality Agreement” between the City and Sacramento County. The agreement was entered into upon incorporation as means of mitigating the financial impacts of the incorporation of the City in 2000-01 on the County’s general fund. This agreement calls for reductions in property tax receipts to the City over a period of 25 years, ending in 2024-25, when the City will receive 100% of its share of property taxes. The percentage of taxes retained by the County ranges from 85% for fiscal years 2005-06 through 2009-10 to 10% for fiscal year 2024-25. See “APPENDIX B - Audited Financial Statements for Fiscal Year Ended June 30, 2009 Note 15 – Commitments” and “Note 1 to Table 9” herein. The City records property tax receipts at a gross amount and records the amount withheld by the County as an expense. Pursuant to the Revenue Neutrality Agreement, the City paid the County \$[7,588,135] during fiscal year 2008-09.

General Property Taxes. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which have a viable tax lien, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at

5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Certain counties in the State of California, including Sacramento, offer a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. The City has elected to participate in the Teeter Plan. Consequently, the City’s receipt of property taxes is in the amount of the levy.

Assessed Valuation. The table below presents the assessed valuation of taxable property in the City from fiscal year 2006-07 through fiscal year 2010-11.

TABLE 14
City of Elk Grove
Assessed Value and Estimated Value of All Taxable Property
Fiscal Years 2006-07 through 2010-11
(000s omitted)

Fiscal Year	Residential	Commercial	Industrial	Other	Less Exemptions	Total Assessed Value
2006-07	\$11,642,680	\$1,035,050	\$323,173	\$3,043,373	\$179,795	\$15,864,481
2007-08	12,812,159	1,307,483	331,711	3,269,371	234,787	17,485,938
2008-09	14,318,680	1,748,263	418,427	918,496	270,922	17,132,945
2009-10	12,355,624	1,397,230	422,999	249,617	200,207	14,225,263
2010-11	12,206,754	1,324,802	395,891	243,635	197,785	13,973,297

Source: City of Elk Grove, based on information provided by the Sacramento County Auditor-Controller Office.

As shown in the table above, assessed valuations in the City have decreased in the last few years. Economic and other factors beyond the City’s control, such as economic recession, deflation or land values, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster could cause a deduction in the assessed value of taxable property in the City.

Largest Property Taxpayers. The largest local secured property taxpayers in the City, as shown on the 2008-09 secured tax roll, are listed in the table below. The City’s receipt of property taxes is limited due to an agreement with the County entered into in connection with the incorporation of the City in 2000-01. See “Property Taxes” above. A list of the ten largest local secured taxpayers in the City for the most recent fiscal year is included in the following table. For fiscal year 2008-09, the total assessed valuation of the ten largest local secured taxpayers is 3.57% of the total City assessed valuation of \$17,132,944,807.

TABLE 15
City of Elk Grove
Largest Property Taxpayers
June 30, 2009

Taxpayer	2009 Assessed Valuation	Percentage of Total Assessed Valuation ⁽¹⁾
Donahue Schriber Asset Management Corporation	\$ 181,723,113	1.06%
Apple Computer Inc.	87,365,089	0.51
Oakmont Properties II Limited Partnership	63,610,056	0.37
9130 Nolan State LLC	44,637,603	0.26
SB RBLI Land Company Arbor Ranch	44,491,788	0.26
Pappas Laguna 2 LP	40,650,273	0.24
Laguna Gateway Phase II LP	39,374,922	0.23
Elk Grove Franklin Retail LLC	37,191,616	0.22
L V Apartments LLC	36,694,000	0.21
Somerfield North LLC	36,522,761	0.21
Total	\$612,291,221	3.57%

⁽¹⁾ The total City assessed valuation for fiscal year 2008-09 is \$17,132,944,807.

Source: County of Sacramento Assessor's Office and the SBE Non Unitary Tax Roll.

Proposition 13 Limitations. Article XIII A of the State of California Constitution imposes limits on annual adjustments to real property assessed values and to the amount of *ad valorem* tax that may be levied on real property. See "LIMITATIONS ON TAX REVENUES AND APPROPRIATIONS – Article XIII A."

Proposition 8 Adjustments. Proposition 8, approved by state voters in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions under this code section may be initiated by the County Assessor or requested by the property owner.

After a roll reduction is granted under this code section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the California Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

In 2009, the County Assessor's Office initiated a proactive review of single-family homes, condominiums, townhouses, multi-family properties, commercial properties, industrial properties and timeshare properties. According to the County Assessor, over 170,000 properties resulted in reductions to assessed value. The County Assessor office again initiated such a review and 275,000 parcels received automatic assessed value reductions for 2010 due to a negative Consumer Price Index inflation

adjustment for the year. The City cannot predict what the impact of such future reviews, if any, will be on the City's property tax revenues. See "RISK FACTORS – Real Estate Volatility."

Proposition 1A. On July 24, 2009, the State legislature approved a diversion of local property tax revenues to the State pursuant to the provisions of Proposition 1A. The City's share of this payment to the State was \$1,597,505. The State is required to repay these funds to the City by June 30, 2013. For more information on Proposition 1A, see "STATE OF CALIFORNIA BUDGET" herein.

Other Sources of Revenues

Vehicle License Fee. The Vehicle License Fee (VLF) is a fee in lieu of property tax that is based on the depreciated value of the vehicle. The VLF is collected by the State's Department of Motor Vehicles and disbursed by the State Controller to cities and counties based on population. The City's VLF revenues were \$1,597,505 in fiscal year 2008-09.

Utility Users' Tax. A utility users' tax is levied on telephone, gas, electricity, sewer, and cable television services. The current rate for this charge is 2.5%.

Real Property Transfer Tax. The County imposes a transfer tax on real property sold in the City, at a rate of \$1.10 per \$1,000 of real property value. Half of this amount is returned to the City.

Transient Occupancy Tax. The City levies a 12% transient occupancy tax on hotel and motel bills.

Franchise Tax. The City imposes fees on refuse, oil, and cable television companies for the privilege of using City streets.

Direct and Overlapping Debt

Set forth below for the City is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated as of October 1, 2010. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases long-term obligations issued by a public agency are payable from the general fund or other revenues of such public agency.

TABLE 16
City of Elk Grove
Direct and Overlapping Debt Statement
(as of October 1, 2010)

2010-11 Assessed Valuation: \$14,860,369,425

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 10/1/10</u>
Los Rios Community College District	10.639%	\$ 20,627,425
Sacramento Unified School District	0.384	1,344,319
Elk Grove Community Facilities Districts	100.	164,970,000
Elk Grove Unified School District Community Facilities District No. 1	56.156	86,669,276
Sacramento County Community Facilities Districts	100.	10,088,882
California Statewide Community Development Authority 1915 Act Bonds	100.	<u>6,497,965</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$290,197,867
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	12.810%	\$ 47,285,977
Sacramento County Pension Obligations	12.810	117,406,631
Sacramento County Board of Education Certificates of Participation	12.810	1,351,786
Los Rios Community College District Certificates of Participation	10.639	692,067
Sacramento Unified School District Certificates of Participation	0.384	319,123
Sacramento Unified School District Pension Obligations	0.384	13,939
City of Elk Grove General Fund Obligations	100.	<u>15,565,000</u> (2)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$182,634,523
Less: Sacramento County self-supporting obligations		<u>905,031</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$181,729,492
GROSS COMBINED TOTAL DEBT		\$472,832,390 (3)
NET COMBINED TOTAL DEBT		\$471,927,359

- (1) Based on 2009-10 ratios.
- (2) Excludes lease revenue bonds to be sold.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Assessed Valuation:

Combined Direct Debt (\$15,565,000)	0.10%
Total Overlapping Tax and Assessment Debt	1.95%
Gross Combined Total Debt	3.18%
Net Combined Total Debt.....	3.18%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

Long-Term Obligations Payable Out of General Fund

The City's general obligation debt consists of Police Transition costs and capital leases for City Hall and Police Facility buildings. Police transition costs are paid by general fund expenditures. The capital leases for the City Hall and Police Facility buildings are paid by the debt service fund, which is funded by a combination of impact fees and general fund transfers

On May 31, 2007 the Authority issued the Series 2007 Lease Revenue Bonds in the amount of \$18,585,000 to fund the purchase of the City's administrative office located at 8401 Laguna Palms Way and to pay off the capital leases for 8380 and 8400 Laguna Palms Way, which comprise the City Hall complex. The bonds have interest rates of 4.0% to 5.0% and mature beginning July 1, 2007 through July 1, 2027.

At June 30, 2009, the City's liability with respect to compensated absences amounted to approximately \$2,425,666, with \$2,369,798 of this amount to be paid in future years from the General Fund.

Investment Policy and Portfolio

The Chief Financial Officer manages the City's investment portfolio. For additional information concerning the City investments, see "APPENDIX B - Audited Financial Statements For Fiscal Year Ended June 30, 2009 - Note 2 - Cash and Investments."

The following table shows the City's investment portfolio as of June 30, 2010. Of the total amount invested, approximately 12.9% represent General Fund moneys.

TABLE 17
City of Elk Grove
Investment Portfolio
as of June 30, 2010

<u>Investment Type</u>	<u>% of Investment Portfolio</u>	<u>Market Value</u>
Demand Deposit Accounts	10.00%	\$ 16,143,518
Pooled Investments	33.25	53,660,415
Agency and Corporate Securities	<u>56.75</u>	<u>91,413,460</u>
Total⁽¹⁾	100.00%	\$161,217,394

(1) Total may not add due to rounding.

Source: City of Elk Grove Finance Department.

Employee Relations

The only City employees represented by an employee association, the Elk Grove Police Officers Association, are the City's police officers. The current contract with the City expires June 30, 2012 and covers 166 employees. The remainder of the City staff is employed at will.

Health Coverage

City employees are covered under a medical and prescriptions policy with coverage limited to \$2,000,000 in aggregate. The City offers a "cafeteria plan," which includes a monthly health contribution that an employee may apply toward premiums for medical, dental, vision, and life insurance. Subject to

certain restrictions, employees may put any unused funds in a deferred compensation plan or the City will allow such funds to be designated as salary.

Pension Plans

The City contracts with the California Public Employees' Retirement System ("CalPERS") for retirement benefits. CalPERS is organized and operates pursuant to the laws of the state of California and is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. The City participates in the Miscellaneous 2.7% at 55 Risk pool and the Safety 3% at 50 Risk pool. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

Active plan members in the CalPERS plans are required to contribute 8% of their annual covered salary. The City is required to contribute an actuarially determined rate. The rate for fiscal year 2008-09 was 12.217% for miscellaneous employees and 18.101% for safety employees of the annual covered payroll. The contribution requirements of the plan members are established by State statutes and the employer contribution rate is established and may be amended by CalPers. The City contributes 8% and 9% to the plan on behalf of the employee. For fiscal year 2008-09, total paid to CalPERS was \$1,762,982. Total employer contribution rate was 20.217% for miscellaneous and 27.101% for safety employees. The City's contribution to CalPERS for the combined employer requirement and employee benefit for the years ending June 30, 2007, 2008 and 2009 were \$3,986,665, \$4,326,633, and \$4,851,410 respectively.

Because the City is only ten years old and delivers a significant amount of services with contracted workers, the pension liability referenced below is statewide averages:

Funding History - Safety Employees

Valuation Date	Accrued Liabilities	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/2004	\$5,383,921,942	\$4,424,586,846	\$ 959,335,096	82.2%	\$575,296,434	166.8%
6/30/2005	7,278,049,834	6,102,615,567	1,175,434,267	83.9	754,730,438	155.7
6/30/2006	6,367,049,264	5,295,150,375	1,071,898,889	83.2	664,147,796	161.4
6/30/2007	7,986,055,176	6,826,599,459	1,159,455,717	85.5	831,607,658	139.4
6/30/2008	8,700,467,733	7,464,927,716	1,235,540,017	85.8	914,840,596	135.1

Funding History – Miscellaneous Employees

Valuation Date	Accrued Liabilities	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/2004	\$ 681,517,006	\$ 580,960,891	\$100,556,115	85.2%	\$160,107,449	62.8%
6/30/2005	872,346,612	729,556,809	142,759,803	83.6	203,995,039	70.0
6/30/2006	1,280,157,040	1,069,546,974	210,610,066	83.6	304,898,179	69.1
6/30/2007	1,627,025,950	1,362,059,317	264,966,633	83.7	376,292,121	70.4
6/30/2008	1,823,366,479	1,529,548,799	293,817,680	83.9	414,589,514	70.9

Source: City of Elk Grove 2008-09 Comprehensive Annual Financial Report, Actuarial Valuation as of June 30, 2008.

Deferred Compensation

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Sections 457 and 414(h). Under these plans, participants are not taxed on the deferred portion of their compensation until distributed; distributions may be made only at termination, retirement, death or in an emergency as defined by the plan. The City will match up to 6% or 2% of the covered payroll as a benefit under Internal Revenue Code Section 401A. For the 2008-09 fiscal year the City's matching contribution was \$717,939.

Other Post-Employment Benefits Other Than Pensions

The Governmental Accounting Standards Board ("GASB") issued Statement No. 45 entitled "Accounting and Financial Reporting By Employers for Post Employment Benefits Other Than Pensions" ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits, known collectively as "Other Post-Employment Benefits" or "OPEBs." GASB 45 generally requires state and local governmental employers to account for and report the cost of OPEBs and outstanding obligations and commitments related to OPEBs in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of their initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. GASB 45 is to be phased in based on a government's total annual revenues, over a three year period beginning with accounting periods beginning after December 15, 2006.

The City provides two separate OPEB plans for qualified executive staff and employees who retire from the City. One OPEB plan is a single employer defined contribution health reimbursement arrangement administered through the use of an OPEB Trust Fund (the HRA Plan) and the other OPEB plan is a single employer defined benefit plan providing a health insurance premium rate subsidy administered by CalPERS on behalf of the City (the Health Insurance Rate Subsidy Plan).

In May 2009, the City undertook to review its HRA Plan which was established in 2007. The recommended changes ratified in December 2009 included overhauling the retiree healthcare benefit, reducing the number of employees who qualify for the benefit and adding a defined contribution plan for those that do not qualify for the benefit, and converting salaries from the pay for performance model to the step plan. The step plan becomes effective July 1, 2011.

The benefit provided by the HRA Plan to eligible retirees of the City is an irrevocable contribution (\$800 per month for the three executives under the 2007 Plan and \$100 per pay period for existing employees and new hires) for each covered employee deposited into a health reimbursement account for use by the retiree and eligible dependents to pay for medical expenses allowed under the Internal Revenue Code.

As of June 30, 2009, the City had three retirees who met the executive staff eligibility requirements for the 2007 HRA Plan. Since eligibility is limited to employees directly retiring from the City and their eligible dependents, no other terminated employees met the eligibility requirements of the HRA Plan at June 30, 2009. At June 30, 2009, 271 employees were active plan members.

Under the Health Insurance Rate Subsidy Plan, the City provides retirees the ability to continue their healthcare coverage under the City's cafeteria plan at a cost equal to current eligible employees, which is administered by CalPERS. The City is funding this benefit on a pay-as-you-go basis at a rate

currently set by actuarial methods and assumptions described below at \$101 per eligible employee per month. At June 30, 2009, 271 employees were active plan members.

The City’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress below presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Only one year is presented as this is the first year of the plan, which HRA Plan has since been revised.

Schedule of Funding Progress for HRA

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as percentage of Covered Payroll
6/30/2008	\$1,652,956	\$3,260,694	\$1,607,738	50.7%	\$21,443,642	7.5%

Schedule of Funding Progress for Rate Subsidy Plan

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as percentage of Covered Payroll
6/30/2008	---	\$697,197	\$697,197	0.0%	\$21,443,642	3.3%

Source: City of Elk Grove audited financial statement for fiscal year 2008-09.

The actuarial valuation, dated June 30, 2008, used the Entry Age Normal actuarial cost method, a discount rate of 6.5%, which is the long-term expected rate of return on the City’s investment fund, an annual general inflation rate of 3.00%, and an annual aggregate payroll increase of 3.00%. The unfunded accrued actuarial liability (UAAL) is being amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2008-09 fiscal year. Health insurance premium increases of 4% were used for the Rate Subsidy Plan.

The City entered into the AIG Valic HealthSecure HRA Plan and Trust Agreement on March 17, 2008 and funded the defined contribution plan in the name of the City on May 2, 2008. The irrevocable trust issues a quarterly stand alone Participant Activity Statement. Investments are reported at fair value based on quoted market prices of identical assets in active markets as determined by the trustee. The account activity and investment allocation is included in the monthly investment report to Council and can be viewed on the City’s website at www.elkgrovecity.org under the Office of the City Clerk Agendas and Minutes.

In December 2009, the City Council revised the HRA Benefit for employees. Program costs for fiscal year 2010-11, approximately \$400,000, will continue to be funded through prior year ARC payments that now exceed the amount required by actuarial study. In fiscal year 2011-12, program expenses will be incorporated in the compensation budget.

Risk Management

As of September 1, 2010, the City is insured for workers' compensation coverage through Travelers Property Casualty Company of America (Travelers) which provides dollar one coverage to statutory limits. The City pays for the premium for all employees. In addition, the City is required to pay Sacramento County for its share of unresolved claims made by sheriff deputies who provided services under the City's contract with the County which terminated in 2006. This obligation will terminate in 2013. The Risk Management budget includes reserves of \$256,067 to meet this obligation, all funded by the General Fund.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City reports all insurance expense in the Risk Management internal service fund. The City participates in a joint venture under a Joint Powers Agreement (JPA) with the California State Association of Counties – Excess Insurance Authority (CSAC-EIA). Established in 1979, CSAC-EIA provides 93% of California counties, and 60% of California Cities, a risk pool and provides a viable and cost effective solution for the entities' insurance and risk management needs. The purpose of CSAC-EIA is to spread the adverse effect of losses among the member entities and to purchase excess insurance as a group, thereby reducing its costs. The City is part of the General Liability I program (which includes Errors and Omissions coverage and Employment Liability coverage). CSAC-EIA provides the City up to \$20 million liability coverage in excess of the City's self-insured retention of \$50,000. CSAC-EIA also provides the City with property and crime bond insurance.

The City's deductibles and maximum coverage follows:

	Self-Insured Retention	CSAC-EIA Pool Layer	Excess Layer (Total Coverage)
General Liability Coverage	\$ 50,000	\$5,000,000	\$ 20,000,000
Property Coverage	5,000		602,500,000
Auto Coverage	5,000		602,500,000
Bus Coverage	100,000		602,500,000
Infrastructure Coverage	100,000		602,500,000
Fidelity Coverage	2,500		1,000,000

Source: City's 2008-09 audited financials.

CSAC-EIA is governed by a 61 member Board of Directors, composed of one representative from each member county and seven members elected by the public entity membership. Each member entity pays a contribution commensurate with the level of coverage provided and shares surpluses and deficits proportionate to their participation. See "APPENDIX B - Audited Financial Statements for Fiscal Year Ended June 30, 2009 - Note 14 - Risk Management."

BONDOWNERS' RISKS

INVESTMENT IN THE BONDS INVOLVES ELEMENTS OF RISK. THE FOLLOWING SECTION DESCRIBES CERTAIN SPECIFIC RISK FACTORS AFFECTING THE PAYMENT AND SECURITY OF THE BONDS. THE FOLLOWING DISCUSSION OF RISKS IS NOT MEANT TO BE AN EXHAUSTIVE LIST OF THE RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS AND THE ORDER OF DISCUSSION OF SUCH RISKS DOES NOT NECESSARILY REFLECT THE RELATIVE IMPORTANCE OF THE VARIOUS RISKS. POTENTIAL INVESTORS ARE ADVISED TO CONSIDER THE FOLLOWING FACTORS ALONG WITH ALL OTHER INFORMATION IN THIS OFFICIAL STATEMENT IN EVALUATING THE BONDS. THERE CAN BE NO ASSURANCE THAT OTHER RISK FACTORS NOT DISCUSSED UNDER THIS CAPTION WILL NOT BECOME MATERIAL IN THE FUTURE.

Limited Obligations with Respect to the Bonds

The Bonds are special obligations of the Authority payable solely from and secured by a pledge of Revenues, Refundable Credits and certain funds and accounts held under the Indenture. Revenues consist primarily of Lease Payments payable by the City under the Lease and amounts on deposit from time to time in the funds and accounts held by the Trustee. If for any of the reasons described herein, or for any other reason, the Revenues collected under the Lease are not sufficient to pay debt service on the Bonds, the Authority will not be obligated to utilize any other of its funds, other than moneys on deposit in the Reserve Account and certain other amounts on deposit in the funds and accounts established under the Indenture, to pay debt service on the Bonds

The Authority has no taxing power. The obligation of the City to make Lease Payments under the Lease does not constitute an obligation of the City which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make Lease Payments under the Lease constitutes an indebtedness of the City, State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitations.

Loss or Reduction of Refundable Credit with Respect to Build America Bonds

The Bonds are eligible for the Refundable Credits. Failure to satisfy certain requirements, which the Authority has covenanted to comply with, subsequent to the issuance of the Bonds may result in a delay or forfeiture of all or a portion of the Refundable Credits and may cause the Bonds to cease to be treated as "Qualified Bonds" under the Tax Code either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the Bonds. See "CONCLUDING MATTERS – Tax Matters."

No assurance can be given that any future legislation or clarifications or amendments to the Tax Code, if enacted into law, will not contain proposals which could reduce or eliminate the Refundable Credits with respect to the Bonds or adversely affect the market price or marketability of the Bonds. *Nevertheless, failure by the Authority to receive Refundable Credits does not relieve the City of its obligation to make Lease Payments under the Lease.*

Abatement

The Lease provides that the obligation of the City to pay Lease Payments may be abated as the result of a partial or temporary condemnation or substantial interference with the City's use and occupancy of all or a portion of the Leased Property by reason damage or destruction (unless there is

sufficient money in the Reserve Account or from the proceeds from rental interruption insurance to pay the portion of the Lease Payments that would otherwise be abated). Such abatement will continue until the Leased Property is repaired to tenantable condition. See “SECURITY FOR THE BONDS – Abatement” and “– Insurance; Condemnation.” In the event that the Leased Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City’s rental interruption insurance will be available or Refundable Credits will be available in lieu of Lease Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of the Leased Property or the optional redemption of the Bonds (see “Application of Net Proceeds” and “THE BONDS – Redemption – *Optional Redemption*”), a default on the Bonds may occur if there is an insufficient amount of funds in the Reserve Account to make up for the deficit.

Application of Net Proceeds

In the event that the Leased Property is damaged, destroyed or taken under the power of eminent domain, proceeds from casualty insurance or the condemnation award may be used to optionally redeem the Bonds, if the City elects not to use such proceeds to repair or replace the Leased Property under the provisions of the Lease. See “SECURITY FOR THE BONDS – Insurance; Condemnation.” The City covenants under the Lease to maintain casualty insurance with respect to the Leased Property that has a coverage amount at least equal to the lesser of (i) 100 percent of the replacement value of the insured buildings, or (ii) 100 percent of the aggregate principal amount of the Bonds. Under certain circumstances, proceeds of casualty insurance or condemnation award may not be sufficient to pay for the optional redemption of all of the Bonds. In the event that there are not enough remaining proceeds to redeem the Bonds in full, then a default on the Bonds may occur if the amounts of the Lease Payments, as abated pursuant to the terms of the Lease, are not sufficient to cover debt service on the Bonds when due.

Substitution of Property

The Lease permits the City to substitute other property for the Leased Property or portions thereof, provided that the City obtains an opinion of Bond counsel to the effect that the substitution or release of the Leased Property is permitted under the Lease and will not impair the validity of enforceability of the Lease or cause the Bonds to cease to be treated as “Qualified Bonds” under the Tax Code, and provided certain other criteria are met. See “APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Risk of Uninsured Loss

The City covenants under the Lease to maintain certain insurance policies on the Leased Property. These insurance policies do not cover all types of risks. The Leased Property could be damaged or destroyed due to a casualty for which the Leased Property is uninsured. Additionally, the Leased Property could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City’s liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. There can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Property will be sufficient to redeem the Bonds. See “Application of Net Proceeds.”

Additional Obligations of the City

Under the Lease, the City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds. To the extent that additional

obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of, and taxes and other governmental charges levied against, the Leased Property) are payable from funds lawfully available to the City. If the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

State Finances

The State of California has experienced in the recent past significant financial and budgetary stress. State budgets are affected by national and State economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State's budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. As discussed in further detail under the caption "STATE OF CALIFORNIA BUDGET," the State's 2009-10 budget and proposed 2010-11 budget contain measures which impact the City's finances.

Natural Calamities; Earthquakes

From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City which therefore may have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Leased Property, or that the City would have insurance or other resources available to make repairs to the Leased Property in order to make Lease Payments under the Lease.

The City, like most communities in California, is an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. Several active fault zones lie within Northern California. In the event of a significant earthquake, substantial damage could occur to the Leased Property. The casualty and liability insurance may not cover losses due to earthquake. The City is not required to maintain earthquake insurance under the Lease. Rental interruption insurance will not cover interruption of Lease Payments due to earthquake. If there was to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City's right to use and occupy all or a portion of the Leased Property, which could result in Lease Payments being subject to abatement.

Limited Recourse on Lease Default

If an event of default occurs and is continuing under the Lease, there is no remedy of acceleration of any Lease Payment which have not come due. The remedies provided for in the Lease include, in addition to all other remedies provided at law, reletting the Leased Property or, without terminating the Lease, collecting each installment of rent as it becomes due and holding the City liable therefor. If the Trustee does not terminate the Lease, the Trustee may be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest could prove both expensive and time-consuming.

The Lease permits the Trustee, as the Authority's assignee, to take possession of and re-let the Leased Property in the event of a default by the City under the Lease. However, due to the fact that the Leased Property serves essential governmental purposes, a court may determine to not permit such remedy to be exercised. Even if such remedy may be exercised, no assurance can be given that the Trustee could readily relet the Leased Property for rents which are sufficient to enable it to pay debt service on the Bonds in full when due.

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 and premium, if any, on the Bonds or to preserve the tax-exempt status of interest on the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and 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 in the exercise of, or limitations on or modifications to, the rights of the Owners.

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the Authority, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State.

Investment of Funds

The Reserve Account and all other funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." All investments, including Permitted Investments, authorized by law from time to time for investments by the Authority contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture could have a material adverse effect on the security for the Bonds.

Future Initiative and Legislation

As discussed herein under "LIMITATIONS ON TAX REVENUES AND APPROPRIATIONS," the California's Constitutional initiative process has resulted in the adoption of measures which pose certain limits on the ability of cities and local agencies to generate revenues, through property taxes or otherwise. From time to time, other initiative measures could be adopted, affecting the City's ability to generate revenues and to increase appropriations. No assurances can be given as to the potential impact of any future initiative or legislation on the finances and operations of the City.

Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

LIMITATIONS ON TAX REVENUES AND APPROPRIATIONS

There are a number of provisions in the State of California Constitution that limit the ability of the City to raise and expend tax revenues. Contained below is a description of some of these limitations. In addition to the ones discussed in this section below, other initiative measures could be adopted from time to time further affecting the City's revenues and finances.

Property Tax Limitations – Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly referred to as "Proposition 13" or the "Jarvis-Gann Initiative") to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors.

Article XIII A further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. An amendment to Article XIII A was adopted in October 1986 by initiative that exempts from the one percent limitation any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*).

In the general election held on November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amended Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property

damaged or destroyed in a disaster and in certain other minor or technical ways.

Article XIII A Implementing Legislation

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based on their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in California no longer record property values on tax rolls at the assessed value of 25 percent of market value, which was expressed as \$4.00 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1.00 per \$100 of taxable value. Unless otherwise noted, all taxable property value included in this Official Statement (unless noted differently) is shown at 100 percent of market value and all tax rates reflect the \$1 per \$100 of taxable value.

Challenges to Article XIII A

California trial and appellate courts have upheld the constitutionality of Article XIII A’s assessment rules in three significant cases. The United States Supreme Court, in an appeal to one of these cases, upheld the constitutionality of Article XIII A’s tax assessment system. The City cannot predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the City’s receipt of property tax revenues should a future decision hold unconstitutional the method of assessing property.

Appropriations Limitations: Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The “base year” for establishing such appropriations limit is the 1978-79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

The City’s appropriations limit and the appropriations subject to the limit for fiscal year 2010-11 was amended pursuant to Article XIII B. The growth in per capita income increase calculation method was used as the inflation factor. The appropriation limitation established for fiscal year 2010-11 for the City is \$66,020,689 and the adopted fiscal year 2010-11 Budget does not exceed the appropriation limit.

Proposition 218: Article XIII C and Article XIII D

Proposition 218 added Articles XIII C and XIII D to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges.

The general financial condition of the City may be affected by provisions of Article XIII C and Article XIII D. In particular, provisions of Article XIII C (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIII D that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the provisions of Proposition 218 or the possible effects of Proposition 218. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 may impact the City's ability to make Lease Payments. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102 percent of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

STATE OF CALIFORNIA BUDGET

Information regarding the State budget is regularly available at various State-maintained websites. The State Budget further described below may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Budget Process

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of

projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each house of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each house of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

2009-10 State Budget

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

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

Proposition 1A Suspension. The 2009-10 Final Budget includes a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The State property tax diversion was covered through reductions in interfund transfers (by interfund loans in lieu of participating in a statewide securitization program) during the course of fiscal year 2009-10, saving the \$1,452,086 in fund balance designated for economic uncertainty.

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

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

2010-11 State Budget

The 2010 Budget Act was signed by the Governor on October 8, 2010 and closed an estimated budget gap of \$19.3 billion by a combination of expenditure reductions, federal funds and other solutions.

The 2010 Budget Act holds General Fund spending essentially flat compared to the prior year (\$86.6 billion in fiscal year 2010-11 compared to \$86.3 billion in fiscal year 2009-10). In order to create a prudent reserve for economic uncertainties, the Governor exercised his line-item veto authority to reduce General Fund spending by an additional \$963 million, raising the reserve level from \$375 million to \$1.3 billion. The 2010 Budget Act also makes a number of reductions in health and human services programs, but does not eliminate CalWORKs, community mental health programs, Adult Day Health care, or reductions proposed to the In Home Supportive Services program.

The 2010 Budget Act includes: (i) savings of over \$1.1 billion for corrections, from reduced inmate medical care costs (\$820 million), cuts from inmate and parole population savings (\$200 million), and delayed local assistance payments (\$50 million); (ii) reduced spending for state employees by \$1.5 billion, including \$547.7 million in savings through a five percent reduction to departmental personnel costs and by pre-funding other post employment benefit costs, as well as \$2.5 billion in revenue solutions, comprising \$1.4 billion from the Legislative Analyst's revenue forecast, which was \$1.4 billion higher than the Governor's May Revision; (iii) the extension of the Net Operating Loss corporate tax benefit suspension for an additional two years, which results in increased tax revenue of about \$1.2 billion in 2010-11 and revision to recent corporate tax law changes related to penalties assessed when a corporation underpays their tax liability by more than \$1 million; and (iv) various changes to state pension laws for new state employees including those in bargaining units that do not currently have a Memorandum of Understanding with the State, as well as employees of the California State University, the judicial branch of government, and the Legislature.

A feature of the 2010 Budget Act affecting local governments includes a decrease of \$11.9 million in the State's General Fund by eliminating backfills for Vehicle License Fee revenues local governments lost when the state changed the manner in which fees are assessed for commercial truck trailers.

A complete copy of the 2010 Budget Act is posted by the California Department of Finance website at www.ebudget.ca.gov. This website is not incorporated herein by reference and the Authority, the City and the Underwriter do not make any representation as to the accuracy of the information provided therein.

Legislative Analyst's Office Overview of 2010 Budget Act. The Legislative Analyst's Office ("LAO") Overview of the 2010 Budget Act (the "2010 LAO Overview") released October 8, 2010, acknowledges the 2010 Budget Act's attempt to address one of the most vexing state budget shortfalls in California's history, the product of a continuing structural imbalance between state revenues and expenditures and a slow recovery from a severe recession that began in 2007 and ended in 2009. The 2010 LAO Overview notes that in May 2010, the Administration estimated that there would be a gap of \$17.9 billion between General Fund resources and expenditures in 2010-11 under then-existing laws and policies. To address this projected gap, the Legislature opted for a package of budget actions (prior to vetoes) including \$6.8 billion of expenditure-related solutions, \$5.4 billion of new federal funding (most of it not yet approved by Congress), \$3.3 billion of revenue actions, \$2.7 billion of largely one-time loans, transfers, and funding shifts. The LAO also notes that the 2010 Budget Act does not include the Governor's proposed elimination of the CalWORKs and subsidized childcare, and it does not include reductions in social services grant levels. The LAO believes that if all of the assumptions are met in the 2010 Budget Act and accompanying legislation, the State would be left with a \$364 million General Fund reserve at the end of 2010-11, however, the LAO also notes that two-thirds of the 2010 Budget Act solutions are one-time or temporary in nature, such that California will continue to face sizable annual budget problems in 2011-12 and beyond.

A complete copy of the 2010 LAO Overview is posted by the Office of the Legislative Analyst at www.lao.ca.gov. This website is not incorporated herein by reference and neither the Agency nor the Underwriter make any representation as to the accuracy of the information provided therein.

The City cannot predict what actions will be taken in this or any future fiscal year by the State Legislature or the Governor to deal with the State's current or future budget deficits, changing State revenues and expenditures, or what the effect of national and state economic conditions on future State budgets will be. Moreover, the State Legislature or Governor could take additional actions which could affect the State's receipts, expenditures and borrowings during the current fiscal year, and thereby influence the City's financial situation. Future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

Further information about the State budget is available from the Public Finance Division of the State Treasurer's Office. In addition, information about the State budget is regularly available at various State-maintained websites, including www.dof.ca.gov (Department of Finance), www.lao.ca.gov (Office of the Legislative Analyst) and www.treasurer.ca.gov (State Treasurer). The above-mentioned websites are included herein for informational purposes only. The Authority and the City make no representation concerning, and do not take any responsibility for, the accuracy or timeliness of information posted on such websites or the continued maintenance of such websites by the respective entities.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue (up to 8%) if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate currently in effect, which is 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A required the State, beginning March 1, 2006, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, except mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

As referenced above, the 2009-10 Final Budget of the State includes a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013.

See "CITY FINANCIAL INFORMATION – Budgetary Process; City Fiscal Year 2009-10 Budget," " – Property Taxes," and "STATE OF CALIFORNIA BUDGET – 2009-10 State Budget."

Future State Budgets. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from cities and counties in the State, including the City. The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal year, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets are being and will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

CONCLUDING INFORMATION

Absence of Litigation

To the Authority's and the City's knowledge, there is no litigation pending or threatened to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture, the Lease or any proceedings of the City or the Authority with respect thereto. In the opinion of the Authority and its counsel, there is no lawsuit or claim pending against the Authority which will materially impair the Authority's ability to entered into the Indenture or restrain or enjoin the collection of Revenues as contemplated therein. In the opinion of the City and its counsel, there is no lawsuit or claim pending against the City which will materially impair the City's ability to enter into the Lease or restrain or enjoin the payment of Lease Payments.

Continuing Disclosure

The City has covenanted for the benefit of Owners and Beneficial Owners of the Bonds to provide certain annual financial information and operating data relating to the City (the "Annual Report") by not later than March 31 in each year commencing March 31, 2011, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City or U.S. Bank National Association, as the Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system. The notices of material events will be filed by the City, or the Dissemination Agent on behalf of the City, with the MSRB. 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 AGREEMENT." This undertaking has been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

A failure by the City to comply with the provisions of the Continuing Disclosure Agreement is not an event of default under the Indenture (although the Owners and beneficial owners of the Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds. Therefore, a failure by the City to comply with the provisions of the Continuing Disclosure Agreement may adversely affect the marketability of the Bonds on the secondary market. The City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events, in the previous five year period.

Legal Matters

The legality of the issuance of the Bonds is subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Bond Counsel's opinions with respect to the

Bonds will be substantially in the forms set forth in APPENDIX B of this Official Statement. Certain legal matters will be passed on for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Certain legal matters will also be passed on for the Authority and the City by the City Attorney acting as the City Attorney and Authority Counsel. The fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the bonds is exempt from California personal income taxation.

In the opinion of Bond Counsel, the Bonds constitute Recovery Zone Economic Development Bonds within the meaning of Section 1400U-2 of the Tax Code and Qualified Bonds within the meaning of Sections 54AA(g)(2) and 6431(e) of the Tax Code and are eligible for the credit payable by the Federal government under Section 6431 of the Tax Code (the "Refundable Credits"). The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order for the Bonds to be treated as Qualified Bonds and continue to be eligible for the Refundable Credits. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Refundable Credits and may cause the Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination or retroactively to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Refundable Credits by the Federal government, nor does Bond Counsel express any opinion regarding other federal tax consequences arising with respect to the Bonds.

If the initial offering price to the public (excluding Bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimus original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such 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 purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX B.

Financial Advisor

KNN Public Finance, a division of Zions First National Bank, has acted as Financial Advisor to the City in conjunction with the issuance of the Bonds. The Financial Advisor has advised the City in preparation of this Official Statement and in other matters related to the planning, structuring, pricing, execution and delivery of the Bonds. The Financial Advisor will receive compensation contingent upon the sale and delivery of the Bonds.

The Financial Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information. Because of this limited participation, the Financial Advisor makes no guaranty, warranty or other representation respecting the accuracy or completeness of this Official Statement or any other matter related to this Official Statement.

Underwriting

_____ (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$_____ (which equals the par amount of the Bonds less an underwriter's discount of \$_____). The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

Rating

Standard & Poor's ("S&P") is expected to assign an rating of "A+" to the Bonds. S&P's rating reflects only the views of such organization and any desired explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Financial Statements

Excerpts of the City's Comprehensive Financial Report for fiscal year ended June 30, 2009, which include the City's 2008-09 financial statements and the Independent Auditor's Report issued by Richardson & Company, Sacramento, California (the "Auditor") regarding such financial statements, are set forth in Appendix A. The Auditor was not requested to consent to the inclusion of its report in Appendix A and it has not undertaken to update financial statements included in Appendix A. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

Miscellaneous

All of the preceding description and summaries of the Bonds, the Indenture and the Lease, other applicable agreements, legislation and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

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.

The Authority and the City have duly authorized the execution and delivery of this Official Statement by their duly authorized officers.

ELK GROVE FINANCE AUTHORITY

By: _____
Administrator

CITY OF ELK GROVE

By: _____
City Manager

APPENDIX A

EXCERPTS OF
CITY OF ELK GROVE COMPREHENSIVE FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2009

APPENDIX B
FORM OF OPINION OF BOND COUNSEL

APPENDIX C
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX D

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof. The Authority and the City give no assurances that (i) DTC, the Direct and Indirect Participants or others will distribute payments of principal, premium (if any) or interest with respect to the Bonds paid to DTC or its nominee as, the registered owner, to the Beneficial Owners, (ii) such entities will distribute redemption notices or other notices, to the Beneficial Owners, or (iii) an error or delay relating thereto will not occur.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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, premium (if any) and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any) and interest payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority 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 Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of November 1, 2010, is executed and delivered by the City of Elk Grove (the “City”), and U.S. Bank National Association, as trustee (the “Trustee”), and as dissemination agent (the Dissemination Agent”), in connection with the issuance of \$_____ Elk Grove Finance Authority 2010 Lease Revenue Bonds (Capital Facility) (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between the Elk Grove Finance Authority and the Trustee.

The City, the Trustee and Dissemination Agent hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement 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 Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement, unless otherwise defined, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean the City Manager or Finance Director of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system located at <http://www.emma.msrb.org>, which is the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing with the report for the 2009-10 Fiscal Year, provide to the MSRB, via EMMA, in an electronic format accompanied by identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If within fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

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

(d) The Dissemination Agent (if other than the City) shall, if and to the extent, the City has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the City certifying that the Annual Report has been provided to the MSRB, via EMMA, pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

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

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

(i) So long as the Bonds remain Outstanding (within the meaning of the Indenture):

(A) the principal amount of Bonds outstanding as of June 30 preceding the filing of the Annual Report;

(B) the balance in each fund under the Indenture as of June 30 preceding the filing of the Annual Report; and

(C) updates as of June 30 preceding the filing of the Annual Report of the substance of the information contained in following tables in the Official Statement:

- (1) City Revenues and Expenditures;
- (2) Assessed Value of All Taxable Property in the City; and
- (3) Property Tax Levies and Collections in the City.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in 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 available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds[, if material]:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) The Trustee shall, within five (5) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) of this Section.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section.

(e) If in response to a request under subsection (b), 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 (f).

(f) 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 and each Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) 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 Owners of affected Bonds pursuant to the Indenture.

Section 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB as Repository in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, 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 this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the City shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article ___ of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their 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 or the Trustee's respective gross negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bondholders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of Elk Grove
8401 Laguna Palms Way
Elk Grove, California 95758
Attention: Finance Director

To the Trustee: U.S. Bank National Association
633 West Fifth Street, 24th Floor
[Los Angeles, California 90071]
Attention: Corporate Trust Services

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent. Any notice or communication may also be sent by electronic mail, receipt of which shall be confirmed.

Section 14. Beneficiaries. This Disclosure Agreement 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.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

CITY OF ELK GROVE

By _____
City Manager

U.S. BANK NATIONAL ASSOCIATION,
as Trustee and Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

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

Name of Issuer: Elk Grove Finance Authority
Name of Bond Issue: \$_____2010 Lease Revenue Bonds (Capital Facility)
Date of Issuance: _____, 2010

NOTICE IS HEREBY GIVEN that the City of Elk Grove (the “City”) has not provided an Annual Report with respect to the above named Bonds as required by the Indenture of Trust, dated as of November 1, 2010, by and between the Elk Grove Finance Authority and U.S. Bank National Association, as Trustee. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

**U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent**

By _____
Authorized Officer

cc: City of Elk Grove, Finance Director

NOTICE OF CONTINUED PUBLIC HEARING

CITY OF ELK GROVE - CITY COUNCIL

AND

ELK GROVE FINANCE AUTHORITY – BOARD OF DIRECTORS

NOTICE IS HEREBY GIVEN that the November 10, 2010 public hearing of the City Council of the City of Elk Grove and the Finance Authority Board of Directors to consider the **Approval of financing documents for the issuance of Household Hazardous Waste Capital Facility Project Lease Revenue Bonds in an amount not to exceed \$12,700,000**, has been continued to December 8, 2010 at the hour of **6:00 p.m.**, or as soon thereafter as the item can be heard, in the Council Chamber, 8400 Laguna Palms Way, Elk Grove, California.

Posted: November 10, 2010

/s/ JASON LINDGREN
CITY CLERK of the City of Elk Grove



Incorporated July 1, 2000

8401 Laguna Palms Way
Elk Grove, California 95758

CITY OF ELK GROVE

Telephone: (916) 683-7111
Fax: (916) 627-4400
www.elkgrovecity.org

**City of Elk Grove – City Council
AND
Elk Grove Finance Authority – Board of Directors**

NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that on **Wednesday, November 10, 2010** at the hour of **6:00 p.m.**, or as soon thereafter as the matter may be heard, the Elk Grove City Council and Finance Authority Board of Directors will conduct a public hearing at Elk Grove City Hall in the Council Chambers, 8400 Laguna Palms Way, Elk Grove, California, to consider the following matter:

Approval of financing documents for the issuance of Household Hazardous Waste Capital Facility Project Lease Revenue Bonds in an amount not to exceed \$12,700,000.

Information regarding this item may be obtained in the Office of the City Clerk, 8401 Laguna Palms Way, Elk Grove, California. All interested persons are invited to present their views and comments on this matter. Written statements may be filed with the City Clerk at any time prior to the close of the hearing scheduled herein, and oral statements may be made at said hearing.

If you challenge the subject matter in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice or in written correspondence delivered to the City Clerk, 8401 Laguna Palms Way, 1st Floor, Elk Grove, CA, 95758, at or prior to the close of the public hearing.

Dated/Published: November 3, 2010

JASON LINDGREN
CITY CLERK / AGENCY SECRETARY, CITY OF ELK GROVE